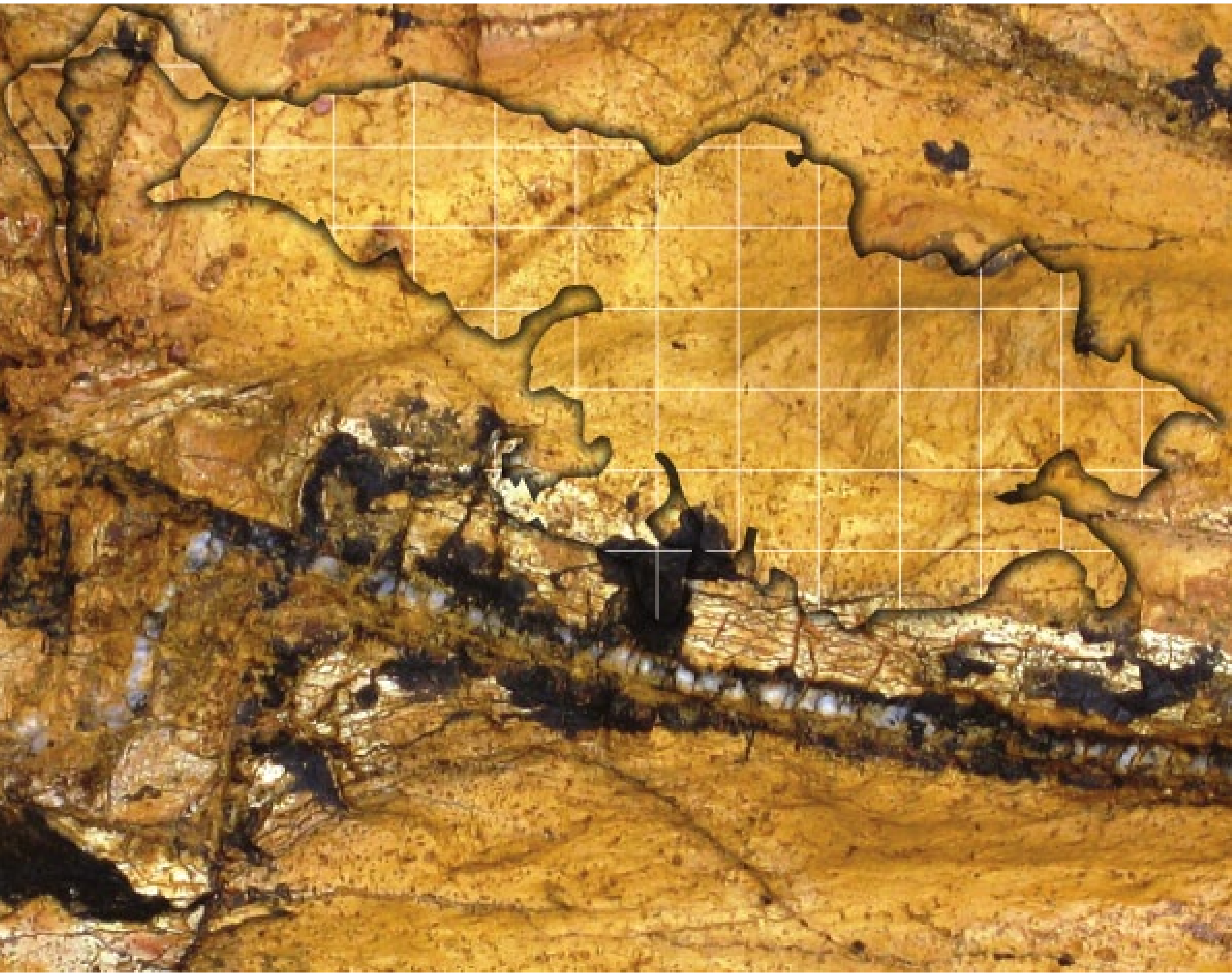
KULA GOLD

2010 ANNUAL REPORT



FOUNDATIONS FOR THE FUTURE

KULA GOLD

KULA GOLD LIMITED ACN 126 741 259

CORPORATE DIRECTORY

DIRECTORS

David Frecker	Chairman
Lee Spencer	Managing Director and Chief Executive Officer
John Watkins	Executive Director and Chief Financial Officer
Louis Rozman	Non-executive Director
Peter Bradford	Non-executive Director
Mark Stowell	Non-executive Director

COMPANY SECRETARY
John Watkins

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STOCK EXCHANGE LISTING
Australian Securities Exchange ASX CODE: KGD

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CHAIRMAN'S LETTER

SINCE THE LISTING OF THE COMPANY'S SHARES, WE HAVE ANNOUNCED FURTHER ENCOURAGING EXPLORATION RESULTS FROM THE ONGOING DRILLING PROGRAM ON WOODLARK ISLAND.

DAVID FRECKER

It is my pleasure to invite all shareholders to read our first Annual Report as a listed public company. Your company made great progress during 2010. Central to this was Kula Gold's successful initial public offering (IPO) which resulted in the listing of its shares on the Australian Securities Exchange on 16 November 2010.

The IPO provided Kula Gold with $52 million of new capital to fund its ongoing exploration activity on Woodlark Island in Papua New Guinea and the completion of the definitive feasibility study for the proposed Woodlark Island Gold Project. At the end of the financial year, on 31 December 2010, the Company had cash of $48 million, most of which was held on fixed deposit with major Australian trading banks.

Kula Gold's executive and management team, headed by Lee Spencer as Managing Director and CEO, has recently been augmented by a number of key senior appointments, including a Project Manager who will lead the construction and development of the Woodlark Island Gold Project. Since the listing of the Company's shares, we have announced further encouraging exploration results from the ongoing drilling program on Woodlark Island. Work on the definitive feasibility study, including detailed environmental studies and land investigations, is on track. The executive and management team is giving it top priority and ensuring that all necessary resources, internal and external, are engaged for this purpose. Details of our exploration success and progress on the feasibility study are contained in the CEO Report which follows.

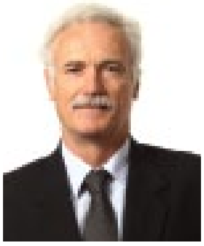
It is an exciting time to be looking at the start-up of a new gold mine in Papua New Guinea. Gold is a commodity that continues to be in great demand and Papua New Guinea is a place of global significance for mineral exploration and resource development. It has some of the world's largest gold, copper and gas deposits and is experiencing strong growth through a surge of investment in the resources sector. The foreign exchange reserves of the country are near a record high level. Kula Gold views Papua New Guinea as an excellent country in which to do business.

On Woodlark Island, the Project enjoys widespread support from the local people. It has the potential to deliver to them long-term benefits in the form of employment opportunities and new social infrastructure as well as financial benefits.

The IPO Prospectus set out an indicative timetable for Kula Gold to develop the Woodlark Island Gold Project with production scheduled for late 2013.

I thank shareholders for their support and I hope you find this Annual Report informative.

David Frecker
Chairman



LEE K SPENCER

CEO REPORT OVERVIEW

The year ending 31 December 2010 has been an important stepping stone for Kula Gold on the path towards the development of an operating gold mine on the Company's core asset on Woodlark Island, Milne Bay Province, Papua New Guinea.

The transition from pure explorer to developer is gathering pace with significant milestones achieved including:

+ A global Joint Ore Reserves Committee (JORC) Resource of 1.75 million ozs of gold contained within three deposits, two of which are currently open in all directions and will be subject to intensive drilling in 2011;
+ A major infill drilling program at Busai which culminated in a maiden JORC reserve of 584,000 ozs of gold from an in-pit mining inventory of 772,000 ozs from two proposed open pits located at Kulumadau and Busai, respectively;
+ Completion of a Pre-Feasibility Study (PFS) which demonstrated the robust economics of developing a gold mining operation from the proposed Kulumadau and Busai open pits. Sufficient mining inventory had been established in these areas at the time of the PFS to support a 100,000 oz per annum operation with a mine life of around 7 years utilising a proposed 1.5 million tonne per annum plant;
+ Confirmation of the excellent regional exploration potential by the recognition of an additional 8 other low sulphidation, epithermal targets on Woodlark Island. Reconnaissance Reverse Circulation (RC) drilling was initiated at the Woodlark King Prospect at the end of the year with significant intersections being achieved which highlighted the possibility of a third pit being included in the Definitive Feasibility Study (DFS);
+ Completion of an Environmental Baseline Study and initiation of long lead time items constituting part of the Environmental Impact Study (EIS);
+ Initiation of the Definitive Feasibility Study (DFS) during the year.

At a corporate level, with the objective of supporting the Company's ongoing exploration programs to build even further on the current resources and to complete all necessary prerequisites including a DFS and EIS as part of the process of lodging a Mining Lease Application with the PNG Government by 2012, the Company completed:

+ A successful Initial Public Offering (IPO) and a listing on the Australian Securities Exchange (ASX) on 16 November 2010;
+ Net $52 million fund raising for the IPO, which underwrites the Company's aggressive growth plans for 2011;
+ Establishment of corporate headquarters in Sydney;
+ Initiating the building of a corporate and technical team which will oversee the Company into the development phase.

The year ahead augurs well for the prospect to increase the global resource base by new discoveries. In the short term, the Company's aim is to establish sufficient resources to justify a third pit and the potential for a higher production profile for gold mining operations on Woodlark Island than that indicated by the (PFS).

RESOURCES

Resources are the lifeblood of a project, so a considerable amount of the total metres of 66,713 of RC and 3,108 metres of diamond drilled in the reporting period were targeted at infill drilling to increase confidence in the resources established in prior years which were used in the PFS completed in early 2010.

Resource estimation for the Woodlark Gold Project was carried out by resource specialist, Mr John Doepel, Principal Geologist for Continental Resource Management Pty Ltd (CRM). Resources were calculated for Busai and Kulumadau on the basis of a total of 735 drill holes containing a total of 79,239 assays with drill spacing typically on 25 to 50 metre section lines. A resource was calculated for Boniavat on the back of limited drilling by previous operators. Significant potential remains for the discovery of further mineralisation and resources in these areas.

The Resource estimates for the Woodlark Island Gold Project, reported by CRM as at June 2010 and calculated at a 0.5g/t Au cutoff, are shown in Table 1 on page 8.

LJ Putland and Associates (LJP) carried out open pit optimisation studies at a US$900 per ounce gold price for the Kulumadau and Busai deposits to derive a mining inventory. The pit optimisations included all resource categories including Inferred. A summary of the Woodlark Open Pit Mining Inventory as of December 2010 is shown in Table 2. Of the total Mining Inventory of 772,000 ozs, some 75% were classified in the Measured and Indicated Resource Category, which has given the Company a high confidence in the resources established to date. The remaining Inferred is expected to be elevated to a higher resource category during the Definitive Feasibility Study stage.

In addition, LJP established a maiden reserve for the project. A Probable Reserve of 7.7Mt @ 2.4g/t Au for the Busai and Kulumadau Pits were produced in a reserve statement by LJP in July 2010, as set out in Table 3 on page 9.

Drilling Rig on Woodlark Island

SIGNIFICANT POTENTIAL REMAINS FOR THE DISCOVERY OF FURTHER MINERALIZATION AND RESOURCES IN THESE AREAS OF BONIAVAT

TABLE 1: WOODLARK RESOURCE ESTIMATE 2010
WOODLARK RESOURCE ESTIMATE – CRM AND PFS JUNE 2010

DEPOSIT	CATEGORY	TONNAGE Mt	GOLD GRADE Au g/t	CONTAINED Au OZS
CUT OFF 1.0 g/t Au				
Busai	Measured	2.0	2.1	130,000
	Indicated	2.9	2.7	250,000
	Inferred	2.8	3.0	270,000
	Total	**7.7**	**2.6**	**660,000**
Kulumadau	Measured	2.8	2.6	240,000
	Indicated	1.2	2.6	100,000
	Inferred	2.2	2.8	200,000
	Total	**6.2**	**2.7**	**540,000**
Total Resources	Measured	4.8	2.4	370,000
	Indicated	4.1	2.7	350,000
	Inferred	5.0	2.9	470,000
TOTAL	**Resource**	**14.0**	**2.7**	**1,200,000**
CUT OFF 0.5 g/t Au				
Busai	Measured	3.6	1.5	170,000
	Indicated	7.1	1.5	350,000
	Inferred	10.0	1.4	460,000
	Total	**20.8**	**1.5**	**980,000**
Kulumadau	Measured	4.5	1.9	275,000
	Indicated	2.8	1.5	140,000
	Inferred	5.3	1.6	270,000
	Total	**12.7**	**1.7**	**685,000**
Boniavat	Inferred	1.7	1.6	85,000
Total Resources	Measured	8.1	1.7	445,000
	Indicated	9.9	1.5	490,000
	Inferred	17.0	1.5	815,000
TOTAL	**Resource**	**35.0**	**1.5**	**1,750,000**

Note: Figures are rounded to the nearest significant decimal place; the Busai Inferred resource at 0.5 g/t Au cut off includes 3.9Mt at 0.9 g/t Au containing 110,000 ozs of gold from Munasi, 2km southwest of Busai.

Totals may appear incorrect due to appropriate rounding of individual values.

TABLE 2: WOODLARK OPEN PIT MINING INVENTORY ESTIMATE 2010 WOODLARK RESOURCES AND OPEN PIT MINE INVENTORY ESTIMATE – PFS JUNE 2010				
DEPOSIT	CATEGORY	TONNAGE Mt	GOLD GRADE Au g/t	CONTAINED Au OZS
Busai	Measured	2.1	1.9	129,000
	Indicated	2.2	2.7	195,000
	Inferred	1.3	3.4	141,000
	Total	**5.7**	**2.6**	**465,000**
Kulumadau	Measured	2.7	2.5	218,000
	Indicated	0.6	2.3	42,000
	Inferred	0.6	2.3	47,000
	Total	**4.0**	**2.4**	**308,000**
Total Mining Inventory	Measured	4.9	2.2	347,000
	Indicated	2.8	2.6	237,000
	Inferred	1.9	3.0	188,000
TOTAL	Resource	9.6	2.5	772,000

Note: Figures are rounded to the nearest significant decimal place; the open pit strip ratio is Busai 12:1, Kulumadau 13:1.

TABLE 3: JORC ORE RESERVES WOODLARK RESERVES ESTIMATE – PFS JUNE 2010				
DEPOSIT	CATEGORY	TONNAGE Mt	GOLD GRADE Au g/t	CONTAINED Au OZS
CUT OFF 1.0 g/t Au				
Kulumadau	Probable	3.3	2.4	260,000
Busai	Probable	4.4	2.3	324,000
Total	Probable	7.7	2.4	584,000
TOTAL	Reserve	7.7	2.4	584,000

Note: Refer to Competence Persons Statements on page 95.

