



2012

ANNUAL REPORT



⚡ Advancing towards production



Kula Gold's significant achievement during 2012 was the completion of the Feasibility Study and its subsequent lodgement with the MRA.



Kauri village aid post.



Altered volcanic rocks from the Bomagai alteration zone.



Chairman's letter

Kula Gold's significant achievement during 2012 was to complete the Feasibility Study for the Woodlark Island Gold Project, resulting in the Mining Lease Application in October 2012.

A 26% increase in the Measured and Indicated Resources in the Kulumadau area was the catalyst for delivering a viable Feasibility Study.



David Frecker

This increase was the result of limited but targeted infill drilling at Kulumadau East in the second quarter of the year that confirmed the continuity of high grade gold mineralisation.

The Feasibility Study showed that the Project is viable and financially robust. As presented in the Feasibility Study, it will have a nine year mine life with recovery of 674,000 ounces over the first six years through a 1.8 Mtpa plant and total production of 813,000 ounces. During years 1 to 6, the cash operating costs are estimated to be US\$730/oz.

The Feasibility Study, together with the application for the Mining Lease and the Proposal for Development, were submitted to the PNG Mineral Resources Authority on 30 October 2012. The Environmental Impact Statement was submitted to the Department of Environment and Conservation on 17 January 2013. The Government is well-advanced with its review of these documents, which is expected to lead to grant of the Mining Lease for the Project.

As with all mineral exploration projects in Papua New Guinea, the PNG Government (formally, the State) has the right to purchase an equity participation in the Woodlark Island Gold Project – up to 30% for a price equal to the corresponding percentage of the accumulated exploration expenditure on the Project. In March 2012, the Company was informed by the Minister for Mining that the State owned company, Petromin PNG Holdings Limited, had been nominated as the State's nominee to take up an equity participation in the

Project if the State elects to exercise its option to do so. The Minister stated in a letter to the Company at the time that this nomination would allow Petromin to plan its participation and to assist in obtaining the necessary licensing approvals.

Petromin has reviewed the Feasibility Study and expressed a keen interest in the Project. The Company is hopeful that an early decision will be made on whether Petromin will buy into the Project and at what percentage level. If it does, the terms of the State's option are that its nominee should thereafter contribute to further exploration and development on a pro rata basis.

Throughout the year, your Company has maintained good relations with the Government in Papua New Guinea, at both national and provincial level. Following the PNG elections in July, the new National Government headed by the Prime Minister, Mr Peter O'Neill, has enunciated its continuing support for resource development within the country, and our CEO has been in regular dialogue with the National Government and the new Governor of the Milne Bay Province about the Company's Project.

The Company has also continued to maintain excellent relations with the landowners and local communities on Woodlark Island. The Compensation Agreement with landowners was signed in March 2012 and the Relocation Agreement with the landowners in and around Kulumadau was signed in March 2012. These two agreements provide the framework for the Company's dealings with

the local landowners as the Project moves towards development, and the Company has achieved a major milestone with these agreements in place at this stage.

In November 2012, the Company undertook a capital raising through a share placement and share purchase plan which raised in total \$5.2 million (net of transaction costs). Many existing shareholders, both large and small, supported the Company by subscribing for additional shares in this capital raising, and the directors thank them for their support.

Economic and market conditions, and fluctuations in the gold price, make this a difficult time for many gold companies. Your Company is affected by these factors along with many other companies in the gold sector. The directors are mindful that recent share market prices do not reflect the underlying value of the Woodlark Island Gold Project and are looking at ways to deal with this.

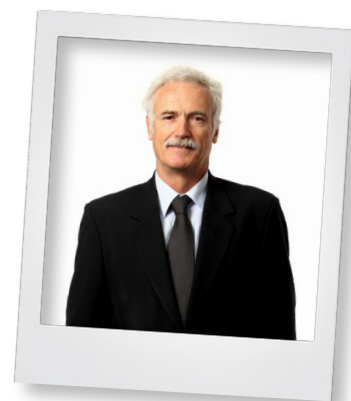
Notwithstanding the difficult equity market circumstances, the Company's employees, both in Australia and in Papua New Guinea, have continued to serve the Company with dedication and the directors thank them for their ongoing commitment and continuing efforts.



DAVID FRECKER
Chairman

Chief Executive Officer's report

The year ending 31 December 2012 has been another year of significant progress for Kula Gold on the path towards the development of an operating gold mine on Woodlark Island, Milne Bay Province, Papua New Guinea (PNG).



Lee Spencer

100%

owner of an advanced stage Gold Project on Woodlark Island in the Milne Bay Province of Papua New Guinea

450² km

tenements covered

2,120,000 oz gold

at 0.5g/t Au lower cut off

The transition from explorer to developer is accelerating with the following key milestones having been completed during the year:

- * Discovery of further mineralisation at Kulumadau East under cover and adjacent to known resources. The current project resources are 45.1 million tonnes at 1.5g/t Au for 2.12 million ounces at a 0.5g/t Au lower cutoff. The resources are located in three areas namely; Kulumadau, Busai (including Munasi) and Boniavat/Woodlark King (including Watou).
- * Current Project Reserves are 10.991 million tonnes at 2.2g/t Au for 766,000 ounces in the Proved and Probable categories. This also represented a 26% increase to IPO Reserves of 584,000 ounces.
- * Completion of the Feasibility Study for the Project demonstrating that the project was viable on a pre-tax NPV of USD\$237 million, pre-tax IRR of 34% and payback of 2.6 years based on a USD\$1600/ounce gold price.
- * Completion and submission of the Environmental Impact Statement to the Department of the Environment and Conservation in Port Moresby in conjunction with the Company's environmental consultants Coffey Environments, to obtain an Environmental Permit for the project.

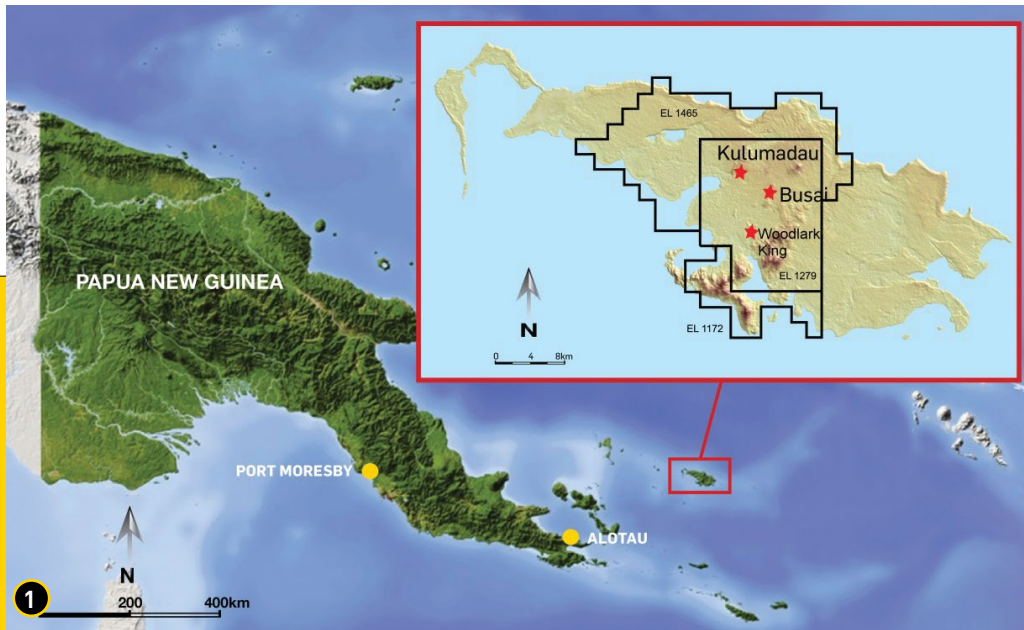
- * Lodgement of a Mining Lease Application with the Mineral Resources Authority in Port Moresby
- * Engaging a mining engineer in the role of Chief Operating Officer as a key addition to the management team.

Corporate

The Company completed a capital raising towards the end of 2012 which resulted in \$5.2 million (net of transaction costs) being raised for operational funding in 2013. The Company also was engaged in building its operations team during the year. A key appointment to reflect the current development status of the Company was the addition of Stuart Pether as Chief Operating Officer to the management team.

Resources

Global JORC resources for Woodlark Island were updated in 2012, after drilling at Kulumadau East in mid 2012. The current project resources are 45.1 million tonnes at 1.5g/t Au for 2.12 million ounces at a 0.5g/t Au lower cutoff). Refer to Table 1.



- 1 Location of the Woodlark Island Gold Project and location of exploration tenements.
- 2 New bridge, Sinkwarai River to allow safer crossing for all users.
- 3 Muyuw village children.

Table 1: Global Resources for the Woodlark Island Gold Project

Deposit	Category	Resource (Mt)	Grade (Uncut) (g/t Au)	Grade (Cut) (g/t Au)	Au (Uncut) (Oz)	Au (Cut) (Oz)
Kulumadau	Measured	5.0	1.84	1.78	295,000	285,000
Kulumadau	Indicated	4.4	1.95	1.75	275,000	245,000
Kulumadau	Inferred	8.6	1.5	1.4	410,000	375,000
Kulumadau	Totals	18.0	1.7	1.6	980,000	910,000
Busai	Measured	3.9	1.60	1.54	200,000	190,000
Busai	Indicated	10.4	1.5	1.4	490,000	480,000
Busai	Inferred	8.8	1.3	1.3	370,000	370,000
Busai	Total	23.1	1.4	1.4	1,060,000	1,040,000
Boniavat	Indicated	3.0	1.3	1.2	125,000	115,000
Boniavat	Inferred	1.0	1.9	1.8	60,000	60,000
Boniavat	Total	4.0	1.4	1.4	185,000	175,000
All	Measured	8.9	1.73	1.67	495,000	480,000
All	Indicated	17.8	1.6	1.5	890,000	840,000
All	Inferred	18.5	1.4	1.4	835,000	800,000
Totals*		45.1	1.5	1.5	2,230,000	2,120,000

*Totals may appear incorrect due to rounding

Note 1: The Busai Indicated Resource includes and 0.4Mt @ 1.4/t Au for 20,000oz from overlying Kiriwina mineralisation.