DEVELOPMENT

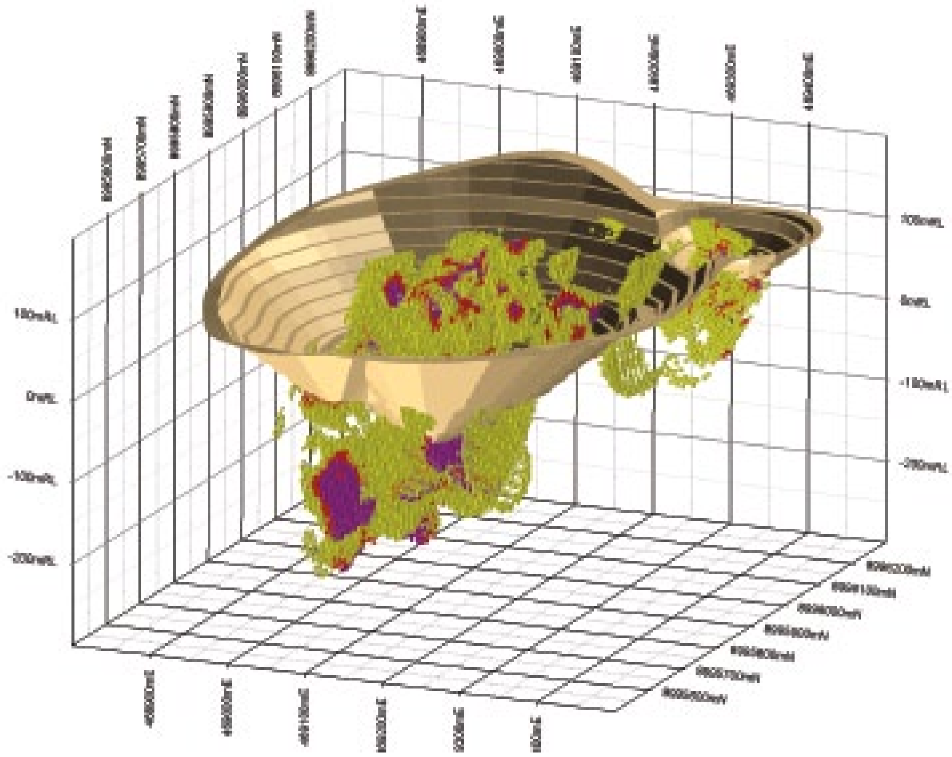
Discovery of resources is essential to the growth of a project, however, these resources must be demonstrated to be economic and therefore place the project firmly on the path to development and eventual production. Therefore, during 2010, a PFS was completed by LJP on the Mining Inventory that had been established by June of the year. The PFS demonstrated the following:

+ Sufficient ore had been established at the time of the PFS to justify a 1.5Mt pa plant producing on an annualised basis approximately 100,000 ozs per annum;
+ Average head feed grades of 2.5g/t Au;
+ Overall metallurgical recovery of around 92% using an initial gravity circuit followed by a standard Carbon In Leech (CIL) processing plant;
+ Project life of 7 years; and
+ Estimated capital cost of US$135 million and an average life-of-mine cash cost including royalties of approximately US$550 per oz.

KULUMADAU
PIT DESIGN
AND
BLOCK MODEL

LEGEND

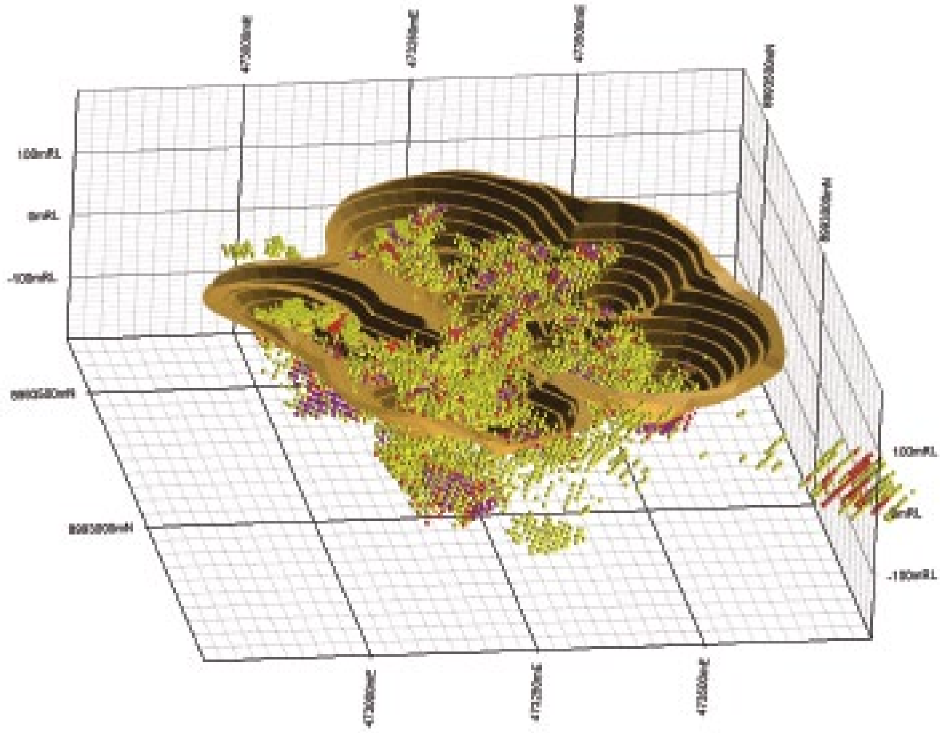
1 to 3 g/t Au
3 to 5 g/t Au
> 5 g/t Au



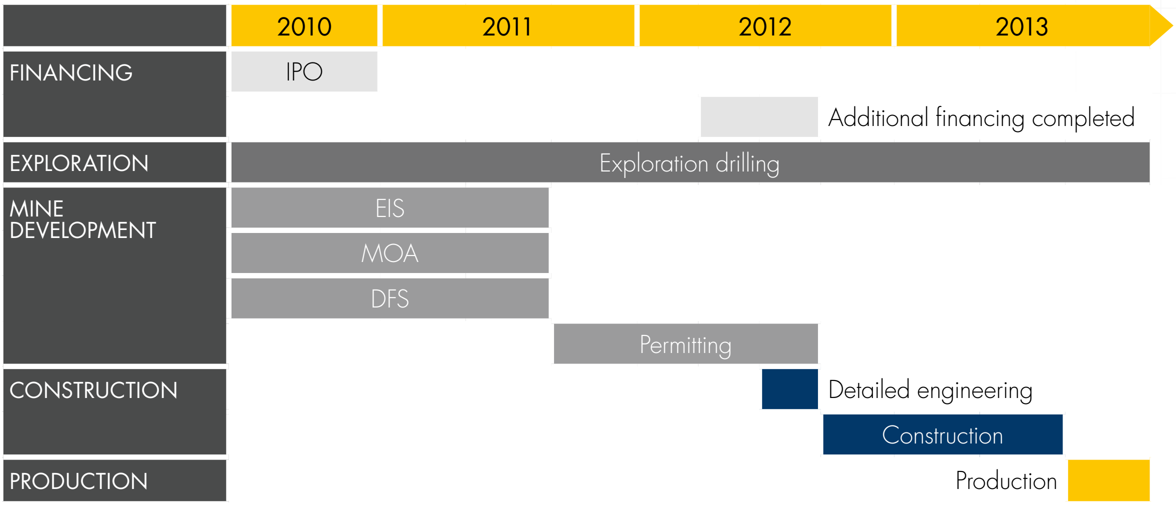
BUSAI
PIT DESIGN
AND
BLOCK MODEL

LEGEND

1 to 3 g/t Au
3 to 5 g/t Au
> 5 g/t Au



INDICATIVE DEVELOPMENT TIMELINE



NOTE: Compensation and relocation agreement forms part of the MOA timeline
SOURCE: Kula Gold.

The robust economics of the project in combination with a strong market for gold dictated that a DFS should be initiated. In Papua New Guinea, for a Mining Lease to be granted, the Company is required to submit a DFS together with an EIS in conjunction with a Memorandum of Agreement (MOA) with the Local Landholders, Local Level Government, Provincial Government and the National Government. An indicative development timeline for the project is shown above taking into account the various requirements outlined.

The Company initiated the DFS and long lead time items for EIS in the last quarter of 2010 reflecting the Board's confidence in the project.

Joe Boine, senior geologist at Woodlark Island

EXPLORATION

Previous exploration on Woodlark had concluded that gold mineralisation was associated with base metal-carbonate, low sulphidation, epithermal systems formed in Miocene andesitic volcanics and their subvolcanic intrusive equivalents. Pre-1930 historical gold production from Woodlark Island was sourced from both hardrock and alluvial sources with the dominant hardrock mining having taken place at the three centres of Busai, Kulumadau and Boniavat.

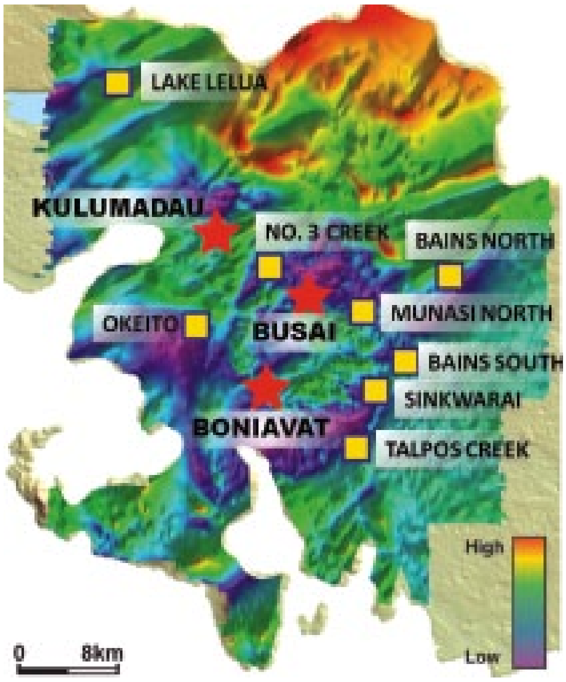
Detailed exploration has only been undertaken at Kulumadau and Busai with reconnaissance drilling at Boniavat being completed in the last quarter of 2010. The bulk of Woodlark Island is covered by a thin veneer of young sediments consisting of coralline detritus and marine clays. The ability to discover resources on Woodlark is due to the experience and persistence of the Company's exploration team to search beneath this thin cover. By utilising a combination of regional vectors such as structure, aeromagnetics, geochemistry and vegetation anomalies caused by 19th century alluvial mining activities, the potential for discovering further resources has become apparent. A total of eight regional targets have been identified and these have been rated for follow up.

EXPLORATION (CONTINUED)

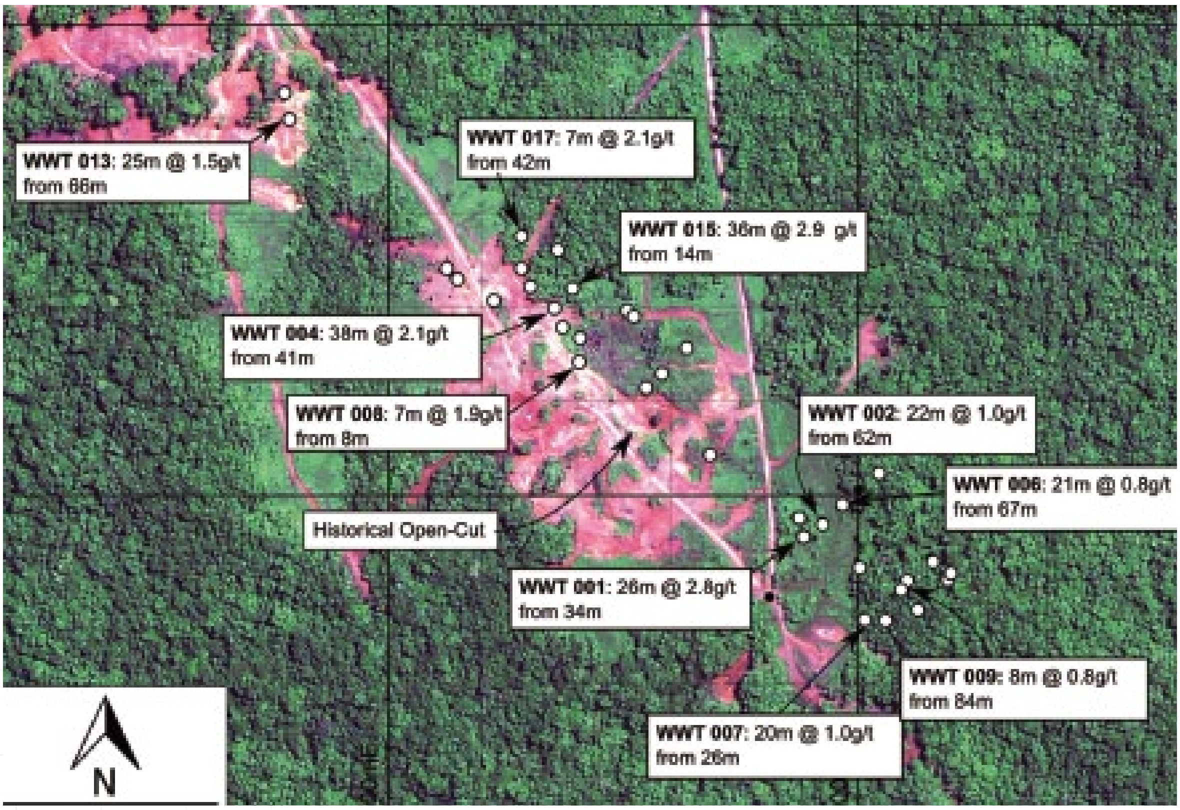
The first target was Boniavat where regional reconnaissance drilling in 2010 identified two targets for follow up drilling, namely Woodlark King and Little Mackenzie. Further reconnaissance RC drilling was conducted around the historical workings at Woodlark King with significant downhole intersections being encountered including:

+ 11 metres @ 2.1g/t Au from 73 metres
+ 4 metres @ 10.4g/t Au from 32 metres
+ 19 metres @ 10.4g/t Au from surface
+ 12 metres @ 4.9g/t Au from surface
+ 25 metres @ 3.2g/t Au from 34 metres.

The Woodlark King area was regarded as having high potential for a third pit to be included in the DFS, scheduled for completion at the end of the third quarter in 2011. Step out drilling at Boniavat is planned for quarter 1 in 2011 to enable a resource to be established by the end of this period.



Location map of resources and regional exploration targets against background magnetic intensity.



Woodlark King recent drill intersections

HEALTH, SAFETY AND THE COMMUNITY

Kula Gold Limited operates in Papua New Guinea through its 100% owned subsidiary Woodlark Mining Limited and together employs a total of 330 employees from various cultural backgrounds who manage exploration, administration and environmental activities. Safety and health has been the number one issue for the Company operating in the challenging tropical environment on the island.

The safety record for the period reported has been satisfactory considering the number of drill rigs and earthmoving machinery involved during exploration. The Company has implemented weekly tool box meetings, incident reports and a designated safety officer to train local Woodlark Islanders in safety procedures and regulations.

Through its community relations department, which is responsible for managing community and social issues, the Company has identified the key areas of most concern to the local communities. These include:

HEALTH

Woodlark Island has endemic malaria with few government medical facilities. The Company has established a clinic under the supervision of a health extension officer, the services of which are available to Company employees and their families.

The service has also been extended to medical emergencies to any islander. During the year, the Company, in conjunction with Rotary Against Malaria (RAM), has started issuing nets to all of the communities in an effort to curb infant mortality from malaria.

EMPLOYMENT

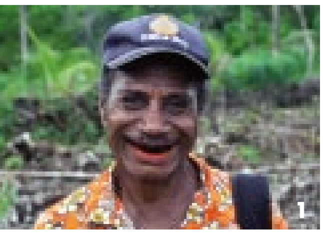
In conjunction with the local communities, an Employee Consultative Committee has been established to advise the Company on work related issues including but not limited to ensuring a fair and reasonable spread of employment opportunities across the whole of the island.

TRAINING

The Company has instituted a training program for equipment operators, surveyors, drillers and other employees. The training program has proved very successful and during the year was placed under the supervision of an expatriate training manager.

EDUCATION

The Company has provided basic educational hardware to various schools throughout the island.



1

2

3

4

1 Health programs have been initiated. 2 Training programs have been instituted.
3 The Company had provided education materials to schools. 4 Community consultation is ongoing.

ENVIRONMENT

The Company is committed to developing the project in an environmentally responsible manner. Due to the fact that significant impacts have already been made on the environment by pre-World War 1 mining operations and by extensive logging operations in the 20th century, extensive baseline environmental studies have been conducted by a number of recognised consultants, expert in the relevant field of study. The baseline studies will constitute an environmental inception report due to be completed in the first quarter of 2011.

As a concluding remark I would like to thank the Woodlark Island communities, the local and provincial governments, and the PNG National Government for the support they have given the Company and the project during the year.

Special thanks go to our enthusiastic team of employees both in Australia and PNG through whose persistence and efforts the Company has achieved its 2010 objectives.

I look forward to the continued support of all stakeholders as we progress the project along the path towards development in 2011.

Lee K Spencer
CEO

5 Marine environmental studies have been undertaken 6 Land environmental monitoring is continuing.

FINANCIAL REPORT

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Kula Gold Limited (referred to hereafter as Kula Gold or the Company) and the entities it controlled at the end of, or during, the year ended 31 December 2010.

DIRECTORS

The following persons were directors of Kula Gold Limited during the whole of the financial year and up to the date of this report:

Lee Spencer

Louis Rozman

Peter Bradford

David Frecker was appointed as director on 16 September 2010 and continues in office at the date of this report.

John Watkins was appointed as director on 16 September 2010 and continues in office at the date of this report.

Mark Stowell was appointed as director on 16 September 2010 and continues in office at the date of this report.

Arnold Vogel was a director from the beginning of the financial year until his resignation on 16 September 2010.

Raymond Perkes was a director from the beginning of the financial year until his resignation on 16 September 2010.

Mark Faul and Greg Dick, alternate directors resigned on 16 September 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the development of the Woodlark Island Gold Project located on Woodlark Island in Papua New Guinea.

DIVIDENDS

No dividends have been paid or declared during the year (2009: $nil).

RESULT OF OPERATIONS

The net loss from operations of the consolidated entity was $5,058,000 (2009: loss of $1,849,000).

DIRECTORS' REPORT

REVIEW OF OPERATIONS

The year ending 31 December 2010 has been an important stepping stone on the path towards the development of an operating gold mine on the company's core asset on Woodlark Island, Milne Bay Province, Papua New Guinea. The transition from pure explorer to developer is gathering pace with significant milestones achieved during the year including:

Exploration:

+ A JORC Measured, Indicated and Inferred Resource of 1.75 million ozs of gold contained within three deposits. Two of these deposits have scope for expansion and will be subject to intensive drilling in 2011.
+ A major infill drilling program culminated in a maiden JORC reserve of 584,000 ozs of gold from an in pit mining inventory of 772,000 ozs from two open pits located at Kulumadau and Busai respectively.
+ Completion of a Pre-Feasibility Study (PFS) which demonstrated the positive economics of developing a gold mining operation from the proposed Kulumadau and Busai Open Pits. The study indicated that sufficient mining inventory had been established in these areas to support a 100,000 ozs per annum operation with a mine life of around 7 years utilising a 1.5 million tonne per annum plant.
+ Confirmation of the excellent regional exploration potential by the recognition of an additional 8 other low sulphidation, epithermal targets on Woodlark Island. Reconnaissance RC drilling was initiated at the Woodlark King Prospect at the end of the year with significant intersections being achieved which indicate the possibility of a third pit being included in the Definitive Feasibility Study (DFS).
+ Completion of an Environmental Baseline Study and initiation of long lead time items constituting part of the Environmental Impact Study (EIS).
+ The Definitive Feasibility Study was commenced following the positive outcome of the PFS.

Corporate

+ A successful Initial Public Offering (IPO) and a listing on the Australian Securities Exchange (ASX) on 16 November 2010. The IPO resulted in a net $52 million to the company which underwrites the company's aggressive growth plans for 2011.
+ Initiated the building of a corporate and technical team which will oversee the company into the development phase.

Environment

+ The Company is committed to developing the project in an environmentally responsible manner. Extensive baseline environmental studies have been conducted which constitute an Environmental Inception Report since completed.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In September 2010 Kula Gold Pty Ltd converted to a public company, changed its company name to Kula Gold Limited and reorganised its share capital. On 16 November 2010, the Group listed on the Australian Securities Exchange (ASX) raising $58 million before capital raising costs.

In the opinion of the directors there were no other significant changes in the state of affairs of the Group that occurred during the financial year under review not otherwise disclosed in this annual report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 16 March 2011, 200,000 options were granted to Company employees under the Kula Gold Option Plan at an exercise price of $1.80. The options are exercisable on or before 5 years from the date of grant of the options.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in respect of its exploration activities as set out below.

The Group's exploration activities in Papua New Guinea are subject to the environmental regulation of Papua New Guinea. The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the period under review.

INFORMATION ON DIRECTORS

David Frecker BA, LLM Independent Chairman and Non Executive Director. Age 62.

Experience and expertise

David Frecker was appointed as a Non executive Director of Kula Gold in September 2010 and has been elected Chairman of the Board.

David is a commercial lawyer with over 35 years experience in practice in Australia and PNG. He is a partner of Blake Dawson, practising in the corporate and commercial area and specialising in mining, oil & gas and resources law, and all aspects of commercial law in PNG. Prior to joining Blake Dawson in 1980, David worked for five years in the Mining and Major Projects Section of the State Solicitor's Office in PNG. He subsequently spent four years as one of Blake Dawson's resident partners in PNG.

David is a member of AMPLA (the Resources and Energy Law Association of Australia) and the Resources, Energy and Environmental Law Committee of the Law Council of Australia. He is admitted to practise in Australia and PNG and holds Bachelor of Arts, Bachelor of Laws and Masters of Laws degrees from the University of Sydney.

Other current directorships

The Kokoda Track Foundation Limited.

Former directorships in last 3 years

None.

Special responsibilities

Independent Chairman.
Member of the Audit Committee.
Member of the Remuneration and Nomination Committee.

Interests in shares and options

+ 10,000 ordinary fully paid shares; and
+ 100,000 KGDOPT2 class options to acquire ordinary fully paid shares.

Lee Spencer MSc App (Mineral Exploration) Managing Director and CEO. Age 57.

Experience and expertise

Lee is a Geologist with over 30 years experience in the mining industry. He has proven expertise in operating mines, project development and exploration and has worked in South East Asia and PNG since 1976. Lee has been associated with the Woodlark Island Gold Project for over ten years.

Lee has held numerous senior executive positions in the mining industry including CEO of BDI Mining Corp and VP of Exploration for Indomin Resources Ltd. Lee has extensive developing country experience and has been credited with several project discoveries and developments in the region, including the Cempaka diamond mine in Indonesia.

Lee holds an MSc App (Mineral Exploration) degree from the University of New South Wales.

INFORMATION ON DIRECTORS (CONTINUED)

Other current directorships

None.

Lee Spencer has been Kula Gold's Chief Executive Officer and Managing Director since July 2007.

Former directorships in last 3 years

None.

Special responsibilities

Managing Director.
Member of the Risk Committee.

Interests in shares and options

+ 542,370 ordinary fully paid shares; and
+ 1,126,155 KGDOPT1 class options to acquire ordinary fully paid shares.

John Watkins BA (Acct/Geo), Diploma in Geoscience (Min Ec) Executive Director and CFO. Age 56.

Experience and expertise

John Watkins has been Kula Gold's Chief Financial Officer since January 2008.

John is an accountant and mining executive with over 30 years experience working in the resources sector. He was previously the Commercial Manager at Barrick Gold Corporation's Porgera Gold Mine and has worked in PNG or on PNG projects for approximately 18 years. John has held the positions of CFO, Financial Controller and Company Secretary for AMEX, ASX and TSX listed mining companies, including Endeavour Silver Corp and Nicron Resources Ltd.

John is a member of the Australian Society of CPAs, FCIS, FFin and a Fellow of the Australasian Institute of Mining and Metallurgy. He has a BA (Acct/Geo) degree and a Diploma in Geoscience (Min Ec) from Macquarie University.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Executive Director.

Interests in shares and options

+ 275,600 ordinary fully paid shares; and
+ 563,078 KGDOPT1 class options to acquire ordinary fully paid shares.

INFORMATION ON DIRECTORS (CONTINUED)

Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec) Non Executive Director. Age 53.

Experience and expertise

Louis Rozman has been a Non Executive Director of Kula Gold since July 2007.

Louis is a Mining Engineer and executive with 30 years experience operating and constructing projects in Africa, Australia and PNG. Louis was Chief Operations Officer of Aurion Gold Limited and was instrumental in the development of its predecessor, Delta Gold Limited.

Louis is currently Investment Director of Pacific Road Capital Management Pty Ltd.

Louis is a Fellow and Chartered Professional (Management) of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Company Directors. He has a BEng (Mining) degree from the University of Sydney and a Masters in Geoscience (Min Ec) from Macquarie University.

Other current directorships

Pacific Energy Ltd, Mawson West Ltd and Carbon Energy Ltd.

Former directorships in last 3 years

Timmins Gold Corp.

Special responsibilities

Non Executive Director.
Member of the Risk Committee.
Chairman of the Remuneration and Nomination Committee.

Interests in shares and options

+ 359,023 ordinary fully paid shares; and
+ 100,000 KGDOPT1 class options to acquire ordinary fully paid shares.

Peter Bradford BAppSc Independent Non Executive Director. Age 52.

Experience and expertise

Peter Bradford has been a Non Executive Director of Kula Gold since September 2008.

Peter is a Metallurgist and corporate executive with 30 years of gold and base metals operational experience in Africa and Australia.

Peter is a Fellow of the Australasian Institute of Mining and Metallurgy, a Member of the Society for Mining Engineers, a member of the Australian Institute of Company Directors and an honorary life time member of the Ghana Chamber of Mines. He holds a BAppSc degree in Extractive Metallurgy from the Western Australian School of Mines.

Other current directorships

Peter is currently President and CEO of Copperbelt Minerals Limited and a non-executive director of Ashburton Minerals Limited.

Former directorships in last 3 years

Anvil Mining Limited from 1998 to 2009 and Golden Star Resources Ltd from 1999 to 2007.

INFORMATION ON DIRECTORS (CONTINUED)

Special responsibilities

Member of the Audit Committee.
Chairman of the Risk Committee.

Interests in shares and options

+ 432,900 ordinary fully paid shares; and
+ 100,000 KGDOPT1 class options to acquire ordinary fully paid shares.

Mark Stowell BBus, CA Independent Non Executive Director. Age 47.

Experience and expertise

Mark Stowell has been a Non Executive Director of Kula Gold since September 2010.

Mark is a Chartered Accountant with over 20 years of corporate finance and resource business management experience.

He served as manager in the corporate division of Arthur Andersen and subsequently in the establishment and management of a number of successful ventures as principal, including resource companies operating in Australia and internationally. He was a founder of Anvil Mining Ltd (DRC) and on its board for seven years until 2000. He was also a founder and Non Executive Director of Incremental Petroleum Limited, an oil and gas producer with operations in Turkey and the USA. He is the Chairman of Mawson West Ltd, an unlisted copper miner operating in Africa, and its associated group company, Orrex Resources Ltd. Mark is also a Non Executive Director of Incremental Oil and Gas Ltd, (ASX: IOG) a California oil and gas producer.

Mark is a member of the Institute of Chartered Accountants and has a BBus degree from Edith Cowan University (formerly the WA College of Advanced Education).

Other current directorships

Mawson West Ltd, Orrex Resources Ltd, Incremental Oil and Gas Ltd.

Former directorships in last 3 years

Incremental Petroleum Limited.

Special responsibilities

Chairman of the Audit Committee.
Member of Remuneration and Nomination Committee.

Interests in shares and options

+ 25,000 ordinary fully paid shares; and
+ 100,000 KGDOPT2 class options to acquire ordinary fully paid shares.

COMPANY SECRETARY

Mr John Watkins held the position of Company Secretary during and since the end of the financial year. Qualifications and experience are disclosed on previous pages.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of directors and of each Board committee held during the year ended 31 December 2010, and the numbers of meetings attended by each director were:

	BOARD MEETINGS		MEETINGS OF COMMITTEES					
			AUDIT		RISK		RENUMERATION AND NOMINATION	
	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
D Frecker	7	7	1	1	–	–	1	1
L Spencer	15	15	–	–	1	1	–	–
J Watkins	7	7	–	–	–	–	–	–
L Rozman	15	14	–	–	1	1	1	1
P Bradford	15	9	1	1	1	1	–	–
M Stowell	7	6	1	1	–	–	1	1
A Vogel*	9	9	–	–	–	–	–	–
R Perkes**	9	8	–	–	–	–	–	–

*A Vogel: Resigned 16 September 2010.
** R Perkes: Resigned 16 September 2010.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

Principles used to determine the nature and amount of remuneration

+ Details of remuneration
+ Service agreements
+ Share based compensation
+ Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

+ competitiveness and reasonableness;
+ acceptability to shareholders;
+ performance linkage / alignment of executive compensation;
+ transparency; and
+ capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complementry to the reward strategy of the organisation.