Note 2: The Busai Inferred Resource includes and 0.4Mt @ 1.2/t Au for 15,000oz from overlying Kiriwina mineralisation and 3.9Mt @ 0.9g/t Au for 110,000oz from Munasi (2km southeast of Busai).

Note 3: The Boniavat Inferred Resource includes 0.3Mt @ 3.0g/t for 30,000oz Au from Watou (1.5km south of Woodlark King).

Chief Executive Officer's report (continued)

Exploration drilling during 2012 was reduced from 2011 levels to enable all the engineering elements that require drilling within the Feasibility Study to be completed. Nonetheless, infill drilling at Kulumadau East was successful in converting Inferred Resources to higher categories which enabled a portion of this zone of mineralisation to be included in Reserves.

The area containing the Kulumadau Resource has not been fully closed off due to the recent recognition that the mineralisation is circular in nature and has been subsequently modified by post-mineralisation faulting (noting the majority of the deposit is under young sedimentary cover) and reduction of exploration drilling activities to enable the Feasibility Study to be completed.

The following targets have been recognized at Kulumadau:

- * Mineralisation in the Inferred Category outside the optimised pits particularly in the eastern side of Kulumadau West.
- * The area between Kulumadau East and West more particularly associated with the flanks of the Kulumadau intrusive breccia.
- * Potential mineralisation around the postulated southern margin of the circular diatreme structure.

Significant potential exists to convert current out of pit Inferred Resources at Kulumadau by infill drilling to Measured and Indicated category. Currently 4Mt @ 2.9g/t Au for 397,000 ounces lie in the Inferred category outside the current Feasibility Study pit margins. Inferred Resources are represented by blue areas and Measured and Indicated Resources are in red in Figure 1 below. The Feasibility Study proposed pit collars are shown by thin red lines.

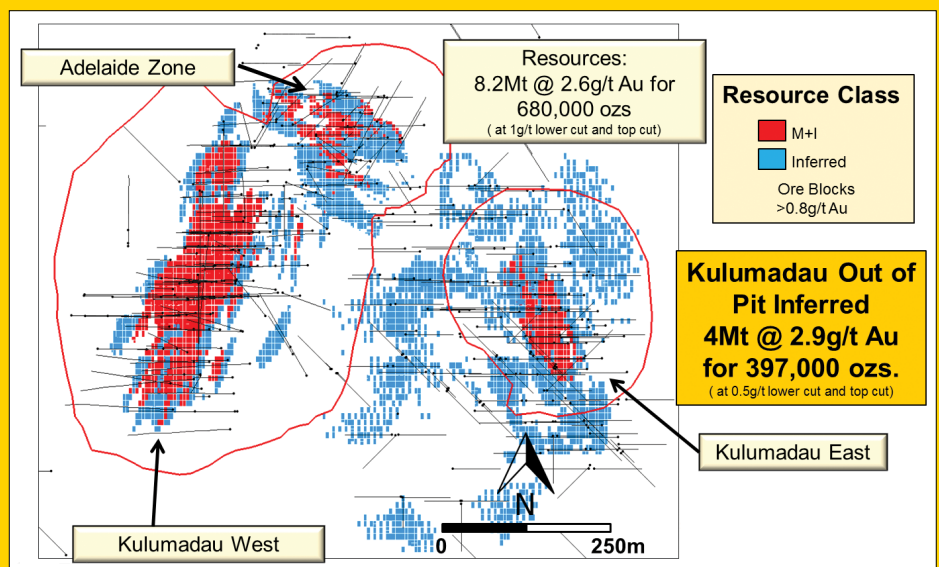
Total drilling for the year amounted to 2,688 metres of reverse circulation (RC) and 1,017 metres of diamond drilling with details in Table 2. This compared with 43,042 metres of reverse circulation (RC) and 8,096 metres of diamond drilling in the previous year.

Further drilling is planned aimed at the targets outlined above.

Table 2: Drilling Summary during 2012

RC	Exploration	Resource
Jan	-	-
Feb	-	-
Mar	-	-
Apr	-	1,540
May	-	1,417
Jun	-	2,090
Jul	-	98
Aug	-	-
Sep	-	-
Oct	-	-
Nov	-	-
Dec	-	-

FIGURE 1: Feasibility Study Defined Pits and Current Resource Categories at Kulumadau



Development

In PNG, for a Mining Lease to be granted, the Company is required to submit a Feasibility Study and Development Proposal together with an Environmental Impact Statement in conjunction with various social agreements with the local landholders, local level government, provincial government and the PNG national government. These key milestones were completed during the year including the Compensation Agreement signed in April 2012 and the Relocation Agreement with the landowners in and around Kulumadau was signed in March 2012. These two agreements provide the framework for the Company's dealings with the local landowners as the Project moves towards development.

Feasibility Study

During the year, the Feasibility Study was completed by Arcon Mining Services in conjunction with the Company and its various consultants and after inclusion of Measured and Indicated Resources at Kulumadau East. The study was subsequently submitted to the PNG Mineral Resources Authority on 30 October 2012.

The Feasibility Study envisages mining ore from three open pits with ore being hauled a maximum of five kilometres over relatively flat topography to a centrally located processing plant, refer Figure 2. Ore processing utilising a conventional gravity/CIL circuit will commence at 1.8 Mtpa (million tonnes per annum) with an initial mine life of at least nine years. Initial ore will be sourced from near surface, higher grade ore at Kulumadau and Busai with subsequent ore being sourced from phased open cut mining of Kulumadau West, Kulumadau East and Busai deposits followed by the relatively smaller Woodlark King deposit.

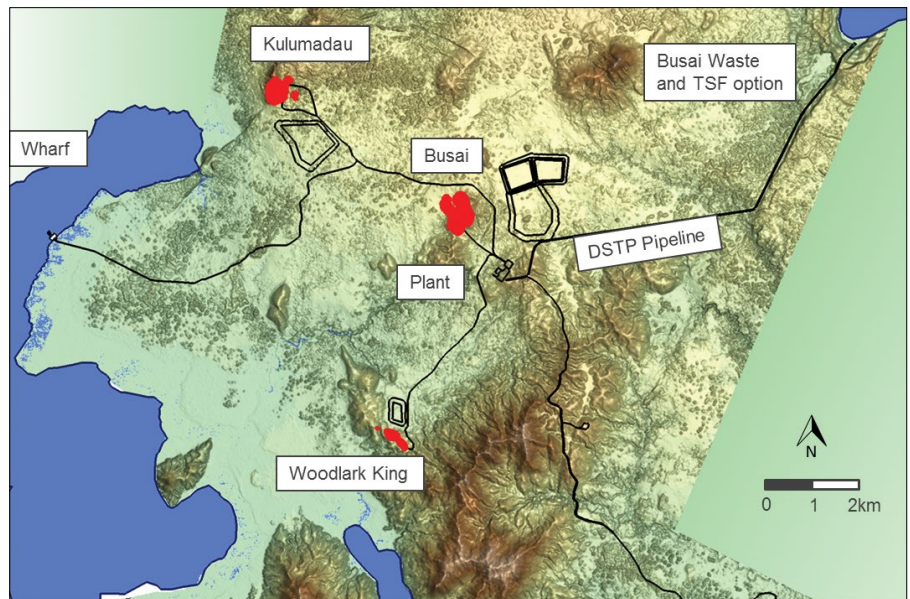


FIGURE 2: Conceptual Project Layout

The JORC compliant, Ore Reserves of 766,000 ounces were estimated by independent engineers, L.J. Putland & Associates, on the Kulumadau, Busai and Woodlark King deposits. Refer Table 3.

Table 3: Project Ore Reserves

Deposit	Proved			Probable			Total		
	Tonnes	Grade	Ounces	Tonnes	Grade	Ounces	Tonnes	Grade	Ounces
Busai	3,283,000	2.2	233,000	2,811,000	1.9	175,000	6,094,000	2.1	408,000
Kulumadau	3,144,000	2.2	223,000	751,000	2.4	59,000	3,863,000	2.3	282,000
Woodlark King	-	-	-	704,000	1.7	39,000	704,000	1.7	39,000
Kulumadau East	-	-	-	330,000	3.7	37,000	330,000	3.7	37,000
Total	6,427,000	2.2	456,000	4,596,000	2.1	310,000	10,991,000	2.2	766,000

Note: Totals may appear incorrect due to rounding.

Chief Executive Officer's report (continued)

Open Pit Optimisations were prepared for each of the deposits using a gold price of US\$1200 per ounce and a processing throughput of 1.8 million tonnes per annum. Pit slope angles for the various open pits were based on specific drilling and analysis by geotechnical and hydrological experts. Metallurgical recoveries were based on the results from specific metallurgical testwork.

Within the open pit designs there are additional Inferred Resources which cannot be classified as Reserves under JORC guidelines. The mine plan assumes the treatment of in-pit Inferred Resources and a low grade stockpile which is below cut-off grade but above 0.5g/t Au. In the final years of the project, it is assumed that the project will be operated in a manner that makes the low grade stockpile economic to process.