Remuneration and Nomination Committee

The role of the Remuneration and Nomination Committee is to attend to matters relating to Kula Gold's remuneration policy to enable Kula Gold to attract and retain executives who will create value for Shareholders and to oversee remuneration packages for management and employees of Kula Gold.

The Committee also attends to matters relating to succession planning and recommends candidates for election or re-election to the Board at each annual Shareholder's meeting. The Committee will periodically assess the appropriate mix of skills, experience and expertise required on the Board and assess the extent to which the required skills and experience are represented on the Board.

The Committee will comprise only non executive Directors, at least three members and a majority of independent Directors. The Committee will be chaired by a non executive director who is not the chair of the Board.

The current members of the Remuneration and Nomination Committee are Louis Rozman (Chairman), Mark Stowell and David Frecker.

REMUNERATION REPORT (CONTINUED)

The Board has established a remuneration committee which makes recommendations to the board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors. The Corporate Governance Statement provides further information on the role of this committee.

Non executive directors

Non-executive Directors are remunerated by way of directors' fees within the limit approved by shareholders. The Board determines fees paid to individual Board members. The current maximum aggregate sum which Shareholders have fixed to be paid as fees to non-executive Directors is $300,000 per annum. This amount was fixed by Shareholders at a general meeting held on 20 September 2010.

The Chairman is paid an annual fee of $70,000 plus superannuation. Other non-executive Directors are paid annual base fees of $40,000 plus $10,000 for each Chairman of a Board Committee, plus superannuation.

Remuneration to non-executive Directors is not paid by commission on, or percentage of, profits or operating revenue.

Fees and payments to non executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non executive directors' fees and payments are reviewed annually by the board. The Chair's fees are determined independently to the fees of non executive directors based on comparative roles in the external market. The Chair is not present at any discussions relating to determination of his own remuneration.

Executive compensation

Remuneration to Executives is not paid by commission on, or percentage of, profits or operating revenue.

The executive compensation and reward framework has three components:

+ Fixed compensation which includes base pay and benefits, including superannuation;
+ Short term performance incentives; and
+ Long term incentives through participation in the Kula Gold Employee Option Plan.

Fixed compensation

Fixed compensation consists of base compensation which is calculated on a total cost basis, as well as employer contributions to superannuation funds.

Short term incentives ("STI")

The Remuneration Committee is responsible for assessing whether the KPIs are met in light of the Company's corporate goals and objectives and arranges annually a performance evaluation of the Company's senior executives, including the Chief Executive Officer and the Chief Financial Officer. The evaluation will be based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

REMUNERATION REPORT (CONTINUED)

Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the five highest paid executives of Kula Gold Limited and the Kula Gold Limited group are set out in the following tables:

Non-executive Directors	Position
D Frecker	Non-executive Chairman (appointed as director on 16 September 2010)
L Rozman	Non-executive Director
P Bradford	Non-executive Director
M Stowell	Non-executive Director (appointed 16 September 2010)

Former Non-executive Directors	
A Vogel	Non-executive Director (resigned 16 September 2010)
R Perkes	Non-executive Director (resigned 16 September 2010)

Executive Directors and Key Management Personnel	
L Spencer	Managing Director and CEO
J Watkins	Executive Director, CFO and Company Secretary (appointed a Director on 16 September 2010)

In addition, the following persons must be disclosed under the Corporations Act 2001 as they are among the 5 highest remunerated group and/or company executives:

Other Group Executives	Position
G Clapp	Community Affairs/Environment Manager
K Harland	Finance and Administration Manager

REMUNERATION REPORT (CONTINUED)

Directors, Key Management Personnel and other executives of the Group - 2010

	SHORT TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS		
	CASH SALARY AND FEES	CASH BONUS	SUPERANNUATION	LONG SERVICE LEAVE	OPTIONS	PERCENTAGE OF TOTAL PACKAGE	TOTAL
Directors	$	$	$	$	$	%	$
D Frecker	20,417	–	1,838	–	1,128	4.8	23,383
L Spencer	206,219	62,500	50,000	–	15,094	4.5	333,813
J Watkins	148,610	41,284	52,359	–	7,547	3.0	249,800
L Rozman	14,583	–	–	–	1,128	7.2	15,711
P Bradford	39,500	–	-–	–	1,128	2.8	40,628
M Stowell	14,583	–	1,312	–	1,128	6.6	17,023
A Vogel*	–	–	–	–	–	–	–
R Perkes*	31,500	–	–	–	–	–	31,500
Executives							
G Clapp	229,167	–	–	–	–	–	229,167
K Harland	120,000	–	–	–	–	–	120,000
Total	824,579	103,784	105,509	–	27,153		1,061,025

*R Perkes and A Vogel resigned 16 September 2010

REMUNERATION REPORT (CONTINUED)

Directors, Key Management Personnel and other executives of the Group - 2009

	SHORT TERM EMPLOYEE BENEFITS		POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS		
	CASH SALARY AND FEES	CASH BONUS	SUPERANNUATION	LONG SERVICE LEAVE	OPTIONS	PERCENTAGE OF TOTAL PACKAGE	TOTAL
Directors	$	$	$	$	$	%	$
L Rozman	–	–	–	–	–	–	–
L Spencer	237,500	–	75,000	–	163,401	34.3	475,901
A Vogel	–	–	–	–	–	–	–
R Perkes	42,000	–	–	–	41,216	49.5	83,216
P Bradford	36,000	–	–	–	–	–	36,000
Executives							
J Watkins	169,450	–	71,750	–	124,973	34.1	366,173
Total	484,950	–	146,750	–	329,590		961,290

REMUNERATION REPORT (CONTINUED)

Contracts for services of key management personnel

Compensation and other terms of employment for the Managing Director and the Chief Financial Officer are formalised in service agreements. All contracts with executives may be terminated early, subject to termination payments as detailed below.

L Spencer, Managing Director and Chief Executive Officer

- Term of agreement – ongoing under new terms and conditions which commenced 16 November 2010;
- Base salary: $275,000 plus superannuation guarantee, to be reviewed annually;
- Eligible to be paid a performance related bonus of up to 25% of the base salary at the discretion of the Board;
- 90 days notice is required on resignation;
- Termination by the Company, three months of base salary; and
- Payment of benefit on termination within 12 months or after a change of control:
  – 18 months of base salary grossed up to include any unpaid bonus and net of all deductions required by law.

J Watkins, Executive Director, Chief Financial Officer and Company Secretary

- Term of agreement – ongoing under new terms and conditions which commenced 16 November 2010;
- Base salary: $215,000 plus superannuation guarantee, to be reviewed annually;
- Eligible to be paid a performance related bonus of up to 25% of the base salary at the discretion of the Board;
- 90 days notice is required on resignation;
- Termination by the Company, three months of base salary; and
- Payment of benefit on termination within 12 months after a change of control:
  – 18 months of base salary grossed up to include any unpaid bonus and net of all deductions required by law.

REMUNERATION REPORT (CONTINUED)

Share based compensation

Options

Options over shares in Kula Gold Limited are granted under the Kula Gold Option Plan (Option Plan) to employees (including executive directors). The Option Plan is designed to provide long term incentives for executives and senior employees to deliver long term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Options granted under the plan carry no dividend or voting rights. Separately, at the time of the initial public offering of the Company's shares, each of the current Non-executive Directors were offered options. Details of options over ordinary shares in the company provided as remuneration to each director of Kula Gold Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Kula Gold Limited. Further information on the options is set out in note 28 to the financial statements.

The following options were granted as remuneration to directors and key management personnel of the Company during the year ended 31 December 2010.

NAME	GRANTED NUMBER	GRANT DATE	VESTED NUMBER	FORFEITED IN YEAR	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE
D Frecker	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000
L Spencer	1,126,155	01 Dec 2010	–	–	01 Dec 2015	$1.80	$349,109
J Watkins	563,078	01 Dec 2010	–	–	01 Dec 2015	$1.80	$174,555
L Rozman	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000
P Bradford	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000
M Stowell	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000

The following factors were used in determining the fair value of options on grant date:

NAME	GRANTED NUMBER	EXPIRY DATE	FAIR VALUE PER OPTION	EXERCISE PRICE	PRICE OF SHARES ON GRANT DATE	EXPECTED VOLATILITY	INTEREST RATE
D Frecker	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
L Spencer	1,126,155	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
J Watkins	563,078	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
L Rozman	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
P Bradford	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
M Stowell	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%

These options carry no voting rights and no rights to dividends.

REMUNERATION REPORT (CONTINUED)

Share based compensation (continued)

The following options were granted to a director of the Company as part of his remuneration during the comparative reporting period:

NAME	GRANTED NUMBER	GRANT DATE	VESTED NUMBER	FORFEITED IN YEAR	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE
R Perkes	95*	03 April 2009	95*	–	07 Dec 2013	US$1,000	$41,216

* Prior to capital re-organisation – Refer Note 17(c).

These options carry no voting rights and no rights to dividends.

The following factors were used in determining the fair value of options on grant date:

NAME	GRANTED NUMBER	EXPIRY DATE	FAIR VALUE PER OPTION	EXERCISE PRICE	PRICE OF SHARES ON GRANT DATE	INTEREST RATE
R Perkes	95*	07 Dec 2013	$433	US$1,000	US$1,000	0.82%

*Prior to capital re-organisation – Refer Note 17(c).

On 16 March 2011, 200,000 options were granted to Company employees under the Kula Gold Option Plan at an exercise price of $1.80. The options are exercisable on or before 5 years from the date of grant of the options.

LOANS TO DIRECTORS AND EXECUTIVES

There were no loans to directors or executives during the reporting period.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

No options were exercised during the year ended 31 December 2010 (2009: Nil).

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Group has agreed to indemnify the directors and officers of the Group for any:

(a) liability for any act or omission in their performance as director or officer; and

(b) costs incurred in settling or defending any claim or proceeding relating to any such liability, not being a criminal liability.

During the financial year, Kula Gold paid premiums to insure the directors and the officers of the Group. In accordance with commercial practice the policy has a confidentiality clause which prohibits the disclosure of the amount of the premium and the nature and amount of the liability covered. There were no claims under the policy during the reporting period.

INDEMNIFICATION AND INSURANCE OF OFFICERS (CONTINUED)

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

+ all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
+ none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the Group, its related practices and non-related audit firms:

NON-AUDIT SERVICES (CONTINUED)

	CONSOLIDATED 2010 $	CONSOLIDATED 2009 $
Non-audit services		
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Investigating accountants report and other services relating to IPO	491,080	–
Other services	9,496	10,000
Total remuneration for other assurance services	500,576	10,000
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance service	40,350	–
Related practices of PricewaterhouseCoopers Australian firm	22,928	21,600
Total remuneration for taxation services	63,278	21,600
Total remuneration for non-audit services	563,854	31,600

FUNCTIONAL AND PRESENTATION CURRENCY

The amounts included in the Directors' Report and consolidated financial statements are presented in Australian dollars, which is Kula Gold Limited's functional and presentation currency, unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 36.

ROUNDING OF AMOUNTS

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

David Frecker
Chairman

Lee Spencer
Director

Sydney, 25 March 201

AUDITOR'S INDEPENDENCE DECLARATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

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Auditor's Independence Declaration

As lead auditor for the audit of Kula Gold Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kula Gold Limited and the entities it controlled during the period.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
25 March 2011

CORPORATE GOVERNANCE STATEMENT

The Board is committed to ensuring that Kula Gold is properly managed to protect and enhance Shareholder interests, and that Kula Gold, its Directors, officers and employees operate in an appropriate environment of corporate governance.

Accordingly, the Board has adopted corporate governance policies and practices (the majority of which are in accordance with ASX's Corporate Governance Principles and Recommendations (ASX Recommendations)) designed to promote the responsible management and conduct of Kula Gold. Where the Company's practices do not correlate with the ASX Recommendations, Kula Gold is working towards compliance but does not consider that all practices are appropriate for the size and scale of Kula Gold's operations. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entity together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below.

Details of Kula Gold's key policies and practices and charters for the Board and each of its committees may be obtained from the Company Secretary.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions

The Board is ultimately responsible for setting policies regarding the strategic direction and goals for the business and affairs of Kula Gold.

In discharging their duties, Directors are provided direct access to and may rely upon senior management and outside advisers and auditors. The Board collectively, the Board committees and individual Directors may seek independent professional advice at Kula Gold's expense for the purposes of the proper performance of their duties.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (CONTINUED)

Role of the Board

The responsibilities of the Board include:

+ overseeing the business and affairs of Kula Gold;
+ appointing the Managing Director and other senior executives and determining their terms and conditions, including remuneration and termination;
+ driving the strategic direction of Kula Gold, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
+ reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
+ overseeing and reviewing the Company's occupational health and safety systems;
+ approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
+ approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
+ approving the annual, half-yearly and quarterly accounts;
+ approving significant changes to the organisational structure;
+ approving the issue of any shares, options, equity instruments or other securities in Kula Gold;
+ ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision-making;
+ recommending to Shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved; and
+ meeting with external auditor, at their request, without management being present.

Role of Senior Executives

The Board delegates day-to-day management of Kula Gold's resources to management, under the leadership of the CEO, to deliver the strategic direction and goals determined by the Board.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of Senior Executives

Kula Gold aims to have a clear process for evaluating the performance of senior executives. The Board has delegated to the Remuneration and Nomination Committee the responsibility to arrange annually a performance evaluation of the Company's senior executives, including the Chief Executive Officer and the Chief Financial Officer. The evaluation will be based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

It is a policy of Kula Gold that the Board comprises individuals with a range of knowledge, skills and experience which are appropriate to its objectives. The composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

Currently the Board comprises six directors, being a non-executive chairman, two executive directors and three non-executive directors. The directors have a broad mix of skills, experience and knowledge to enable them to effectively and efficiently discharge their responsibilities and duties. Details of the members of the Board, their experience, expertise, qualifications and independent status are set out in the Directors' report.

Recommendation 2.1: A majority of the Board should be Independent Directors

The Board has adopted specific principles in relation to directors' independence. The Board considers an independent Director to be a non-executive Director who is not a member of Kula Gold's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis, having regard to both quantitative and qualitative principles.

The Board currently comprises four Non-Executive Directors and two Executive Directors. The Chairman is a Non-Executive Director. The current members of the Board are D Frecker (Chairman), L Spencer (Executive Director), J Watkins (Executive Director), P Bradford, L Rozman and M Stowell.

D Frecker, P Bradford and M Stowell are considered by the Board to be independent. The Board considers that the existing Board structure is appropriate for Kula Gold's current operations and stage of development despite the fact that it does not have a majority of independent Non-Executive Directors.