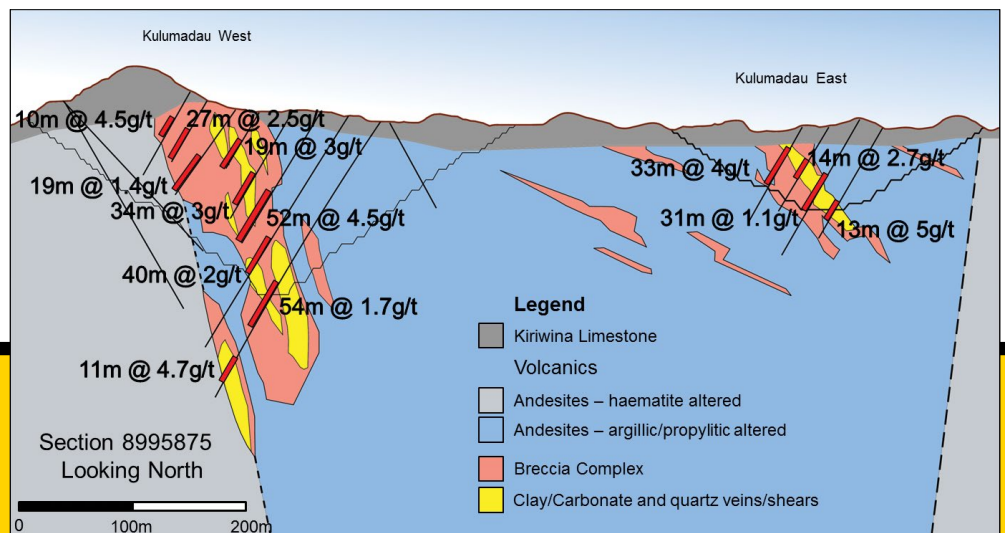
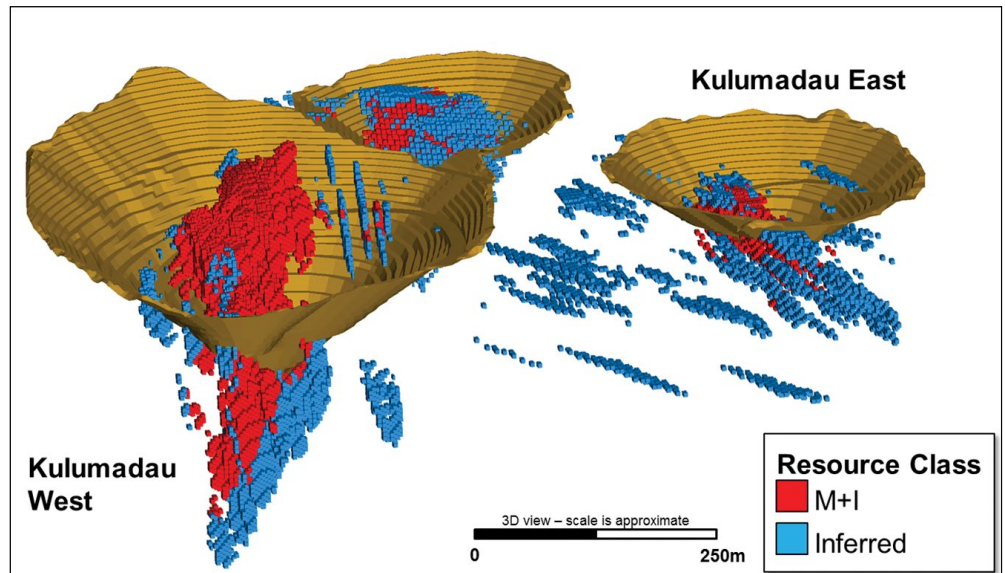


FIGURE 3: Kulumadau Pit Designs
Ore Block Model and Section

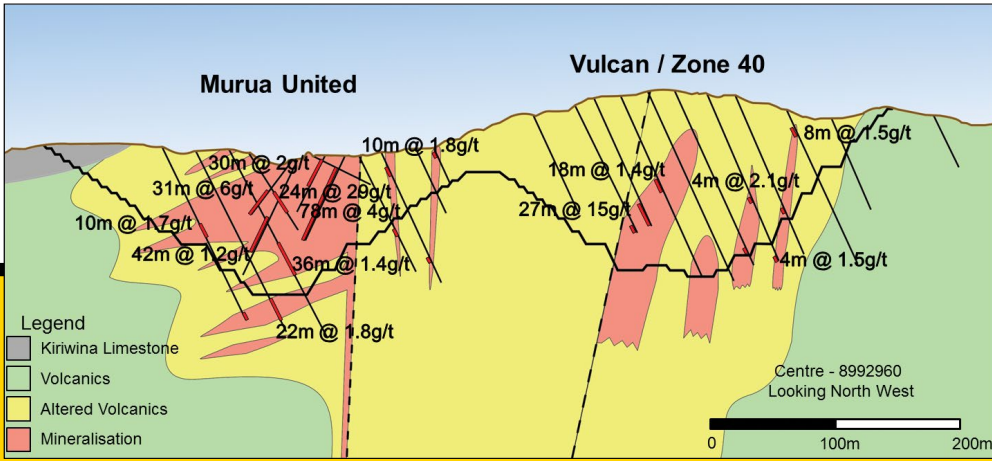
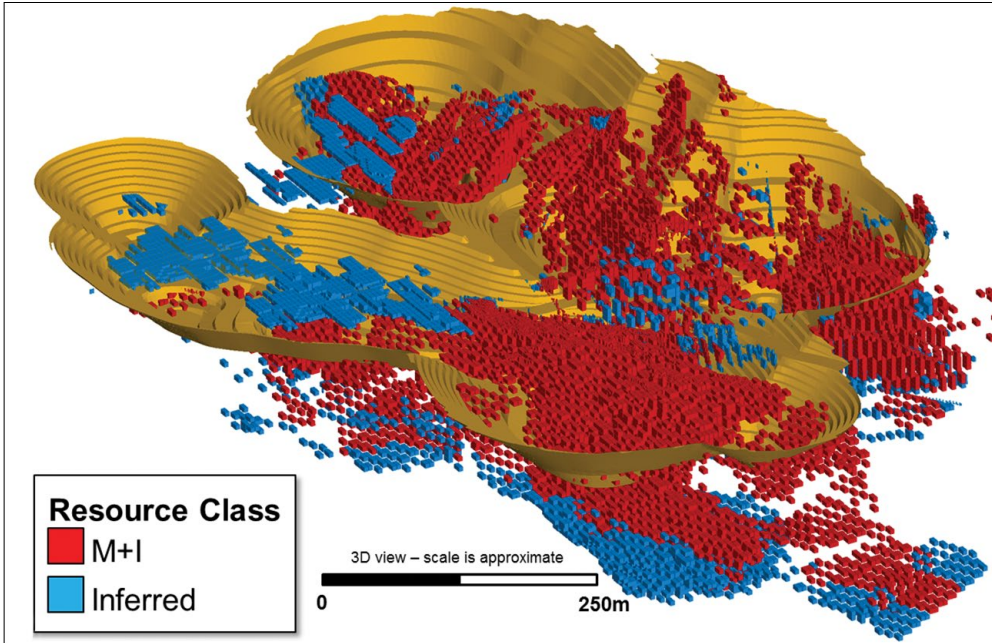


FIGURE 4: Busai Pit Designs
Ore Block Model and Section

Chief Executive Officer's report (continued)

This mining schedule provides a head feed grade of 2.14g/t over the first six years of production. Key outputs are shown in Table 4 below with annual production and head feed grade over life of mine shown in Figure 5.

Table 4: Key Outputs

	Units	Year 1	Year 1 to 6	Life of Mine 9 Years
Average Plant Throughput	Mtpa	1.7	1.8	1.9
Head Feed Grade	g/t Au	2.37	2.14	1.70
Gold Recovery	%	92	90	88
Strip Ratio: Waste/Ore		9.5	8.8	9.1
Total Gold Production	ounces	118,000	674,000	813,000
Mining Cost *1	US\$/t mined	1.96	1.84	1.92
Processing Cost	US\$/t processed	23.97	21.92	21.08
Admin & General Cost *2	US\$/t processed	6.91	6.62	5.58
C1 Cash Costs *3	US\$/oz	745	730	812

*1 assuming owner operated fleet

*2 including owner's costs

*3 deferred waste after pre-strip is included in cash cost Y1

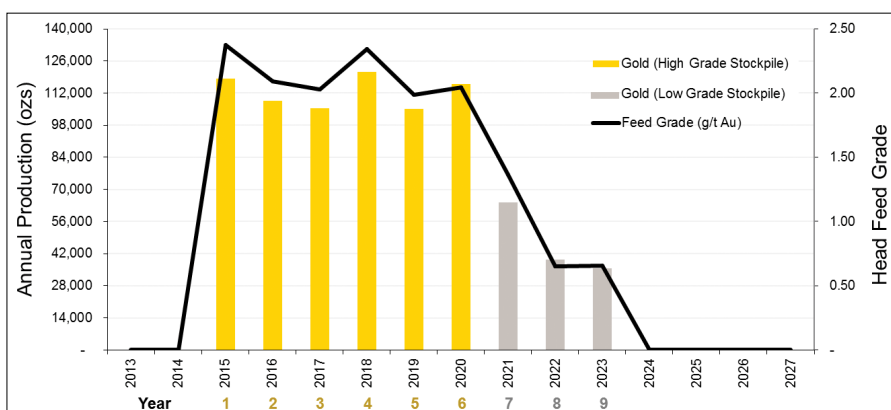
The final years of gold production are scheduled from a low grade stockpile. Further infill drilling and regional exploration success will allow the scheduling of this stockpile to be deferred and replaced with processing of higher grade ore.

Comprehensive metallurgical testwork on the deposits was supervised by R.W. Nice and Associates and undertaken at Metcon Laboratories, Orway Mineral Consultants and Ammtec with final plant design made in conjunction with Arcccon.

Metallurgical recoveries for years 1 to 6 average 90%. The ore required a medium grind of 106 microns. The ore types also demonstrated a reasonably high proportion of free gold reflected in core logs and by elevated gravity recovered gold at Kulumadau and Busai. Overall gravity recovered gold amounted to 37% of total gold recovered.

The Feasibility Study established that a conventional comminution circuit followed by a standard gravity and CIL process flowsheet then followed by carbon elution and electrowinning to produce gold dore bars, would yield overall average gold recoveries as above. Tailings disposal will be by standard tailings dam or deep sea tailings placement depending on the requirements of the PNG Government. For the Feasibility Study detailed cost estimates were prepared for both tailings disposal alternatives.

FIGURE 5: Proposed Annual Production and Head Feed Grade



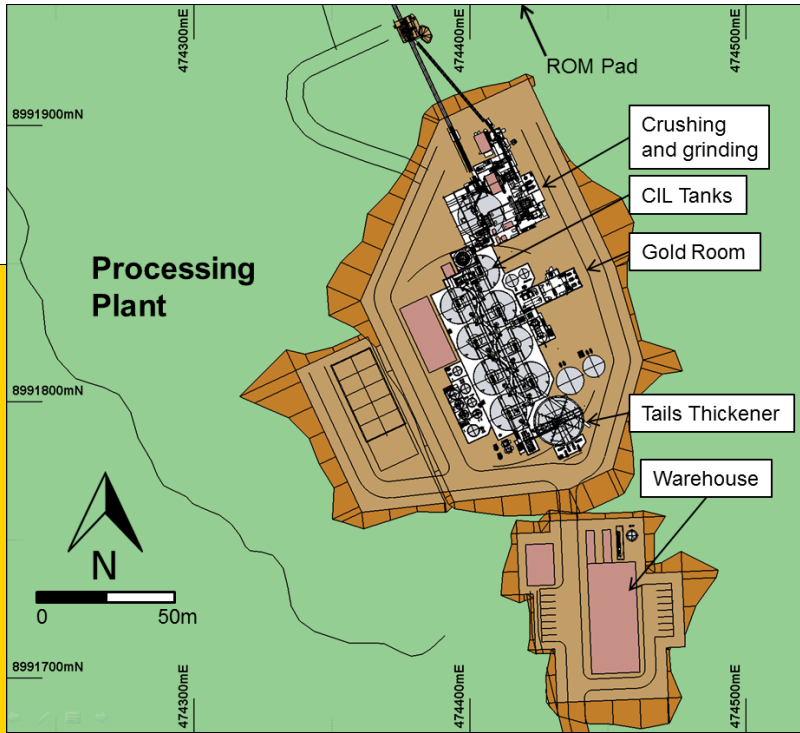


FIGURE 6: Proposed Mill Site Layout

The establishment costs for the project amount to US\$160 million based on written quotes from equipment suppliers, service providers and consumables in the Asia-Pacific region. These estimates were compiled by Arcon based on new equipment and include variable contingencies, refer Table 5.

Table 5: Establishment Capital Costs

Cost Centre	US\$M
Processing Plant including Tailings	92
Infrastructure	20
Spares and First Fill	5
Owners Costs including Relocation	20
Pre Strip	8
Fixed Price Turnkey EPC	15
Establishment Capital Cost	160
Mining Fleet* ¹	36
Deferred Life of Mine Capital	16
Deferred Waste during Mine Ramp Up* ²	11

*1 assuming owner operated fleet

*2 deferred waste after pre-strip is included in cash cost Y1

Chief Executive Officer's report (continued)

Operating costs, Table 6, were based on written quotes for fuel supply (the largest component of operating costs), services and consumables. Labour costs were estimated from industry survey and current PNG data. PNG Government royalties are 2.25% of the value of the gold produced.

The financial model of the Woodlark Island Gold Project Feasibility Study indicates that at a gold price of US\$1600 per ounce the pre-tax NPV is US\$237 million and IRR is 34% at a discount rate of 7%. After taking into account the PNG corporate tax rate of 30% including accumulated tax deductions, the post-tax NPV is US\$194 million and IRR is 31% at a discount rate of 7% and a gold price of US\$1600 per ounce, refer Table 7 below.

Table 6: Operating Costs

Costs	Y1-6 US\$M	LOM US\$M	US\$/t Milled Y1-6	US\$/oz Recovered Y1-6	US\$/oz Recovered LOM Y1-9
Mining* ¹	183	212	16.74	271	261
Processing	239	356	21.92	355	438
Administration & General	70	92	6.44	104	113
Owners Costs	2	3	0.18	3	3
Sub Total	494	663	45.28	733	815
Refining Costs	2	3	0.21	3	3
Silver Credits	(4)	(5)	(0.37)	(6)	(6)
C1Cash Costs	492	661	45.12	730	812
Royalties* ²	27	32	2.43	40	39
Total Operating Costs*³	519	693	47.55	770	851

*1 owner operated fleet cash cost – excludes depreciation

*2 gold price US\$1600/oz

*3 net of silver credits

Table 7: Financial Summary

	Gold Price US\$1400/ounce	Gold Price US\$1600/ounce	Gold Price US\$1800/ounce
LOM Project Gold Revenue	US\$1,139,000,000	US\$1,301,000,000	US\$1,464,000,000
Project pre-tax NPV @ 7%	US\$133,000,000	US\$237,000,000	US\$340,000,000
Project pre-tax IRR	23%	34%	43%
Project post-tax NPV @ 7%	US\$110,000,000	US\$194,000,000	US\$274,000,000
Project post-tax IRR	22%	31%	39%
Payback from Production Start	3.2 years	2.6 years	2.1 years

Environmental Impact Statement

The Environmental Impact Statement was completed by Coffey Environments with the aid of a large number of independent consultants and was submitted to the Department of Environment and Conservation on 17 January 2013.

The Environmental Impact Statement found that a number of direct benefit streams will be generated by the project that will result in increased provincial wealth (e.g., from royalties, spin-offs and wages) and national wealth (e.g., from royalties and taxes). Substantial economic multipliers for Milne Bay Province are likely to be associated with the project, as will economic linkages within PNG's economic sectors that drive local, provincial and national economic growth.

The project is expected to have mainly positive impacts for Woodlark Islanders, given its scale and commitment to employing local staff. The project will provide training and skills, contribute wages to the local economy, provide improved health services, expand education opportunities, assist with local business development (for businesses that serve the mine), and other community investments made in consultation with the local people.

Mining Lease Application

The Feasibility Study, together with an Application for the Mining Lease (MLA 508) and the Proposal for Development, were submitted to the PNG Mineral Resources Authority on 30 October 2012. The process for Mining Lease grant was initiated in early January 2013 with the successful onsite completion of the wardens hearing.



Warden's hearing held on 17 January 2013.

Project Financing

In March 2012, the Company was informed by the Minister for Mining that the State owned company, Petromin PNG Holdings Limited, had been nominated as the State's nominee to take up to 30% equity participation in the Project if the State elects to exercise its option. Petromin has signed a Confidentiality Agreement and has subsequently reviewed the Feasibility Study. Petromin has expressed an interest in the Project and is currently completing its internal reviews prior to making a decision.

Discussions on financing were progressed towards the end of 2012 with several banks expressing interest to provide project financing. Concurrently with project financing and permitting, the company is also reviewing sections in the Feasibility Study where there is potential to reduce capital and operating costs.

Health, Safety and the Community

Kula Gold Limited operates in Papua New Guinea through its 100% owned subsidiary Woodlark Mining Limited. Together they employ a total of 80 employees with the majority being local Muyuw people indigenous to Woodlark Island.

Safety and health has been the number one focus for the Company operating in the challenging tropical environment on the island. The safety record for the period again has been excellent. The Company rigorously conducts safety inductions, weekly tool box meetings, incident reporting and analysis and has a safety officer in place to train local Woodlark Islanders in safety procedures and regulations.

The company manages community and social issues through its community relations department on the island and has maintained excellent relations.

CEO report (continued)



1 Compensation agreement signing by clan leaders on 20 April 2012.

2 John Watkins (CFO) at the newly established seedling nursery.

Key areas of concern to the local communities include:

- * **Health:** Woodlark Island has endemic malaria with few government medical facilities. In the past, the company aided Rotary Against Malaria to distribute nets across the whole of the island. The Company has previously established a clinic under the supervision of a health extension officer, the services of which are available to Company employees, their extended families and emergency cases. The Company's clinic regularly treats 700 local people a month and during the past year and again has undertaken several emergency evacuations to the base hospital at Alotau and has been instrumental in saving lives.
- * **Employment:** In conjunction with the local communities an Employee Consultative Committee has been in operation 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 training programs for equipment operators, surveyors, drillers and other employees during the course of the year. The training program has proved very successful.