Recommendation 2.2: The Chair should be an Independent Director

Chairman

Mr D Frecker was appointed Chairman of the Company on 16 September 2010 and is considered an independent Director in accordance with recommendation 2.1 of the best practice recommendations.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual

The role of Chair and Chief Executive Officer is not occupied by the same individual.

Recommendation 2.4: The Board should establish a Nomination Committee

The Board established a Remuneration and Nomination Committee on 20 September 2010. The Remuneration and Nomination Committee has a written charter defining the role and responsibility of the committee. The responsibilities of the Remuneration and Nomination Committee include matters relating to succession planning and recommend candidates for election or re-election to the Board at each annual Shareholders' meeting. The Committee will periodically assess the appropriate mix of skills, experience and expertise required on the Board and assess the extent to which the required skills and experience are represented on the Board.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its Committees and Individual Directors

It is intended that a review of the Board's own performance will be conducted annually together with the reviews of the performance of its committees and individual directors.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1: Companies should establish a code of conduct

The Board acknowledges the need for high standards of corporate governance practice and ethical conduct by all Directors and employees of Kula Gold.

The Board has adopted a code of conduct which sets out Kula Gold's commitment to maintaining high levels of integrity and ethical standards in its business practices. The code of conduct sets out for all Directors, management and employees the standards of behaviour expected of them.

The code of conduct sets out Kula Gold's policies on various matters, including, conflicts of interest, public and media comment, use of Kula Gold resources, security of information, intellectual property/copyright, discrimination and harassment, corrupt conduct, occupational health and safety and insider trading.

In addition to their obligations under the Corporations Act in relation to inside information, all Directors, employees and consultants have a duty of confidentiality to Kula Gold in relation to confidential information they possess.

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by Directors, Senior Executives and employees, and disclose the policy or a summary of that policy

Directors, officers and other employees of Kula Gold will be in possession of information relating to Kula Gold and, possibly, other companies. From time to time, some of this information may be classified as "inside" information. The Corporations Act provides that it is a criminal offence for a person in possession of inside information in relation to a company to trade, or procure another person to trade in securities of that company. Kula Gold has adopted a securities trading policy that explains the prohibition on insider trading and also, in addition, limits trading by Directors and employees to specific "trading windows", such as following the release of Kula Gold's full and half year results announcements and the annual general meeting. In certain instances Kula Gold's policy extends beyond the strict requirements of the Corporations Act.

Any such a trade by a Director must be notified in advance to the Chairman or the Board and clearance obtained.

Any Director or employee who (or through his or her Associates) buys, sells, or exercises rights in relation to Kula Gold securities must notify the Company Secretary in writing of the details of the transaction within five business days after the transaction occurring. This notification obligation operates at all times subject to certain exceptions.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: The Board should establish an Audit Committee

The Board established an Audit Committee on 20 September 2010.

Recommendation 4.2: The Audit Committee should be structured so that it:

+ consists only of Non-executive Directors
+ consists of a majority of Independent Directors
+ is chaired by an independent chair, who is not Chair of the Board
+ has at least three members

The Audit Committee consists of three Non-executive Directors all of which are independent directors and chaired by an independent Director who is not chair of the Board. The Chairman satisfies the test of independence.

The current members of the Audit Committee are M Stowell (Chairman), P Bradford and D Frecker.

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report.

Recommendation 4.3: The Audit Committee should have a formal charter

The Audit Committee has a written charter defining the role and responsibility of the committee. The role of the Audit Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

Kula Gold is committed to continuous disclosure of material information as a means of promoting transparency and investor confidence.

The Company Secretary has been nominated as the persons responsible for communications with the Australian Securities Exchange (ASX). This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to ASX.

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The Board aims to ensure that shareholders are informed of all major developments affecting the Company. Shareholders are updated on the Company's operations via ASX announcements "Quarterly Activities Report" and "Quarterly Cash Flow Report" and other disclosure information. All ASX announcements are available on the Company's website at www.kulagold.com.au, or alternatively, by request via email, facsimile or post. In addition, a copy of the annual report will be distributed to all shareholders who elect to receive it.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

Kula Gold is committed to the identification, monitoring and management of risks associated with its business activities and has established policies in relation to the implementation of practical and effective control systems.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Board is responsible for ensuring that sound risk management strategy and polices are in place. The Board established a Risk Committee on 20 September 2010. The Board has delegated to the Risk Committee responsibility for identifying and overseeing major risk areas and that systems are in place to manage them, and report to the Board as and when appropriate.

The role of the Risk Committee is to assist the Board with the identification and management of business and operational risks faced by the Company. The Committee will have primary responsibility for overseeing the Company's risk management systems, practices and procedures and reviewing periodically the scope and adequacy of the Company's insurance to cover these risks.

The Risk Committee must develop and maintain a risk register which identifies the risks to the Company and its operation and assesses the likelihood of their occurrence. The risk register will be updated periodically and represented to the Board for its consideration at least twice a year.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report back quarterly to the Risk Committee on whether those risks are being managed effectively.

The Risk Committee is comprised of at least three members and may include both Executive and Non-executive Directors. The Committee is chaired by a non-executive Director who is not the chair of the Board.

The current members of the Risk Committee are P Bradford (Chairman), L Rozman and L Spencer.

Details of these directors' qualifications and attendance at risk committee meetings are set out in the Directors' Report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK (CONTINUED)

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Mr L Spencer (CEO) and Mr J Watkins (CFO) have made the following certifications to the Board:

+ the financial records of the Company have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
+ the financial statements and notes thereto comply with the relevant accounting standards in all material respects as required by Section 296 Corporations Act 2001;
+ the financial statements and notes thereto give a true and fair view, in all material respects, of the financial position and performance of the company and consolidated entities as required by Section 297 of the Corporations Act 2001; and
+ any other matters are prescribed by the regulations in relation to the financial statements and the accompanying notes are satisfied.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The Board should establish a Remuneration Committee.

The Board established a Remuneration and Nomination Committee on 20 September 2010. The Remuneration and Nomination Committee has a written charter defining the role and responsibility of the committee.

The Remuneration and Nomination Committee consists of the following non executive directors (a majority of whom are independent): L Rozman (Chairman), M Stowell and D Frecker. Details of these directors' attendance at Remuneration and Nomination Committee meetings are set out in the Directors' Report.

The role of the Remuneration and Nomination Committee is to attend to matters relating to Kula Gold's remuneration policy to enable Kula Gold to attract and retain executives who will create value for Shareholders and to oversee remuneration packages for management and employees of Kula Gold.

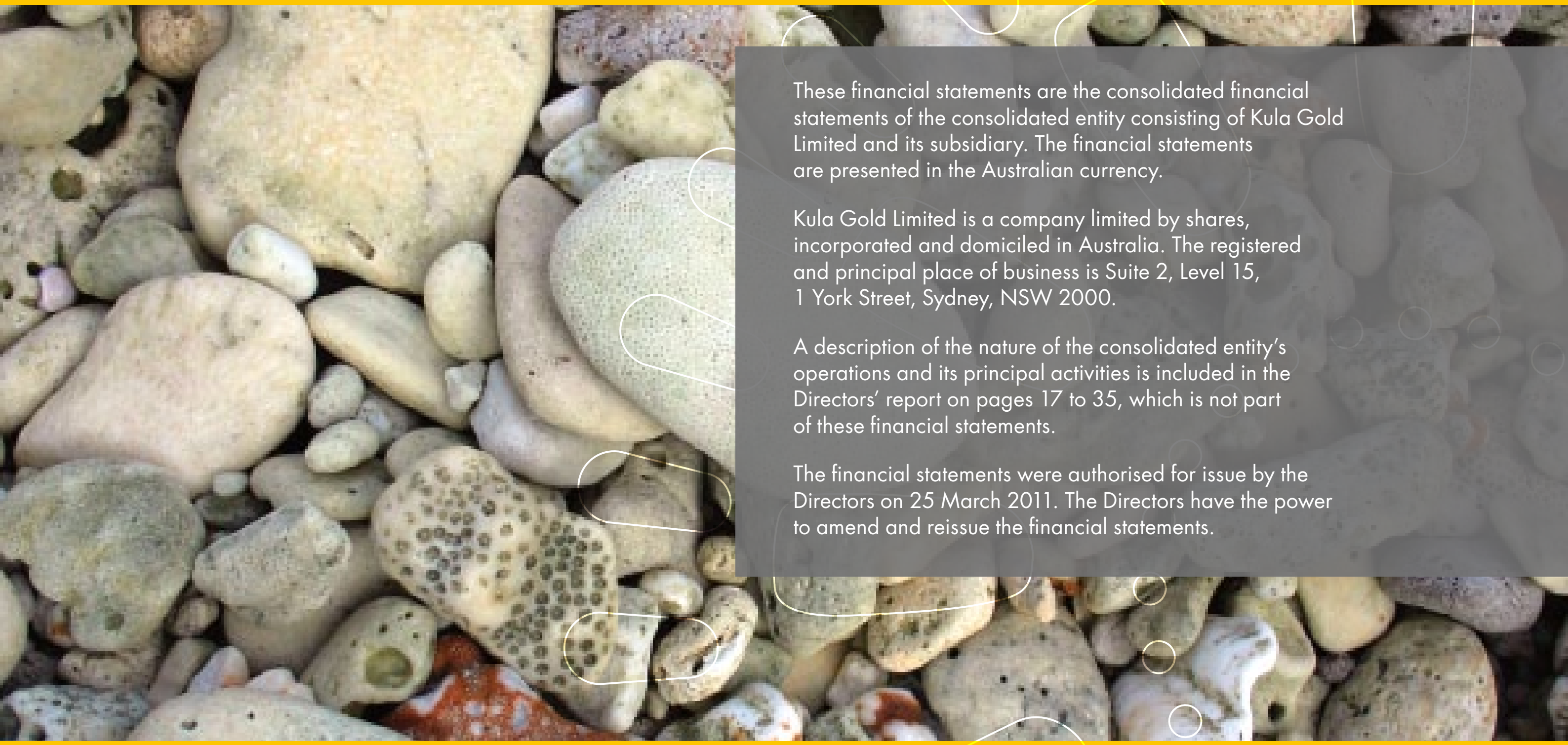
Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.

Each member of the senior executive team, including the two Executive Directors, have signed a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. Each contract sets out the remuneration of the executive, including his or her entitlements to any options under the Employee Option Plan.

Non-executive Directors receive director's fees in agreed amounts. At the time of initial public offering of the Company's shares, each of the current Non-Executive Directors were offered options on terms approved by the ASX.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading ''Remuneration report''.

FINANCIAL STATEMENTS



These financial statements are the consolidated financial statements of the consolidated entity consisting of Kula Gold Limited and its subsidiary. The financial statements are presented in the Australian currency.

Kula Gold Limited is a company limited by shares, incorporated and domiciled in Australia. The registered and principal place of business is Suite 2, Level 15, 1 York Street, Sydney, NSW 2000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on pages 17 to 35, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 25 March 2011. The Directors have the power to amend and reissue the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

		CONSOLIDATED	
	NOTES	2010 $'000	2009 $'000
Revenue from continuing operations	5	370	12
Employee benefits expense		(811)	(918)
Professional and consulting expenses		(3,306)	(314)
Rental expense	6	(58)	(45)
Insurance expense		(46)	(12)
Foreign exchange losses		(1,037)	(559)
Other expenses		(170)	(42)
(Loss) before income tax		(5,058)	(1,878)
Income tax benefit/(expense)	7	–	29
Loss for the year		(5,058)	(1,849)
Other comprehensive income			
Exchange differences on translation of foreign operations	18(a)	(7,330)	(14,892)
Total comprehensive loss for the year		(12,388)	(16,741)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the parent entity:		CENTS	CENTS
Basic earnings per share	27	(6.40)	(3.07)
Diluted earnings per share	27	(6.40)	(3.07)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

		CONSOLIDATED	
	NOTES	2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**48,265**	2,614
Receivables and other assets	9	**1,008**	219
Inventories	10	**1,101**	294
Total current assets		**50,374**	3,127
Non current assets			
Property, plant and equipment	11	**2,158**	2,400
Mineral exploration and evaluation expenditure	12	**68,393**	54,881
Other non current assets	14	**18**	8
Total non current assets		**70,569**	57,289
Total assets		**120,943**	60,416
LIABILITIES			
Current liabilities			
Trade and other payables	15	**3,795**	1,322
Total current liabilities		**3,795**	1,322
Non current liabilities			
Provisions	16	**147**	116
Total non current liabilities		**147**	116
Total liabilities		**3,942**	1,438
Net assets		**117,001**	58,978
EQUITY			
Contributed equity	17	**134,792**	62,964
Reserves	18(a)	**(10,214)**	(1,467)
Accumulated losses	18(b)	**(7,577)**	(2,519)
Total equity		**117,001**	58,978

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

		ATTRIBUTABLE TO OWNERS OF KULA GOLD LIMITED					
		CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL RESERVES	ACCUMULATED LOSSES	TOTAL EQUITY
Consolidated	NOTES	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 Jan 2009		48,094	229	12,867	13,096	(670)	60,520
Total loss for the year as reported in the 2009 financial statements		–	–	–	–	(1,849)	(1,849)
Exchange differences on translation of foreign operations	18	–	–	(14,892)	(14,892)	–	(14,892)
Total comprehensive loss for the year		–	–	(14,892)	(14,892)	(1,849)	(16,741)
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs	17	14,870	–	–	–	–	14,870
Share based payments	18	–	329	–	329	–	329
		14,870	329	–	329	–	15,199
Balance at 31 Dec 2009		62,964	558	(2,025)	(1,467)	(2,519)	58,978
Balance at 1 Jan 2010		62,964	558	(2,025)	(1,467)	(2,519)	58,978
Total loss for the year as reported in the 2010 financial statements		–	–	–	–	(5,058)	(5,058)
Exchange differences on translation of foreign operations	18	–	–	(7,330)	(7,330)	–	(7,330)
Total comprehensive loss for the year		–	––	(7,330)	(7,330)	(5,058)	(12,388)

Continued over page

		ATTRIBUTABLE TO OWNERS OF KULA GOLD LIMITED					
		CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL RESERVES	ACCUMULATED LOSSES	TOTAL EQUITY
Consolidated	NOTES	$'000	$'000	$'000	$'000	$'000	$'000
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	17	71,828	–	–	–	–	71,828
Share based payments	18	–	29	–	29	–	29
Cancellation of options		–	(1,446)	–	(1,446)	–	(1,446)
		71,828	(1,417)	–	(1,417)	–	70,411
Balance at 31 Dec 2010		134,792	(859)	(9,355)	(10,214)	(7,577)	117,001

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	CONSOLIDATED 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		–	–
Payments to suppliers and employees (inclusive of goods and services tax)		(4,614)	(2,494)
		(4,614)	(2,494)
Interest income		151	12
Net cash (outflow) inflow from operating activities	26	(4,463)	(2,482)
Cash flows from investing activities			
Payments for property, plant and equipment		(544)	(1,355)
Payments for exploration activities		(18,805)	(12,889)
Net cash (outflow) inflow from investing activities		(19,349)	(14,244)
Cash flows from financing activities			
Proceeds from issues of shares		71,828	14,870
Payment for repurchase of share options		(1,446)	–
Net cash inflow (outflow) from financing activities		70,382	14,870
Net (decrease) increase in cash and cash equivalents		46,570	(1,856)
Cash and cash equivalents at the beginning of the financial year		2,614	4,636
Effects of exchange rate changes on cash and cash equivalents		(919)	(166)
Cash and cash equivalents at end of year	8	48,265	2,614

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Kula Gold Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the Kula Gold Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kula Gold Limited (''company'' or ''parent entity'') as at 31 December 2010 and the results of all subsidiaries for the year then ended. Kula Gold Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Kula Gold Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non monetary assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

+ assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
+ income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
+ all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition

Revenue represents interest income and is recognised using the effective interest method.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the lease.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Investments and other financial assets

Classification

The Group classifies its investments in the following category: loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) in the Consolidated Statement of Financial Position.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is reclassified from equity and recognised in the profit or loss, as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

+ Buildings 25 years
+ Motor vehicles and boats 3 years
+ Plant and equipment 6 years
+ Furniture and fittings 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(n) Exploration and evaluation expenditure

Exploration and evaluation costs related to an area of interest are written off as incurred except where they may be carried forward as an item in the consolidated statement of financial position where the rights of tenure of an area are current and one of the following conditions is met:

+ the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
+ exploration and/or evaluation 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.