- * **Education:** The Company has been instrumental in providing basic educational hardware to various schools throughout the Island

Environment

The Company is committed to developing the project in an environmentally responsible manner. Extensive impacts have already been made on the environment by pre-World War 1 mining operations, World War 2 infrastructure and by extensive logging operations in the 20th Century. Nonetheless, the company has a policy of rehabilitating areas that have undergone exploration in the past and has made significant progress during the year including the establishment of a seedling nursery.

With thanks

As a concluding remark I would like to thank the Woodlark Island communities and all levels of local, provincial and national government in Papua New Guinea for the support they have given the Company and the project again during this year. Special thanks go to our enthusiastic team of employees and consultants both in Australia and PNG through whose persistence and efforts the Company has achieved the key milestones of a viable Feasibility Study, Environmental Impact Statement and lodgment of a Mining Lease Application. I again look forward to the continued support of all stakeholders as the project progresses towards development.

LEE K SPENCER
Chief Executive Officer
Kula Gold Limited

2012

FINANCIAL REPORT



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

Mark Stowell

Non-executive director

Company secretary

Leanne Ralph

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Stock exchange listing

Australian Securities Exchange

ASX code: KGD

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 2012.

Directors

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

David Frecker
Lee Spencer
John Watkins
Louis Rozman
Mark Stowell

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 (2011: \$nil).

Result of operations

The net loss from operations of the consolidated entity was \$29,234,000 (2011: loss of \$1,354,000).

Review of operations

For the year ended 31 December 2012 the Group has been focused upon finalising the feasibility study and the Environmental Impact Statement on its core assets located on Woodlark Island, Milne Bay Province, Papua New Guinea.

The feasibility study was formally completed at the end of September 2012 and concluded that a viable gold project exists on Woodlark Island. The Group, supported by a group of skilled external consultants, completed the feasibility study to a high standard over the previous two years.

Key features of the feasibility study are as follows:

- * Increased proved and probable ore reserves of 10.99 Mt g/t Au for 766,000 ounces.
- * Recovery of 674,000 ounces over the first six years through a 1.8 Mtpa plant.
- * Estimated cash operating costs of US\$730/ounce for years 1 to 6.
- * Establishment capital cost of US\$160 million.
- * Pre-tax Internal Rate of Return (IRR) of 34%; and,
- * Capital payback period of 2.6 years from production commencement (at a gold price of US\$1,600/ounce).

On the 30 October 2012, the Group announced it had formally lodged with the Papua New Guinea Mineral Resources Authority (MRA), the Mining Lease Application (MLA) in conjunction with the feasibility study and development proposal. The Group has on going regular contact with the Papua New Guinea officials and it is anticipated this will continue into the future. Further the people of Woodlark Island have been actively informed about the project through an extensive stakeholder engagement program. This program will continue through the various phases of the project.

Directors' report (continued)

Review of operations (continued)

During November 2012 the Company raised proceeds of \$5,154,000 (net of transaction costs) from existing shareholders in a share placement to fund ongoing working capital requirements.

Whilst the group is waiting for approval of its MLA, it is actively pursuing financing options. The following financing alternatives are currently being considered are:

- * Approaches have been made to a number of banks interested in providing debt financing facilities. The Group is currently reviewing a number of indicative term sheets that have been submitted by the banks.
- * Selling part of the Company's interest in the project and entering into a joint venture.
- * The government of Papua New Guinea exercising its option to purchase up to 30% of the project.
- * Pre-sales of future gold production.
- * Undertaking further capital raising(s).

After reviewing the feasibility study mining plan, it was determined that some prior period expenditure, capitalised to the statement of financial position in "Mineral exploration & evaluation expenditure" has been in areas of interest where mining will not be economic or no mining is currently planned to occur. The Group has recognised a write-off of \$26,587,000 in the consolidated statement of comprehensive income for the year ended 31 December 2012.

On 17 January 2013 the group lodged the Environmental Impact Statement (EIS) with the Papua New Guinea Department of Environment and Conservation (DEC). The Group is committed to developing the project in an environmentally responsible manner.

On 4 February 2013 Kula Gold Limited appointed Stuart Pether as Chief Operating Officer. Mr Pether is a qualified mining engineer with an extensive career in the resources industry with the following major areas of expertise: project development, technical studies, mine operation and corporate development. This key appointment will help the group transition from explorer to producer.

Significant matters relating to the ongoing viability of operations

The Company has completed both the Feasibility Study (FS), and the Environmental Impact Statement (EIS), and has formally submitted a Mining Lease Application (MLA) to commence construction for mining of the gold resources proven to exist on Woodlark Island, Milne Bay Province, Papua New Guinea. The Warden's Hearing for the MLA was held on 17 January 2013.

The directors are actively reviewing the various funding options to take the project to a position where it will be self-sustaining (i.e. producing and selling gold).

The continuing viability of the Company and its ability to continue as a going concern and meet its commitments as and when they fall due is dependent upon the Company being successful in either one or a combination of the following alternatives:

- * Debt finance.
- * Partial sale of the project.
- * Joint venture of the project.
- * Equity raising.
- * Pre-sales of future gold production.
- * The Government of Papua New Guinea exercising its option to purchase up to 30% of the project.

As a result of these matters, there is a material uncertainty that may cast significant doubt on whether the Company will continue as a going concern and therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

Conclusion:

The directors believe the Company has sufficient funds to settle its debts as and when they become due and payable. The Company will need to conclude one or more of the above arrangements to further its development plans.

On that basis the directors have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the annual financial report at 31 December 2012. Accordingly, no adjustments, other than as required due to the Company's standard accounting policies, have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Directors' report (continued)

Significant changes in the state of affairs

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.

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'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, LL.M

Independent chairman and non-executive director. Age 64.

Experience and expertise

David Frecker is a non-executive director of Kula Gold 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 Ashurst Australia (formerly 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 Ashurst Australia 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 Ashurst Australia'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

* 100,000 ordinary fully paid shares (balance up to the date of signing the directors' report);

* 100,000 KGD OPT2 class options to acquire ordinary fully paid shares.

Lee Spencer MSc App (Mineral exploration)

Managing director and chief executive officer. Age 59.

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 chief executive officer of BDI Mining Corp and vice president 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.

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

* 579,870 ordinary fully paid shares;

* 1,126,155 KGD OPT1 class options to acquire ordinary fully paid shares;

* 1,500,000 KGD OPT5 class options to acquire ordinary fully paid shares.

Directors' report (continued)

Information on directors (continued)

John Watkins BA (Acct/Geo), Dip GeoSc (Min Ec), M App Fin

Executive director and chief financial officer. Age 58.

Experience and expertise

John Watkins has been Kula Gold's chief financial officer since January 2008.

John is a mining industry executive with commercial and geoscience qualifications and 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 Papua New Guinea (PNG) or on PNG projects for approximately 20 years. John has held the positions of chief financial officer, 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 and a Master of Applied Finance from Kaplin/Finsia.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Executive director.

Interests in shares and options

- * 460,000 ordinary fully paid shares (balance up to the date of signing the directors' report);
- * 563,078 KGD OPT1 class options to acquire ordinary fully paid shares;
- * 1,500,000 KGD OPT5 class options to acquire ordinary fully paid shares.

Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec)

Non-executive director. Age 55.

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 Papua New Guinea. Louis was chief operating officer of Aurion Gold Limited and was instrumental in the development of its predecessor, Delta Gold Limited. He was also chief executive officer of CH4 Gas Ltd, a successful pioneering coal bed methane developer and producer.

Louis is a founding partner and 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 Bachelor of Engineering (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.

Chairman of the risk committee.

Chairman of the remuneration and nomination committee.

Interests in shares and options

- * 410,287 ordinary fully paid shares;
- * 100,000 KGD OPT2 class options to acquire ordinary fully paid shares.

Directors' report (continued)

Information on directors (continued)

Mark Stowell BBus, CA

Independent non-executive director. Age 49.

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 a non-executive director and founder of Mawson West Ltd, a Toronto Stock Exchange (TSX: MWE) listed 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 USA oil and gas producer.

Mark is a member of the Institute of Chartered Accountants and has a Bachelor of Business 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 the risk committee.

Member of remuneration and nomination committee.

Interests in shares and options

* 796,432 ordinary fully paid shares (balance up to date of signing of the directors report);

* 100,000 KGD OPT2 class options to acquire ordinary fully paid shares.

Company secretary

Mrs Leanne Ralph was appointed to the position of company secretary on 1 June 2011. Leanne is a member of the Chartered Secretaries Australia and Australian Institute of Company Directors. Leanne is the principal of Boardworx Australia Pty Ltd which supplies bespoke outsourced company secretarial services to a number of listed and unlisted companies.

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 2012, and the numbers of meetings attended by each director were:

2012	Board meetings		Meetings of committees					
	Number eligible to attend	Number attended	Audit		Risk		Remuneration and nomination	
Number eligible to attend			Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	
D Frecker	14	14	3	3	-	-	-	-
L Spencer	14	13	-	-	1	1	-	-
J Watkins	14	14	-	-	-	-	-	-
L Rozman	14	14	-	-	1	1	-	-
M Stowell	14	12	3	3	1	-	-	-

Directors' report (continued)

Remuneration report

The remuneration report sets out remuneration information for Kula Gold Limited's executive directors, non-executive directors, other key management personnel.

- a) Principles used to determine the nature and amount of remuneration
- b) Role of remuneration and nomination committee
- c) Details of remuneration
- d) Service agreements of key management personnel
- e) Share-based compensation
- f) Bonuses
- g) Additional information

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

a) 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.

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

b) Role of remuneration and nomination committee

The board has established a remuneration and nomination 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.

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 executive directors and senior management of Kula Gold.