When a decision is made that the accumulated exploration and evaluation expenditure in an area of interest is considered to be reduced or of no further value, the expenditure is written off in profit or loss in the period in which the area is relinquished or the decision made.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Provision for decommissioning costs

Provision is recognised for the future decommissioning and restoration of mining operations at the end of their economic lives. The timing of recognition requires the application of judgement to existing facts and circumstances, which will be subject to changes. Estimates of the amounts of provision are based on current legal and constructive requirements, technology and price levels. Because the actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of the provision is regularly reviewed and adjusted to take account of such changes.

(r) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Share based payments

Share-based compensation benefits are provided to employees via the Kula Gold Limited Option Plan and an employee share scheme. Information relating to these schemes is set out in note 28.

The fair value of options granted under the Kula Gold Limited Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(u) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(v) Earnings per share

(i) Basic earnings per share

AASB133 Basic earnings per share is calculated by dividing:

+ the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares; and
+ by the weighted average number of ordinary shares outstanding during the financial year.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Diluted earnings per share

AASB133 Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

+ the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
+ the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(w) Parent entity financial information

The financial information for the parent entity, Kula Gold Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Kula Gold Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group did not record any such gains in other comprehensive income.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011).

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 January 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

iii) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011).

Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 January 2012.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks.

Risk management is carried out under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group and the parent entity operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Papua New Guinea kina and the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

It is not the Group's present policy to hedge foreign exchange risk.

The Company's functional currency is Australian dollars. The Group's Papua New Guinea subsidiary has a functional currency of Papua New Guinea Kina.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	31 DECEMBER 2010	31 DECEMBER 2009
	AUD $'000	AUD $'000
Cash	432	314
Payables	(112)	(80)
Net exposure	320	234

Foreign currency sensitivity analysis

The Group is exposed to movements in US dollars. The following table details the Group's sensitivity to a 10% increase and a 10% decrease in the Australian dollar against the relevant currencies.

	IMPACT ON POST TAX PROFIT	
Consolidated	2010 $'000	2009 $'000
AUD increase against USD		
Profit or loss post tax	(21)	(24)
AUD decrease against USD		
Profit or loss post tax	23	32

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Interest rate risk

The Group's main interest rate risk arises from cash and cash equivalents.
The Group does not have any borrowings from external counterparties.

Group sensitivity
At 31 December 2010, the Group's exposure to interest rates is not deemed to be material to its primary activities and the interest is generally fixed.

(b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures in respect of outstanding receivables. The Group has no significant concentrations of credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

The Group does not have any borrowing facilities in place at the reporting date.

Maturities of financial liabilities
The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

	LESS THAN 6 MONTHS	6-12 MONTHS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT LIABILITIES
At 31 December 2010	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other payables	3,795	–	–	–	–	3,795	3,795
Total non-derivatives	**3,795**	–	–	–	–	**3,795**	**3,795**

	LESS THAN 6 MONTHS	6-12 MONTHS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT LIABILITIES
At 31 December 2009	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other payables	1,322	–	–	–	–	1,322	1,322
Total non-derivatives	1,322	–	–	–	–	1,322	1,322

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short term nature.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

i) Area of interest

The Group currently holds three exploration licences and the sites under the three licences are in close proximity to each other. The current assessment is that should the Group decide to commercially develop and mine the reserves in these three exploration areas it will set up a central processing plant to process ore mined from these three sites. Accordingly, all three exploration licensed areas are considered as one area of interest for the purpose of applying the policy on exploration and evaluation expenditures.

ii) Mineral exploration and evaluation expenditure

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether economically viable extraction operations can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to profit or loss.

Carried forward exploration and evaluation expenditures are disclosed in Note 12.

iii) Functional currency

The Group's transactions and balances are denominated in three main currencies (Australian dollar, Papua New Guinea Kina and US dollar). Operating costs are denominated in Australian dollars, Papua New Guinea Kina and US dollars, however, primarily in Australian dollars. As the indicators are mixed, management has applied its judgement in accordance with the Group accounting policy on foreign currency translation (note 1(d)) and has chosen the Australian dollar as the functional currency for the parent entity and Kina as the functional currency for the subsidiary. The presentation currency is in Australian dollars.

4 SEGMENT INFORMATION

During the year the Group operated predominantly in one business segment, being gold mining exploration. Geographically, the Group operates exclusively in one geographical segment being Asia Pacific with an office maintained in Australia. Segment accounting policies are the same as the Group's policies described in Note 1. Segment results are classified in accordance with their use within geographic segments:

	AUSTRALIA	PAPUA NEW GUINEA	TOTAL
	$'000	$'000	$'000
2010			
Revenue			
Interest income	362	8	370
Total segment revenue	362	8	370
Results			
Operating loss before income tax	(3,773)	(1,285)	(5,058)
Income tax expense	–	–	–
Net loss	(3,773)	(1,285)	(5,058)
Included within segment results	(3,773)	(1,285)	(5,058)
Depreciation and amortisation of segment assets	11	–	11
Segment assets	45,259	75,684	120,943
Segment liabilities	505	3,437	3,942
2009			
Revenue			
Interest income	12	–	12
Total segment revenue	12	–	12
Results			
Operating loss before income tax	(855)	(1,023)	(1,878)
Income tax expense	29	–	29
Net loss	(826)	(1,023)	(1,849)
Included within segment results	(826)	(1,023)	(1,849)
Depreciation and amortisation of segment assets	13	–	13
Segment assets	1,066	59,350	60,416
Segment liabilities	203	1,235	1,438

The total of non-current assets located in Australia is $81,000 (2009: $41,000) and Papua New Guinea $70,488,000 (2009: $57,248,000). Segment assets are allocated to countries where the assets are located.

5 REVENUE

	CONSOLIDATED	
	2010 $'000	2009 $'000
From continuing operations		
Other revenues		
Interest income	370	12
	370	12

6 EXPENSES

	CONSOLIDATED	
	2010 $'000	2009 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	18	20
Plant and equipment	183	206
Furniture and fittings	23	19
Motor vehicle and boats	191	212
Less: Capitalised to exploration and evaluation expenditure	(404)	(444)
Total depreciation	11	13
Amortisation		
Exploration licence	13	9,506
Less: Capitalised to exploration and evaluation expenditure	(13)	(9,506)
Total amortisation	-	-
Total depreciation and amortisation	11	13
Rental expense relating to operating leases		
Minimum lease payments	58	45
Employee option expense	29	329

7 INCOME TAX (BENEFIT)/EXPENSE

	CONSOLIDATED	
	2010 $'000	2009 $'000
(a) Income tax expense:		
Current Tax	-	(50)
Deferred tax	-	21
	-	(29)
Deferred income tax (revenue) expense included in income tax expense comprises:		21
(Increase) in deferred tax assets (note 13)	-	21

	CONSOLIDATED	
	2010 $'000	2009 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(5,058)	(1,878)
Tax at the Australian tax rate of 30% (2009 - 30%)	(1,517)	(563)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	9	99
Sundry items	604	1
Income tax benefit not recognised	904	434
Total income tax expense	-	(29)

(c) Tax losses

Australian unused tax losses for which no deferred tax asset has been recognised	(1,939)	(179)
Potential tax benefit @ 30%	582	54

Benefits for tax losses will only be obtained if:

(i) the consolidated entity derives future Australian assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(d) Tax on exploration expenditure in Woodlark Mining Limited (Papua New Guinea)

Exploration expenditure for which no deferred tax asset has been recognised	68,393	54,881
Potential tax benefit @ 30%	20,518	16,464

7 INCOME TAX (BENEFIT)/EXPENSE (CONTINUED)

The exploration expenditure incurred in the 20 years prior to the issue of a mining lease ("ML") or special mining lease ("SML") within the area of an exploration licence ("EL") from which a ML or SML is drawn becomes part of the allowable exploration expenditure of that ML or SML in accordance with the Papua New Guinea income tax laws.

Exploration expenditure incurred after 1 January 2003 may also be included in a second exploration expenditure pool which subject to certain limitations forms part of the allowable deductions of a mining operation. In other words this expenditure is potentially deductible twice once as Allowable Exploration Expenditure and secondly through the post 1 January 2003 exploration expenditure pool.

Allowable exploration expenditure forms part of the allowable deductions of a mining operation. Exploration companies do not incur tax losses in Papua New Guinea. Rather, they accumulate their exploration expenditure until such time as 20 years has passed since the expenditure was incurred, the EL is abandoned, or a ML or SML is drawn from the area covered by the EL. During the period of exploration a company does not claim deductions for depreciation, rather the cost of otherwise depreciable assets acquired forms part of the exploration expenditure. In this way, future deductions may be claimed for the cost of such assets by way of claiming deductions for the allowable exploration expenditure.

No deferred tax asset has been recognised in relation to this expenditure on the basis that realisation of the tax benefit from the allowable exploration expenditure is not probable.

8 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2010 $'000	2009 $'000
Cash at bank and in hand	8,158	2,614
Short term deposits*	40,107	-
	48,265	2,614

*Short term deposits are made for varying periods of between one day and six months, depending on the cash requirements of the Group, and earn interest at the respective short term deposit rates.

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

9 CURRENT ASSETS – RECEIVABLES

	CONSOLIDATED	
	2010 $'000	2009 $'000
GST receivable	369	47
Prepayment and other receivables	639	172
	1,008	219

(a) Impaired receivables

There were no impaired receivables for the Group.

(b) Past due but not impaired

There were no receivables past due for the Group.

(c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to receivables is provided in note 2.

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

10 CURRENT ASSETS – INVENTORIES

	CONSOLIDATED	
	2010 $'000	2009 $'000
Inventory: Consumables	1,101	294
	1,101	294

11 NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	BUILDINGS	PLANT & EQUIPMENT	FURNITURE & FITTINGS	MOTOR VEHICLES & BOATS	TOTAL
	$'000	$'000	$'000	$'000	$'000
At 1 January 2009					
Cost	601	783	37	910	2,331
Accumulated depreciation	(23)	(92)	(4)	(256)	(375)
Net book amount	578	691	33	654	1,956
Period ended 31 December 2009					
Opening net book amount	578	691	33	654	1,956
Additions	104	1,164	63	24	1,355
Depreciation charge	(20)	(206)	(19)	(212)	(457)
Exchange differences	(134)	(161)	(5)	(154)	(454)
Closing net book amount	528	1,488	72	312	2,400
At 31 December 2009					
Cost	571	1,786	95	780	3,232
Accumulated depreciation	(43)	(298)	(23)	(468)	(832)
Net book amount	528	1,488	72	312	2,400
Year ended 31 December 2010					
Opening net book amount	528	1,488	72	312	2,400
Additions	82	238	68	192	580
Depreciation charge	(18)	(183)	(23)	(191)	(415)
Exchange differences	(60)	(244)	(5)	(98)	(407)
Closing net book amount	532	1,299	112	215	2,158
At 31 December 2010					
Cost	593	1,780	158	874	3,405
Accumulated depreciation	(61)	(481)	(46)	(659)	(1,247)
Net book amount	**532**	**1,299**	**112**	**215**	**2,158**

Total depreciation charge for the year is $415,000 of which $404,000 has been capitalised under exploration and evaluation expenditure (note 12) in accordance with the Group's accounting policy.

12 NON CURRENT ASSETS – MINERAL EXPLORATION AND EVALUATION EXPENDITURE

	EXPLORATION LICENSES	DEFERRED EXPLORATION EXPENDITURE	TOTAL
	$'000	$'000	$'000
At 1 January 2009			
Cost	20,827	42,942	63,769
Accumulated amortisation	(8,389)	–	(8,389)
Net book amount	12,438	42,942	55,380
Year ended 31 December 2009			
Opening net book amount	12,438	42,942	55,380
Exchange differences	(2,932)	(10,867)	(13,799)
Additions	29	22,777	22,806
Amortisation charge	(9,506)	–	(9,506)
Closing net book amount	29	54,852	54,881
At 31 December 2009			
Cost	9,535	54,852	64,387
Accumulated amortisation	(9,506)	–	(9,506)
Net book amount	29	54,852	54,881
Year ended 31 December 2010			
Opening net book amount	29	54,852	54,881
Exchange differences	(9)	(6,922)	(6,931)
Additions	–	20,456	20,456
Amortisation charge	(13)	–	(13)
Closing net book amount	7	68,386	68,393
At 31 December 2010			
Cost	9,526	68,386	77,912
Accumulated amortisation	(9,519)	–	(9,519)
Net book amount	**7**	**68,386**	**68,393**

12 NON CURRENT ASSETS – MINERAL EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)

Woodlark Mining Ltd (formerly Valkyrie No 18 Ltd) acquired capitalised exploration expenditure and exploration licenses from former Woodlark Mining Ltd based on their own valuation, which was supported by an independent resource based valuation carried out by an independent geological survey company registered in Australia.