Remuneration surveys are reviewed by the committee from time to time to ensure the group's remuneration system and reward practices are in line with current market practice.

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 comprises 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.

Directors' report (continued)

Remuneration report (continued)

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 is unchanged from prior year. This amount was fixed by shareholders at the 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. Where a director acts as a chairman of more than one board committee, the maximum remuneration payable is \$10,000.

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 Limited 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 and nomination committee is responsible for assessing whether the key performance indicators 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 is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Long-term incentives ("LTI")

Long-term incentives are provided to certain employees via the Kula Gold Limited Option Plan (Plan). The role of the Plan is detailed under the heading 'share-based compensation' within the remuneration report.

c) Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of the Group and Company are set out in the following tables:

Executive directors	Position
L Spencer	Managing director and chief executive officer
J Watkins	Executive director and chief financial officer
Non-executive directors	Position
D Frecker	Non-executive chairman
L Rozman	Non-executive director
M Stowell	Non-executive director

Directors' report (continued)

Remuneration report (continued)

Key management personnel of the Group – 2012

2012	Short-term employee benefits		Post-employment benefits	Long-term benefits	Share-based payments		Total \$
	Cash salary and fees \$	Cash bonus \$	Superannuation \$	Long service leave \$	Options \$	Percentage of total package %	
Name							
Directors							
D Frecker	70,000	–	6,300	–	13,315	14.9	89,615
L Spencer	350,000	32,813	13,510	6,418	199,159	33.1	601,900
J Watkins	300,000	33,000	15,010	5,509	121,011	25.5	474,530
L Rozman	50,000	–	–	–	13,315	21.0	63,315
M Stowell	50,000	–	4,500	–	13,315	19.6	67,815
Total	820,000	65,813	39,320	11,927	360,115		1,297,175

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration 2012 %	At risk short-term incentives 2012 %	At risk long-term incentives 2012 %
Directors			
D Frecker	85	–	15
L Spencer	62	5	33
J Watkins	68	7	25
L Rozman	79	–	21
M Stowell	80	–	20

Key management personnel and other executives of the Group and the Company – 2011

2011	Short-term employee benefits		Post-employment benefits	Long-term benefits	Share-based payments		Total \$
	Cash salary and fees \$	Cash bonus \$	Superannuation \$	Long service leave \$	Options \$	Percentage of total package %	
Name							
Directors							
D Frecker	70,000	–	6,300	–	13,279	14.8	89,579
L Spencer	312,500	34,375	22,875	27,361	224,856	36.2	621,967
J Watkins	257,500	53,750	18,675	22,525	135,997	27.8	488,447
L Rozman	50,000	–	–	–	13,279	21.0	63,279
M Stowell	50,000	–	4,500	–	13,279	19.6	67,779
P Bradford*	25,000	–	–	–	6,585	20.9	31,585
Other key management personnel							
T Mulroney [†]	392,399	–	–	–	24,071	5.8	416,470
Sub-total	1,157,399	88,125	52,350	49,886	431,346	–	1,779,106
Executives							
G Clapp [#]	278,039	–	–	–	–	–	278,039
K Neate [#]	244,251	–	–	–	13,789	5.3	258,040
Total	1,679,689	88,125	52,350	49,886	445,135	–	2,315,185

* P Bradford resigned 30 June 2011

† T Mulroney resigned 31 August 2011. All payments were made to PACT Mining Pty Ltd.

Employees of Woodlark Mining Limited.

Directors' report (continued)

Remuneration report (continued)

d) Service agreements 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

- * Terms of agreement: Ongoing under new terms and conditions which commenced 16 November 2010;
- * Base salary: \$350,000 plus superannuation guarantee, to be reviewed annually on 1 July each year;
- * Performance bonus: Eligible to be paid a performance related bonus of up to 25% of the base salary which is assessed as detailed in short-term incentives;
- * Termination benefits:
 - i) 90 days' notice is required on resignation;
 - ii) Termination by the Company, three months of base salary; and if terminated within 12 months after a change of control of the Company, 18 months of base salary grossed up to include any unpaid bonus and net of all deductions required by law.

J Watkins, Executive director and chief financial officer

- * Terms of agreement: Ongoing under new terms and conditions which commenced 16 November 2010;
- * Base salary: \$300,000 plus superannuation guarantee, to be reviewed annually on 1 July each year;

- * Performance bonus: Eligible to be paid a performance related bonus of up to 25% of the base salary which is assessed as detailed in short-term incentives;
- * Termination benefits:
 - i) 90 days' notice is required on resignation;
 - ii) Termination by the Company, three months of base salary; and if terminated within 12 months after a change of control of the Company, 18 months of base salary grossed up to include any unpaid bonus and net of all deductions required by law.

e) Share-based compensation

Options

Options over shares in Kula Gold Limited are granted under the Kula Gold Limited Option Plan (Plan) to employees (including directors). The 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 was 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 26 to the financial statements.

The following options are held by directors of the Company as at 31 December 2012:

Name	Granted Number	Grant Date	Vested Number	Forfeited In Year	Expiry Date	Exercise Price	Fair Value at Grant Date	Value at forfeiture date [^]
D Frecker [#]	100,000	01 Dec 2010	–	–	01 Dec 2015	\$1.80	\$41,000	–
L Spencer ^{**}	1,126,155	01 Dec 2010	1,126,155	–	01 Dec 2015	\$1.80	\$349,109	–
L Spencer [*]	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000	–
L Spencer ^{**}	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000	–
J Watkins ^{**}	563,078	01 Dec 2010	563,078	–	01 Dec 2015	\$1.80	\$174,555	–
J Watkins [*]	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000	–
J Watkins ^{**}	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000	–
L Rozman [#]	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 value at forfeiture date of options that were granted as part of the remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Directors' report (continued)

Remuneration report (continued)

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	Maximum total value of options yet to vest
D Frecker [#]	100,000	01 Dec 2015	\$0.41	\$1.80	\$1.68	30%	5.33%	\$13,278
L Spencer ^{**}	1,126,155	01 Dec 2015	\$0.31	\$1.80	\$1.68	30%	5.33%	–
L Spencer [*]	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%	–
L Spencer ^{**}	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%	–
J Watkins ^{**}	563,078	01 Dec 2015	\$0.31	\$1.80	\$1.68	30%	5.33%	–
J Watkins [*]	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%	–
J Watkins ^{**}	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%	–
L Rozman [#]	100,000	01 Dec 2015	\$0.41	\$1.80	\$1.68	30%	5.33%	\$13,278
M Stowell [#]	100,000	01 Dec 2015	\$0.41	\$1.80	\$1.68	30%	5.33%	\$13,278

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

^{*} Options vested on 16 December 2011.

^{**} Options vested on 16 November 2012.

[#] Options granted to non-executive directors will only vest and become exercisable after either of the following events:

- the Company's Woodlark Island gold project (Project) reaches commercial production as determined by the pour of the first gold from the Project or,
- there is a change of control of the Company.

f) Bonuses

For cash bonuses the percentage of the available bonus paid in the financial year and the percentage that was forfeited because the person did not meet the performance criteria are set out below. No part of the bonus is payable in future years.

Name	Bonus paid %	Bonus forfeited %
L Spencer	38	62
J Watkins	44	56

g) Additional information

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

No options were exercised during the year ended 31 December 2012 (2011: Nil).

Shares under option

Unissued ordinary shares of Kula Gold Limited under options at the date of this report are as follows:

Date options granted	Expiry date	Exercise price of shares	Number under option
01 Dec 2010	01 Dec 2015	\$1.80	1,989,233
16 Mar 2011	16 Mar 2016	\$1.80	100,000
14 Apr 2011	16 Mar 2016	\$1.80	120,000
16 Dec 2011	16 Dec 2016	\$2.00	3,000,000
25 Jan 2013	25 Jan 2016	\$0.48	1,000,000
			6,209,233

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Directors' report (continued)

Indemnification and insurance of officers

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

- i) liability for any act or omission in their performance as director or officer; and
- ii) 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.

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.

Employees

Kula Gold Group staff members as at 31 December 2012:

Position	Kula Gold Limited		Woodlark Mining Limited		Total	
	Male	Female	Male	Female	Male	Female
Directors (Executive)	2	–	–	–	2	–
Directors (Non-executive)	3	–	–	–	3	–
Senior executive	1	–	2	–	3	–
Other	1	2	97	19	98	21
	7	2	99	19	106	21

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.

Directors' report (continued)

Non-audit services (continued)

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:

Consolidated		
	2012 \$	2011 \$
Non-audit services		
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Other services	-	-
Total remuneration for other assurance services	-	-
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance service	8,800	12,450
Other tax advice	-	5,000
Related practices of PricewaterhouseCoopers Australian firm	10,154	5,512
Total remuneration for taxation services	18,954	22,962
Total remuneration for non-audit services	18,954	22,962

Functional and presentation currency

The amounts included in the directors' report and consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

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 28.

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.

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



David Frecker
Chairman

Sydney, 27 March 2013



Lee Spencer
Director



Auditor's Independence Declaration

As lead auditor for the audit of Kula Gold Limited for the year ended 31 December 2012, 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 entity it controlled during the period.

A handwritten signature in blue ink, appearing to read 'PBuchholz', is written over the printed name.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
27 March 2013

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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 Limited (Company). 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. All these practices, unless otherwise stated, were in place for the entire year.

Details of Kula Gold's key policies and charters for the board and each of its committees are available upon request to 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. The board collectively, the board committees and individual directors may seek independent professional advice at Kula Gold's expense, subject to prior consultation with the Chairman, for the purposes of the proper performance of their duties.