The recoverability of the carrying amount of the mineral exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

13 NON CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED	
	2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:		
Unrealised foreign exchange losses	–	–
Provision for annual leave	–	–
Legal expenses	–	–
Total deferred tax assets	–	–
Deferred tax assets to be recovered within 12 months	–	–
Deferred tax assets to be recovered after more than 12 months	–	–

	UNREALISED FOREIGN EXCHANGE LOSSES	PROVISION FOR ANNUAL LEAVE	LEGAL EXPENSES	TOTAL
	$'000	$'000	$'000	$'000
2009 Movements – Consolidated				
Opening balance	11	6	4	21
(Charged)/credited to profit or loss	(11)	(6)	(4)	(21)
At 31 December 2009	–	–	–	–
2010 Movements – Consolidated				
Opening balance	–	–	–	–
(Charged)/credited to profit or loss	–	–	–	–
At 31 December 2010	–	–	–	–

14 NON CURRENT ASSETS – OTHER NON CURRENT ASSETS

	CONSOLIDATED	
	2010 $'000	2009 $'000
Deposits	18	8
	18	8

15 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2010 $'000	2009 $'000
Trade payables	3,514	953
Other payables and accruals	281	369
	3,795	1,322

(a) Amounts not expected to be settled within the next 12 months

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months:

	CONSOLIDATED	
	2010 $'000	2009 $'000
Annual leave obligation expected to be settled after 12 months	41	16
	41	16

(b) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

16 NON CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED	
	2010 $'000	2009 $'000
Provision for rehabilitation	147	116
Total	147	116

(a) Movements in provisions

Movements in each class of provision during the financial period, other than employee benefits, are set out below:

	PROVISION FOR REHABILITATION	TOTAL
	$'000	$'000
Consolidated – 2010		
Non current		
Carrying amount at the start of the period	116	116
Charged/(credited) to the profit or loss		
– additional provisions recognised	42	42
– exchange differences	(11)	(11)
Carrying amount at the end of the period	147	147

17 CONTRIBUTED EQUITY

	PARENT ENTITY		PARENT ENTITY	
	2010 SHARES	2009 SHARES	2010 $'000	2009 $'000
(a) Share capital				
Ordinary shares	112,615,523	–	141,552	–
Ordinary shares Class A	–	23,886	–	30,099
Ordinary shares Class B	–	29,084	–	34,452
Class Z shares US$1 each	–	10	–	–
Special shares Class Z US$1 each	–	100	–	–
Less: Transaction costs	–	–	(6,760)	(1,587)
	112,615,523	53,080	134,792	62,964

17 CONTRIBUTED EQUITY (CONTINUED)

(b) Movements in share capital:

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	ISSUE PRICE	TOTAL
			US$	$	$'000
01 January 2009	Opening balance	42,370			48,094
14 May 2009	Issue of class A shares	1,828	1,000	1,400	2,559
14 May 2009	Issue of class B shares	2,472	1,000	1,400	3,461
07 September 2009	Issue of class A shares	1,445	1,000	1,210	1,749
07 September 2009	Issue of class B shares	1,955	1,000	1,210	2,367
23 November 2009	Issue of class A shares	654	1,300	1,435	939
23 November 2009	Issue of class B shares	885	1,300	1,435	1,271
31 December 2009	Issue of class A shares	626	1,700	1,912	1,198
31 December 2009	Issue of class B shares	845	1,700	1,912	1,617
	Less: Transaction costs arising on share issue	–	–	–	(291)
31 December 2009	**Balance**	**53,080**			**62,964**
01 January 2010	Opening balance	53,080			62,964
26 February 2010	Issue of class A shares	1,252	1,700	1,888	2,364
26 February 2010	Issue of class B shares	1,690	1,700	1,861	3,144
30 June 2010	Issue of class A shares	1,063	2,000	2,355	2,503
30 June 2010	Issue of class B shares	1,437	2,000	2,287	3,286
31 August 2010	Issue of class A shares	1,170	2,000	2,231	2,610
31 August 2010	Issue of class B shares	1,580	2,000	2,231	3,524
20 September 2010	Issue of class A shares	288	2,000	2,315	667
20 September 2010	Issue of class B shares	390	2,000	2,315	903
4 November 2010	Transfer from ordinary shares – Class A following consolidation/ reclassification	(61,950)	–	–	–
4 November 2010	Share split (refer to note c)	80,393,300	–	–	–
18 November 2010	Issue of new shares	32,222,223	–	1.80	58,000
	Less: Transaction costs arising on Share issue	–	–	–	(5,173)
31 December 2010	**Balance**	**112,615,523**			**134,792**

17 CONTRIBUTED EQUITY (CONTINUED)

(c) Ordinary shares

On 4 November 2010 all of the issued B Ordinary Shares were reclassified as A Ordinary Shares on the basis of one A Ordinary Share for one B Ordinary Share; all of the issued Z Class Special Shares were reclassified as Z Class Shares on the basis of one Z Class Share for one Z Class Special Share; all of the issued Z Class Shares in the Company were consolidated into one Z Class Share; the one Z Class Share was reclassified as an A Ordinary Share on the basis of one Z Class Share for one A Ordinary Share; all of the issued A Ordinary Shares were reclassified as Ordinary Shares on the basis of one A Ordinary Share for one Ordinary Share; and the 61,841 Ordinary Shares on issue following the above reclassifications were subdivided on a 1 to 1300 basis into 80,393,300 Ordinary Shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the options issued, exercised and lapsed during the financial period and options outstanding at the end of the financial period, is set out in note 28.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard it's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Directors may decide to restrict dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

18 RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED	
	2010 $'000	2009 $'000
(a) Reserves		
Share based payments reserve	(859)	558
Foreign currency translation reserve	(9,355)	(2,025)
	(10,214)	(1,467)
Movements:		
Share based payments reserve		
Opening balance	558	229
Option expense	29	329
Cancellation of options	(1,446)	–
Balance 31 December	(859)	558
Movements:		
Foreign currency translation reserve		
Opening balance	(2,025)	12,867
Currency translation differences arising during the year	(7,330)	(14,892)
Balance 31 December	(9,355)	(2,025)

	CONSOLIDATED	
	2010 $'000	2009 $'000
(b) Accumulated losses		
Opening balance	(2,519)	(670)
Net loss for the period	(5,058)	(1,849)
Balance 31 December	(7,577)	(2,519)

(c) Nature and purpose of reserves

(i) Share based payments reserve

The share based payments reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

19 DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The names of persons who were directors of Kula Gold Limited at any time during the financial period are as follows:

(i) Chairman non executive

D Frecker (appointed 16 September 2010)

(ii) Executive directors

L Spencer, Managing Director and CEO
J Watkins, Executive Director and CFO (appointed 16 September 2010)

(iii) Non executive directors

L Rozman
P Bradford
M Stowell (appointed 16 September 2010)
A Vogel (resigned 16 September 2010)
R Perkes (resigned 16 September 2010)

(b) Key management personnel compensation

	CONSOLIDATED	
	2010 $	2009 $
Short term employee benefits	579,196	457,176
Post employment benefits	105,509	151,270
Long term benefits	–	–
Termination benefits	–	–
Share based payments	28,905	288,374
	713,610	896,820

Detailed remuneration disclosures are provided in the remuneration report on pages 25 to 32.

(c) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options over ordinary shares in the Company provided as remuneration to each director of Kula Gold Limited and key management personnel during the period ended 31 December 2010 and 2009 are set out below. When exercisable, each option is convertible into one ordinary share of Kula Gold Limited. Further information on the options is set out in note 28.

The following options were granted as remuneration to Directors and key management personnel of the Company during the year ended 31 December 2010.

19 DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

NAME	GRANTED NUMBER	GRANT DATE	VESTED NUMBER	FORFEITED IN YEAR	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE
D Frecker	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000
L Spencer	1,126,155	01 Dec 2010	–	–	01 Dec 2015	$1.80	$349,109
J Watkins	563,078	01 Dec 2010	–	–	01 Dec 2015	$1.80	$174,555
L Rozman	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000
P Bradford	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000
M Stowell	100,000	01 Dec 2010	–	–	01 Dec 2015	$1.80	$41,000

The following factors were used in determining the fair value of options on grant date:

NAME	GRANTED NUMBER	EXPIRY DATE	FAIR VALUE PER OPTION	EXERCISE PRICE	PRICE OF SHARES ON GRANT DATE	EXPECTED VOLATILITY	INTEREST RATE
D Frecker	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
L Spencer	1,126,155	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
J Watkins	563,078	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
L Rozman	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
P Bradford	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
M Stowell	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%

These options carry no voting rights and no rights to dividends.

The following options were granted to a director of the Company as part of his remuneration during the comparative reporting period:

NAME	GRANTED NUMBER	GRANT DATE	VESTED NUMBER	FORFEITED IN YEAR	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE
R Perkes	95*	03 April 2009	95*	–	07 Dec 2013	US$1,000	$41,216

*Prior to capital re-organisation – Refer Note 17(c).

The following factors were used in determining the fair value of options on grant date:

NAME	GRANTED NUMBER	EXPIRY DATE	FAIR VALUE PER OPTION	EXERCISE PRICE	PRICE OF SHARE ON GRANT DATE	INTEREST RATE
R Perkes	95*	07 Dec 2013	$433	US$1,000	US$1,000	0.82%

*Prior to capital re-organisation – Refer Note 17(c).

These options carry no voting rights and no rights to dividends.

The assessed fair value at grant date of options granted to directors and specified executives is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term

19 DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The expected volatility reflects the assumption that the current volatility during the time of issue is indicative of further trends, which may not necessarily be the actual outcome.

(ii) Shares provided on exercise of remuneration options

No options were exercised during the period ended 31 December 2010 (2009: Nil).

(iii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Kula Gold Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010 - OPTIONS

NAME	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	*OTHER CHANGES	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Kula Gold Limited							
D Frecker	–	100,000	–	–	100,000	–	100,000
L Spencer	740	1,126,155	–	(740)	1,126,155	–	1,126,155
J Watkins	370	563,078	–	(370)	563,078	–	563,078
L Rozman	–	100,000	–	–	100,000	–	100,000
P Bradford	–	100,000	–	–	100,000	–	100,000
M Stowell	–	100,000	–	–	100,000	–	100,000
Former Directors							
R Perkes	95	–	–	(95)	–	–	–

These options were issued prior to the capital re-organisation – refer Note 17(c).

*Other changes represent options cancelled during the period.
All vested options are exercisable at the end of the year.

2009 - OPTIONS

NAME	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Kula Gold Limited							
L Spencer	740	–	–	–	740	740	–
R Perkes	–	95	–	–	95	95	–
Exectutives							
J Watkins	370	–	–	–	370	370	–

These options were issued prior to the capital re-organisation – refer Note 17(c).

19 DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(iv) Share holdings

The numbers of shares in the company held during the financial year by each director of Kula Gold Limited and key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010 - ORDINARY SHARES					
NAME	BALANCE AT THE START OF THE YEAR	GRANTED DURING REPORTING YEAR AS COMPENSATION	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR*	BALANCE AT THE END OF THE YEAR
Directors of Kula Gold Limited					
D Frecker	–	–	–	10,000	10,000
L Spencer	463	–	–	541,907	542,370
L Rozman	–	–	–	359,023	359,023
J Watkins	87	–	–	275,513	275,600
P Bradford	285	–	–	432,615	432,900
M Stowell	–	–	–	25,000	25,000
Former Directors					
A Vogel (resigned 16 September 2010)	–	–	–	–	–
R Perkes (resigned 16 September 2010)	–	–	–	–	–

*Other changes for D Frecker and M Stowell represent shares purchased on market.
*Other changes for L Spencer, L Rozman, J Watkins and P Bradford represent shares acquired at the Offer Price under the Offer.
*Other changes for L Spencer, J Watkins and P Bradford represent shares subscribed and adjustments on capital reorganisation – refer Note 17(c).

2009 - ORDINARY SHARES					
NAME	BALANCE AT THE START OF THE YEAR	GRANTED DURING REPORTING YEAR AS COMPENSATION	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR*	BALANCE AT THE END OF THE YEAR
Directors of Kula Gold Limited					
L Rozman	–	–	–	–	–
L Spencer	370	–	–	93	463
A Vogel	–	–	–	–	–
R Perkes	–	–	–	–	–
P Bradford	228	–	–	57	285
M Stowell	–	–	–	–	–
Other key management personnel of the Group					
J Watkins	68	–	–	19	87

*Other changes for L Spencer, J Watkins and P Bradford during the year represent shares subscribed.

(d) Loans and other transactions with key management personnel

There were no loans and other transactions with directors or executives during the reporting period (2009:nil).

20 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	CONSOLIDATED	
	2010 $	2009 $
(a) PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	80,000	60,100
Non-statutory audit and review of financial statements	69,000	–
Other assurance services:		
Investigating accountants report and other services relating to IPO	491,080	–
Other assurance services	9,496	10,000
Total remuneration for audit and other assurance services	649,576	70,100
Taxation services		
Tax compliance services	40,350	21,600
Total remuneration for taxation services	40,350	21,600
Total remuneration of PricewaterhouseCoopers Australia	689,926	91,700
(b) Related practices of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	51,820	23,713
Non-statutory audit and review of financial statements	50,944	39,372
Total remuneration of related practices of PricewaterhouseCoopers Australia	102,764	63,085
Taxation services		
Tax compliance services	22,928	–
Total remuneration for taxation services	22,928	–
Total remuneration of related practices of PricewaterhouseCoopers Australia	125,692	63,085

21 CONTINGENCIES

The Group had no contingent assets or liabilities at 31 December 2010 (2009: $nil).

22 COMMITMENTS

(a) Lease commitments	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	126	376
Later than one year but not later than five years	756	–
Later than five years	–	–
	882	376

(b) Service commitments	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Commitments for minimum service payments in relation to drilling services, air charter, barge charter and aerial survey are payable as follows:		
Within one year	7,359	7,086
Later than one year but not later than five years	–	–
Later than five years	–	–
	7,359	7,086

23 RELATED PARTY TRANSACTIONS

(a) Parent entities

As at 31 December 2010, Kula Gold Limited is the ultimate parent entity of the Group. As at 31 December 2009, the ultimate parent entity and ultimate controlling party was Pacific Road Capital Management G.P. Limited (incorporated in Cayman Islands) which through its 100% ownership of Pacific Road Holdings N.V. owned 57.5% of the issued ordinary shares of Kula Gold Pty Ltd.

(b) Directors

The names of persons who were directors of the Company at any time during the financial period are as follows:

D Frecker (appointed 16 September 2010)
L Spencer
J Watkins (appointed 16 September 2010)
L Rozman
P Bradford
M Stowell (appointed 16 September 2010)
A Vogel (resigned 16 September 2010)
R Perkes (resigned 16 September 2010)
M Faul (alternate director resigned 16 September 2010)
G Dick (alternate director resigned 16 September 2010)

23 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Subsidiaries

Interests in subsidiary are set out in note 24.