Role of the board

The responsibilities of the board as outlined in the board charter 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 chief executive officer, to deliver the strategic direction and goals determined by the board.

Corporate governance statement (continued)

Principle 1 – Lay solid foundations for management and oversight (continued)

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 is 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 periodically to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

Currently the board comprises five directors, being a non-executive chairman, two executive directors and two 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 principals that are in line with those suggested in the ASX recommendation. 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 three 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), L Rozman and M Stowell (non-executive directors).

D Frecker 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 for the full financial year and is considered an independent director in accordance with recommendation 2.1 of the ASX 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 has an established remuneration and nomination committee. 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.

The Company's corporate governance plan provides for annual performance reviews of the board as a whole, the committee of the board and individual directors. There have been open communications between directors about issues of performance. However, given the size of the board and the pressures on the time of directors, a formal review process was not undertaken during 2012.

Corporate governance statement (continued)

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 2001* 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.

The company has a trading policy which outlines the restrictions, closed periods and processes required when directors and employees trade company securities. Broadly the policy states that directors and employees are prohibited from dealing in the company securities during closed periods. These periods are one week prior to release of the company's quarterly, half-yearly or annual results or the release of a disclosure document offering securities in the company. However should price sensitive information, which is not available to the market, be in possession of a director or employee, they must not deal in the company's securities.

Prior to trading in the company's securities a director must obtain the approval of the chairman. The chairman must obtain the approval of the chief executive officer (CEO) or chief financial officer (CFO). First or second line employees of the CEO must obtain the CEO approval prior to transacting in the company's securities. All share trades must be notified to the company secretary within five business days of the transaction.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

The board has adopted a diversity policy that outlines the Group's commitment to equality and the treatment of all individuals with respect.

The board considers that diversity within the Group refers to characteristics or factors such as religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference.

Although the Company is listed on the ASX and has its head office in Sydney, Australia, its main area of operations, through its wholly owned subsidiary Woodlark Mining Limited, is in Papua New Guinea (PNG) where it is subject to laws and government policies which may not be consistent in all respects with the recommendations of the ASX Corporate Governance Council on diversity. These PNG laws and government policies include:

- * Restrictions through the requirements for visas and work permits on the employment of persons who are not PNG citizens.
- * Requirements to promote the employment of PNG citizens through training and localisation; and
- * conditions of any mining development approval that preference in employment is given, first to local people living in the project area and secondly, to people from the province in which the project is situated.

Subject to the PNG aspects referred to above, the Company's diversity policy states the Group is to do the following:

- * Attract and retain a skilled and diverse workforce from the communities in which its operations are located.
- * Promote and maintain a work environment that values and utilises the contributions of employees with diverse backgrounds, experience and perspectives.
- * Take action against inappropriate workplace behaviour including discrimination, harassment, bullying, victimisation and vilification.
- * Set measurable objectives for gender diversity that will be monitored and reviewed annually.
- * Provide employees with opportunities to develop skills and experience for career advancement.
- * Ensure appropriate selection criteria are used when hiring new staff, including board members, which do not contain any direct or inferred discrimination.
- * Ensure that applicants and employees of all backgrounds are encouraged to apply for and have a fair opportunity to be considered for, all available roles.
- * Develop flexible work practices to meet the differing needs of employees.
- * Comply with equal opportunity and anti-discrimination legislation (where applicable).

Corporate governance statement (continued)

Principle 3 – Promote ethical and responsible decision-making (continued)

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The board has adopted the following objectives for gender diversity: (1) 25% female employees across all group operations (aggregating Australia and PNG) by 31 December 2014; and (2) one female director of Kula Gold Limited by 31 December 2014.

Good progress toward achieving the first objective is shown in the directors' report under the title "Employees" (21 female employees out of a total of 127 employees). There is not currently a female director.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

Set out in the directors' report is the number of women employees in the whole organisation, senior positions and on the board.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1: The board should establish an audit committee.

The board has an established audit committee.

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 director, who is not Chair of the board
- * has at least three members

The audit committee consists of two non-executive directors both of whom are independent directors and is chaired by an independent director who is not Chair of the board. The chairman satisfies the test of independence.

The board is of the opinion the composition of the audit committee with the two independent directors is appropriate given the relatively small size of the current board.

The current members of the audit committee are M Stowell (Chairman) 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 Reports", "Quarterly Cash Flow Reports" 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 is distributed to all shareholders who elect to receive it.

Corporate governance statement (continued)

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 has a process for the identification, monitoring and management of risks associated with its business activities and the implementation of practical and effective control systems to manage them.

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 policies are in place. The board has established a risk committee. 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 has 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 has developed and maintains a risk register which identifies the risks to the Company and its operation and assesses the likelihood of their occurrence. The risk register is updated periodically and presented to the board for its consideration at least once 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 to the risk committee on whether those risks are being managed effectively.

The risk committee is comprised of 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 L Rozman (Chairman), M Stowell and L Spencer.

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

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (CEO or equivalent) and the chief financial officer (CFO or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act 2001* 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 (and the consolidated entity) have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*; and
- * the financial statements and notes to the financial statements of the Company and the consolidated entity comply with the relevant accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- * give a true and fair view of the Company's (and consolidated entity's) financial position and performance.

Corporate governance statement (continued)

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee.

The board has an established remuneration and nomination committee. The remuneration and nomination committee has a written charter defining the role and responsibility of the committee.

Recommendation 8.2: The remuneration committee should be structured so that it:

- * consists of a majority of independent directors
- * is chaired by one of its members, who is not the Chair of the board
- * has at least three members

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 executive directors and senior management of Kula Gold.

Recommendation 8.3: 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 Kula Gold Limited Option Plan.

Non-executive directors receive director's fees in agreed amounts. Each of the current non-executive directors holds options on terms approved by the ASX. These are set out in the directors' report.

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

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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 16 to 27, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 27 March 2013. The directors have the power to amend and reissue the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	Consolidated	
		2012 \$'000	2011 \$'000
Revenue from continuing operations	5	504	2,032
Expenses			
Employee benefits expense		(1,717)	(1,837)
Professional and consulting expenses		(917)	(1,048)
Rental expense	6	(193)	(185)
Insurance expense		(100)	(96)
Write-off of exploration & evaluation expenditure	6	(26,587)	–
Foreign exchange gain		64	51
Other expenses		(288)	(271)
Loss before income tax		(29,234)	(1,354)
Income tax benefit/(expense)	7	–	–
Loss for the year from continuing operations		(29,234)	(1,354)
Other comprehensive income			
Exchange differences on translation of foreign operations	17(a)	(752)	20,251
Total comprehensive (loss)/income for the year		(29,986)	18,897
Loss per share for losses from continuing operations attributable to the ordinary equity holders of the company:		2012 Cents	2011 Cents
Basic loss per share	25	(25.45)	(1.20)
Diluted loss per share	25	(25.45)	(1.20)

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 2012

	Notes	Consolidated	
		2012 \$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	7,924	20,112
Receivables and other assets	9	329	863
Inventories	10	662	867
Total current assets		8,915	21,842
Non-current assets			
Property, plant and equipment	11	2,780	3,416
Mineral exploration and evaluation expenditure	12	102,044	115,077
Other non-current assets	13	112	107
Total non-current assets		104,936	118,600
Total assets		113,851	140,442
LIABILITIES			
Current liabilities			
Trade and other payables	14	1,329	3,715
Total current liabilities		1,329	3,715
Non-current liabilities			
Provisions	15	582	358
Total non-current liabilities		582	358
Total liabilities		1,911	4,073
Net assets		111,940	136,369
EQUITY			
Contributed equity	16	139,946	134,792
Reserves	17(a)	10,159	10,508
Accumulated losses	17(b)	(38,165)	(8,931)
Total equity		111,940	136,369

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 2012

Attributable to owners of Kula Gold Limited							
	Notes	Contributed equity \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Total reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2011		134,792	(859)	(9,355)	(10,214)	(7,577)	117,001
Loss for the year		-	-	-	-	(1,354)	(1,354)
Exchange differences on translation of foreign operations	17	-	-	20,251	20,251	-	20,251
Total comprehensive income for the year		-	-	20,251	20,251	(1,354)	18,897
Transactions with owners in their capacity as owners:							
Share-based payments	17	-	471	-	471	-	471
		-	471	-	471	-	471
Balance at 31 December 2011		134,792	(388)	10,896	10,508	(8,931)	136,369
Balance at 1 January 2012		134,792	(388)	10,896	10,508	(8,931)	136,369
Loss for the year		-	-	-	-	(29,234)	(29,234)
Exchange differences on translation of foreign operations	17	-	-	(752)	(752)	-	(752)
Total comprehensive loss for the year		-	-	(752)	(752)	(29,234)	(29,896)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transactions costs and tax	16	5,154	-	-	-	-	5,154
Share-based payments	17	-	403	-	403	-	403
		5,154	403	-	403	-	5,557
Balance at 31 December 2012		139,946	15	10,144	10,159	(38,165)	111,940

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 2012

		Consolidated	
	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(2,552)	(2,783)
		(2,552)	(2,783)
Interest income		787	1,936
Net cash outflow from operating activities	24	(1,765)	(847)
Cash flows from investing activities			
Payments for property, plant and equipment	11	(142)	(1,510)
Payments for exploration activities		(15,428)	(26,082)
Net cash outflow from investing activities		(15,570)	(27,592)
Cash flows from financing activities			
Proceeds from issues of shares (net of transaction costs)	16	5,154	-
Net cash inflow from financing activities		5,154	-
Net decrease in cash and cash equivalents		(12,181)	(28,439)
Cash and cash equivalents at the beginning of the financial year	8	20,219	48,265
Effects of exchange rate changes on cash and cash equivalents		(2)	393
Cash and cash equivalents at end of year	8	8,036	20,219

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

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Notes to the consolidated financial statements

For the year ended 31 December 2012

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 subsidiary.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and *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). Kula Gold Limited is a for-profit entity for the purposes of preparing the financial statements.