(d) Key management personnel

Disclosures relating to key management personnel are set out in note 19.

(e) Transactions with other related parties

The following transactions occurred with related parties:

Consulting fees paid to Capala Holdings Limited for services of R Perkes as a director of the parent entity $31,500 (2009: $42,000).

Consulting fees paid to Goldkidz Pty Ltd for services of P Bradford as a director of the parent entity $39,500 (2009: $36,000).

Fees paid / payable to Pacific Road Capital Management Pty Ltd for facilitation of share capital raisings $344,439 (2009: $204,948).

Retainer and expenses paid to Pacific Road Corporate Finance Pty Ltd for advisory on IPO $2,131,850 (2009: $Nil).

Fees paid / payable to RMB Resources for facilitation of share capital raisings $120,424 (2009: $74,677).

Fees paid / payable to Meratus Minerals Limited for facilitation of share capital raisings $13,409 (2009: $9,990).

Fees paid / payable to P and V Bradford for facilitation of share capital raisings $2,600 (2009: $1,996).

Consulting fees paid to R. C. Spencer $Nil (2009: $5,000).

24 SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b):

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2010 %	2009 %
Woodlark Mining Limited	Papua New Guinea	Ordinary	100	100

25 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 16 March 2011, 200,000 options were granted to Company employees under the Kula Gold Option Plan at an exercise price of $1.80. The options are exercisable on or before 5 years from the date of grant of the options.

26 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2010 $'000	2009 $'000
Loss for the year	(5,058)	(1,849)
Depreciation and amortisation	11	13
Non-cash employee benefits expense-share-based payments	29	329
Net exchange differences	(322)	–
Change in operating assets and liabilities, net of effects from purchase of controlled entity:		
Decrease (increase) in receivables	(789)	191
(Increase) in inventories	(807)	(234)
Decrease (increase) in deferred tax assets	–	21
(Decrease) increase in trade and other payables	2,473	(903)
(Decrease) increase in provision for income taxes payable	–	(50)
Net cash inflow (outflow) from operating activities	(4,463)	(2,482)

27 EARNINGS PER SHARE

	CONSOLIDATED	
	2010 CENTS	2009 CENTS
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(6.40)	(3.07)
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(6.40)	(3.07)

	CONSOLIDATED	
(c) Weighted average number of shares used as the denominator	2010	2009*
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	79,083,830	60,218,705
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	79,083,830	60,218,705

* 2009 weighted average number of ordinary shares were subdivided on a 1 to 1300 basis.

27 EARNINGS PER SHARE (CONTINUED)

(d) Information concerning the classification of securities

(i) Options

Options granted to employees under the Options Plan and to Non-Executive Directors are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 28.

28 SHARE BASED PAYMENTS

(a) i) Employee Option Plan

The Kula Gold Option Plan (Option Plan) is designed to provide long term incentives for executives (including Executive Directors) and senior employees to deliver long term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options were granted under the plan for no consideration.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on market value.

Set out below are summaries of options granted under the plan:

NAME	GRANT DATE	EXPIRY DATE	ISSUE PRICE	ASSESSED FAIR VALUE AT DATE OF GRANT	NUMBER OF OPTIONS GRANTED
Consolidated – 2010					
L Spencer	01 Dec 2010	01 Dec 2015	$0.31	$349,109	1,126,155
J Watkins	01 Dec 2010	01 Dec 2015	$0.31	$174,555	563,078
Total				**$523,664**	**1,689,233**
Consolidated – 2009					
L Spencer	09 Dec 2008	7 Dec 2013	US$ 1,000	$348,844	740
J Watkins	09 Dec 2008	29 Jan 2014	US$ 1,000	$174,422	370
R Perkes	03 Apr 2009	7 Dec 2013	US$ 1,000	$41,216	95
Total				$564,482	1,205

28 SHARE BASED PAYMENTS (CONTINUED)

(ii) Options for Non-Executive Directors

Pursuant to the decision of the Board on 29 September 2010 a total of 400,000 options were granted to Kula Gold Non-executive Directors.

Options were granted for no consideration.

Options carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on market value. The options will only vest and become exercisable after either of the following events: a) the Company's Woodlark Island Gold Project reaches commercial production as determined by the pour of the first gold from the Project or, b) there is a change of control of the Company.

Set out below are summaries of options granted to Non-executive Directors:

NAME	GRANT DATE	EXPIRY DATE	ISSUE PRICE	ASSESSED FAIR VALUE AT DATE OF GRANT	NUMBER OF OPTIONS GRANTED
Consolidated – 2010					
D Frecker	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
L Rozman	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
P Bradford	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
M Stowell	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
Total				$164,000	400,000

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	FORFEITED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	EXERCISABLE AT END OF THE YEAR NUMBER
2010								
03 Apr 2009	07 Dec 2013	US$1,000	95	–	–	(95)	–	–
09 Dec 2008	07 Dec 2013	US$1,000	740	–	–	(740)	–	–
09 Dec 2008	29 Jan 2014	US$1,000	370	–	–	(370)	–	–
01 Dec 2010	01 Dec 2015	$1.80	–	2,089,233	–	–	2,089,233	–
Total			1,205	2,089,233	–	(1,205)	2,089,233	–
Weighted average exercise price			US$1,000	$1.80			$1.80	
2009								
9 Dec 2008	7 Dec 2013	US$1,000	740	–	–	–	740	740
9 Dec 2008	29 Jan 2014	US$1,000	370	–	–	–	370	185
3 Apr 2009	7 Dec 2013	US$1,000	–	95	–	–	95	95
Total			1,110	95	–	–	1,205	1,020
Weighted average exercise price			US$1,000	US$1,000			US$1,000	US$1,000

28 SHARE BASED PAYMENTS (CONTINUED)

No options expired during the period, however the above options were repurchased and cancelled.

The weighted average remaining contractual life of share options outstanding at the end of the period was 5 years.

Fair value of options granted
The assessed fair value at grant date of options granted during the period ended 31 December 2010 was $0.33 (2009: $433) per option. The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The following factors were used in determining the fair value of options granted during the year ended 31 December 2010:

NAME	GRANTED NUMBER	EXPIRY DATE	FAIR VALUE PER OPTION	EXERCISE PRICE	PRICE OF SHARES ON GRANT DATE	EXPECTED VOLATILITY	INTEREST RATE
D Frecker *	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
L Spencer	1,126,155	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
J Watkins	563,078	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
L Rozman *	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
P Bradford *	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
M Stowell *	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%

The model inputs for options granted during the year ended 31 December 2010 included:

(a) Options were granted for no consideration and vest based on terms agreed by Kula Gold Ltd. These options will vest on 16 November 2012.

*Option granted to Non-Executive Directors will only vest and become exercisable after either of the following events:
a) The Company's Woodlark island gold project reaches commercial production, which assumes to be on 31 December 2013, as determined by the pour of the first gold from the project or, b) there is a change of control of the Company.

(b) Exercise price: $1.80.

(c) Grant date: 1 December 2010.

(d) Expiry date: 1 December 2015.

(e) Share price at grant date: $1.68.

(f) Expected dividend yield: 0%.

(g) Discount rate, government bonds 5 years at date of grant: 5.33%.

Where options are issued to employees of subsidiaries within the Group, the subsidiaries compensate Kula Gold Limited for the amount recognised as expense in relation to these options.

28 SHARE BASED PAYMENTS (CONTINUED)

The expected volatility reflects the assumption that the current volatility during the time of issue is indicative of further trends, which may not necessarily be the actual outcome.

(b) Expenses arising from share based payment transactions

	CONSOLIDATED	
	2010 $'000	2009 $'000
Options issued under option plan	29	329
	29	329

29 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	PARENT ENTITY	
	2010 $'000	2009 $'000
Balance sheet		
Current assets	57,656	1,763
Non current assets	72,024	61,662
Total assets	129,680	63,425
Current liabilities	506	889
Non current liabilities	–	–
Total liabilities	506	889
Net Assets	129,174	62,536
Shareholders' equity		
Contributed equity	134,792	62,964
Reserves	(859)	558
Accumulated losses	(4,759)	(986)
Total equity	129,174	62,536
Loss for the year	(3,773)	(826)
Total comprehensive loss	(3,773)	(826)

29 PARENT ENTITY FINANCIAL INFORMATION (CONTINUED)

(b) Guarantees entered into by the parent entity

The parent entity has provided an unconditional bank guarantee to the lessor in respect of a lease agreement amounting to $107,286 (2009 $nil).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2010 (31 December 2009 – nil). For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 31 December 2010, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 44 to 89 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the financial year ended on that date,

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

David Frecker
Chairman

Lee Spencer
Director

Sydney, 25 March 201

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Report on the financial report

We have audited the accompanying financial report of Kula Gold Limited (the company), which comprises the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Kula Gold Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Kula Gold Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 25 to 32 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Kula Gold Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
25 March 2011

ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:

In accordance with ASX listing rule 4.10.19 the Company confirms that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX in a way consistent with its business objectives.

THE SHAREHOLDER INFORMATION SET OUT BELOW WAS APPLICABLE AS AT 21 MARCH 2011

Ordinary Share Capital - The issued capital comprised of 91,876,382 ordinary fully paid shares (quoted) and 20,739,141 ordinary fully paid shares (not quoted) held by 14 holders.

Distribution of equity securities - Analysis of numbers of equity security holders by size of holding:

	ORDINARY SHARES		OPTIONS	
Holding	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF OPTIONS
1 to 1,000	36	21,250	–	–
1,001 to 5000	122	318,286	–	–
5,001 to 10,000	55	405,682	–	–
10,001 to 100,000	120	3,677,289	7	600,000
100,000 and over	42	108,193,016	2	1,689,233
	375	112,615,523	9	2,289,233

There were 8 holders of less than a marketable parcel of ordinary shares.

Restricted Securities - The Company had the following number and class of restricted securities on issue.

Class	NUMBER OF ORDINARY SHARES	DATE ESCROW PERIOD ENDS
Fully paid ordinary shares	324,325	31-Mar-11
Fully paid ordinary shares	20,414,816	16-Nov-12
	20,739,141	

Unquoted Options - The Company had the following unquoted options on issue:

a) **Employee Option Plan** - There were 1,889,223 unquoted options on issue held by five employees.

b) **Other Unlisted Options**

Optionholder	NUMBER OF OPTIONS	PERCENTAGE
D C Frecker & J M Frecker ATF The GEO Superannuation Fund	100,000	25.00
Pacific Road Capital Management Holdings Pty Ltd	100,000	25.00
Merchant Holdings Pty Ltd ATF The Zulu Family Trust	100,000	25.00
P Bradford & V Bradford	100,000	25.00
	400,000	100.00

ADDITIONAL INFORMATION

Twenty largest holders of quoted equity securities

Shareholder	ORDINARY SHARES NUMBER HELD	ORDINARY SHARES PERCENTAGE OF QUOTED SHARES
Pacific Road Holding NV	19,406,573	21.12
RMB Resources Limited	16,469,293	17.93
HSBC Custody Nominees (Australia) Limited	10,627,134	11.57
National Nominees Limited	10,181,197	11.08
Pacific Road Capital A Pty Ltd	4,794,364	5.22
Pacific Road Capital B Pty Ltd	4,794,364	5.22
JP Morgan Nominees Australia Limited	3,905,481	4.25
USB Nominees Pty Ltd	2,964,829	3.23
CS Fourth Nominees Pty Limited	1,814,463	1.97
Citicorp Nominees Pty Limited	1,567,144	1.71
AMP Life Limited	1,187,575	1.29
Brispot Nominees Pty Ltd < House Head Nominee No 1 A/C>	1,111,111	1.21
Escor Investments Pty Ltd	800,000	0.87
JP Morgan Nominees Australia Limited <Cash Income A/C>	771,275	0.84
Mr Stanislaw Antoni Zychewicz	555,000	0.60
Pan Australian Nominees Pty Limited	500,000	0.54
Charles Edward Watson	403,427	0.44
Chalmsbury Nominees Pty Ltd < Black A/C>	375,000	0.41
HSBC Custody Nominees (Australia) Limited – A/C 2	333,316	0.36
Merrill Lynch (Australia) Nominees Pty Limited	325,000	0.35
Total	82,886,546	90.22

Unquoted Ordinary Shares

Shareholder	NUMBER OF SHARES	PERCENTAGE OF UNQUOTED SHARES
Pacific Road Holdings NV	19,750,088	95.23
Other holders of unquoted shares	989,053	4.77
Total Unquoted Ordinary Shares	20,739,141	100.00

Substantial holders - Substantial holders in the company are set out below:

Name of substantial shareholder	NUMBER OF SHARES HELD	PERCENTAGE OF ISSUED SHARES
Pacific Road Holdings NV	48,859,833	43.40
RMB Resource Limited	46,663,253	14.80
Westpac Banking Corporate (& its related bodies corporate)	7,408,889	6.58
UBS AG (& its related bodies corporate)	5,640,084	5.01

ADDITIONAL INFORMATION

Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares - On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options - No voting rights.

Interest in Mining Tenements

Current interest in tenements held by Kula Gold Limited and its subsidiaries as at 21 March 2011 are listed below:

COUNTRY / LOCATION	TENEMENT	INTEREST
Papua New Guinea / Woodlark Island	EL 1172	100%
Papua New Guinea / Woodlark Island	EL 1279	100%
Papua New Guinea / Woodlark Island	EL 1465	100%

FORWARD LOOKING STATEMENTS

All statements other than statements of historical fact included in this report including, without limitation, statements regarding future plans and objectives of Kula Gold Limited (Kula Gold) are forward-looking statements. When used in this report, forward-looking statements can be identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this report, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Kula Gold that could cause Kula Gold's actual results to differ materially from the results expressed or anticipated in these statements.

The company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Kula Gold does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this report, except where required by applicable law and stock exchange listing requirements.

COMPETENT PERSONS STATEMENTS

The information in this report that relates to Exploration Results is based on information compiled by Lee Spencer. Lee Spencer is the CEO of Kula Gold Limited. Mr. Spencer is a Member of The Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.Mr. Spencer consents to the inclusion in the report of these matters based on information in the form and context in which it appears.

The information in this report that relates to the in-situ Mineral Resource estimates for Kulumadau, Busai and Boniavat is based on information compiled by Mr. John Doepel, Principal Geologist for Continental Resource Management Pty Limited (Resource Report, Woodlark Island, June 2010). CRM has acted as independent consulting geologist to WML since 2005 and has undertaken several visits to the island and to the sample preparation facilities. Mr. Doepel is a Member of The Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Doepel consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

The information in this report that relates to Ore Reserves for the Busai open pit and Kulumadau open pit is based on information compiled by Mr. Linton Putland, Principal of LJ Putland & Associates and a consultant to Woodlark Mining Limited. Mr. Putland is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Putland consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

KULA GOLD

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