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.

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of *AASB 1054 Australian additional Disclosures* and *AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* enabled the removal of certain disclosures in relation to commitments.

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 2012 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 statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

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 executive directors which includes the chief executive officer and the chief financial officer.

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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- * income and expenses for each 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, the associate exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

1 Summary of significant accounting policies (continued)

f) Income tax (continued)

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 liability 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 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

h) Business combinations

The acquisition method of accounting is used to account for all business combinations 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 asset or

h) Business combinations (continued)

liability resulting from 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 over the fair value 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

1 Summary of significant accounting policies (continued)

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 three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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. Costs of purchased inventory are determined after deducting rebates and discounts. 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 as 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. 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 receivables and other assets (note 9) in the consolidated statement of financial position.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date that is the date on which the group commits to purchase or sell the asset. 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.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently 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. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

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 reducing balance 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(ii)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

n) Exploration and evaluation expenditure

Exploration and evaluation costs related to an area of interest are expensed 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:

- i) the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- ii) 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 is continuing.

n) Exploration and evaluation expenditure (continued)

Exploration and evaluation expenditure is written-off when it fails to meet at least one of the conditions outlined above or an area of interest is abandoned.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the impairment loss will be measured in accordance with the group's impairment policy (note 1 (ii)).

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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

1 Summary of significant accounting policies (continued)

q) Provision for decommissioning costs

A 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 and 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 other payables and accruals together with other employee benefit obligations.

ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employee renders the related service 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.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

iii) Share-based payments

Share-based compensation benefits are provided to employees via the Kula Gold Limited Option Plan (Plan). Information relating to the Plan is set out in note 26.

The fair value of options granted under the 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 and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance 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 or options are shown in equity as a deduction, net of tax, from the proceeds.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

1 Summary of significant accounting policies (continued)

v) Earnings per share

i) Basic earnings per share

Basic earnings per share are 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.

ii) Diluted earnings per share

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 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Kula Gold Limited.

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.

iii) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is charged to the subsidiary's loan account. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to mineral exploration and evaluation expenditure in the statement of financial position (until the Company moves into the mining phase).

x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 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*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective for annual reporting periods beginning on or after 1 January 2015) AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The standard is not expected to have any impact on the group's accounting for financial assets when adopted as all financial assets are currently measured at amortised cost and will continue to be under AASB 9.

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 as 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.

ii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Kula Gold Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

1 Summary of significant accounting policies (continued)

x) New accounting standards and interpretations (continued)

iii) **AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition guidance and other Amendments** (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group currently has one wholly-owned subsidiary and therefore this standard is not expected to have any impact on the group.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the group and parent entity will not affect any of the amounts recognised in the financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

1 Summary of significant accounting policies (continued)

x) New accounting standards and interpretations (continued)

iv) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard may impact the type of information disclosed in the notes to the financial statements. The group will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 31 December 2013.

v) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Since Kula Gold Limited does not have any defined benefit obligations, the amendments will not have any impact on the group's financial statements. The Group will adopt the new standard when it becomes operative, being from 1 January 2013.

vi) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. *The Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

vii) AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013)

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The group will apply the amendments from 1 January 2013. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

viii) Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (effective 1 January 2014)

In October 2012, the IASB made amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* which exempt investment entities from consolidating controlled investees. Kula Gold Limited does not have any controlled investees and will therefore not be affected by these amendments.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 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. Liquidity risk is managed by budgets to structure maturity dates of investments to meet anticipated outgoings of expenditure.

Risk management is carried out under policies approved by the board of directors.

a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Papua New Guinea kina (PGK) and the United States dollar (USD).

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 (AUD). 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:

	Consolidated			
	2012 PGK A\$'000	2012 USD A\$'000	2011 PGK A\$'000	2011 USD A\$'000
Cash	243	128	525	283
Payables	(35)	(13)	(640)	-
Net exposure	208	115	(115)	283

Foreign currency sensitivity analysis

The Group is exposed to movements in United States dollars and Papua New Guinea Kina. The following table details the Group's sensitivity to a 10% increase and a 10% decrease in the Australian dollar against the relevant currencies:

	Consolidated	
	2012 \$'000	2011 \$'000
Impact on post-tax loss		
AUD increase against foreign currencies	(29)	(15)
AUD decrease against foreign currencies	36	18

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 2012, the Group's exposure to interest rates is not deemed to be material to its primary activities and the interest is generally fixed.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

2 Financial Risk Management (continued)

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.

Cash deposits are held with two major Australian Banks, Westpac Banking Corporation (Westpac) and Commonwealth Bank of Australia (CBA). These banks currently hold the following long-term credit ratings:

Rating Agency	Westpac	CBA
Fitch Ratings	AA-	AA-
Moody's Investors Service	Aa2	Aa2
Standard & Poor's	AA-	AA-

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through timing of rollover dates on its term deposits currently held by the Group. This ensures the best balance between highest interest rates available and funding requirements.

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 \$'000	6-12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount liabilities \$'000
At 31 December 2012							
Trade and other payables	1,329	-	-	-	-	1,329	1,329
Total non-derivatives	1,329	-	-	-	-	1,329	1,329
At 31 December 2011							
Trade and other payables	3,715	-	-	-	-	3,715	3,715
Total non-derivatives	3,715	-	-	-	-	3,715	3,715

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

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 year are discussed below.

i) 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.

During the year the group completed a feasibility study on the Woodlark Island Gold Project which concluded that a viable gold project exists. The net present value (NPV) of the estimated project cash flows in the feasibility study provides a base case outcome of US\$194,000,000. The key assumptions used in the base case forecast were as follows:

- * Recovery of 674,000 ounces over the first six years through a 1.8 Mtpa plant.
- * Estimated operating costs of US\$730/ounce for years 1 to 6.
- * Establishment capital cost of US\$160 million.
- * Gold price of US\$1,600 per ounce.
- * Post-tax discount rate of 7%.

Sensitivity

If the post-tax discount rate in the NPV calculation was 14% (instead of 7% as used in the base case model), the NPV would equal the carrying amount of deferred exploration and evaluation expenditure of \$102,044,000.

If the gold increased / decreased by \$200/ounce from that used in the base case model (from \$1,600/ounce down to \$1,400 or up to US\$1,800/ounce) the post-tax NPV would be US\$110,000,000 and \$274,000,000, respectively.

A reasonable possible change in any of the other assumptions would not cause the carrying amount of the mineral exploration and evaluation to exceed the NPV of the project cash flows.

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

ii) Functional currency

The Group's transactions and balances are denominated in three main currencies (Australian dollars, Papua New Guinea kina and United States dollars). Operating costs are denominated in Australian dollars, Papua New Guinea Kina and United States 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 Papua New Guinea kina as the functional currency for the subsidiary. The presentation currency is in Australian dollars.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

4 Segment information

During the year the Group operated predominantly in one business segment, being gold mining exploration. Geographically, the Group operates exclusively in two geographical segments being Papua New Guinea and 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 the location of the business activity within geographic segments:

	Australia \$'000	Papua New Guinea \$'000	Eliminations \$'000	Total \$'000
2012				
Revenue				
Interest income	414	90	-	504
Management fees	2,126	-	(2,126)	-
Total segment revenue	2,540	90	(2,126)	504
Results				
Operating loss before income tax	(27,098)	(26,945)	24,809	(29,234)
Income tax expense	-	-	-	-
Net loss after tax included within segment results	(27,098)	(26,945)	24,809	(29,234)
Depreciation and amortisation of segment assets	22	-	-	22
Write-off of mineral exploration and evaluation expenditure	-	26,587	-	26,587
Write-off of investment in Woodlark Mining Limited	26,587	-	(26,587)	-
Segment assets	109,378	116,104	(111,631)	113,851
Segment liabilities	468	3,307	(1,864)	1,911
2011				
Revenue				
Interest income	2,015	17	-	2,032
Management Fees	2,120	-	(2,120)	-
Total segment revenue	4,135	17	(2,120)	2,032
Results				
Operating profit/(loss) before income tax	806	1,090	(3,250)	(1,354)
Income tax expense	-	-	-	-
Net profit/(loss) after tax included within segment results	806	1,090	(3,250)	(1,354)
Depreciation and amortisation of segment assets	34	-	-	34
Segment assets	134,280	127,957	(121,795)	140,442
Segment liabilities	3,829	3,665	(3,421)	4,073

The total of non-current assets located in Australia is \$130,095,000 (2011: \$114,257,000) and Papua New Guinea \$104,773,000 (2011: \$122,716,000). Segment assets are allocated to countries where the assets are located.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

5 Revenue

	Consolidated	
	2012 \$'000	2011 \$'000
Revenue from continuing operations		
Interest income	504	2,032
	504	2,032

6 Expenses

	Consolidated	
	2012 \$'000	2011 \$'000
Loss before income tax includes the following specific expenses		
Depreciation		
Buildings	33	29
Plant and equipment	494	361
Furniture and fittings	34	43
Motor vehicle and boats	207	279
Less: Capitalised to mineral exploration and evaluation expenditure	(746)	(678)
Total depreciation	22	34
Amortisation		
Exploration licence	8	-
Less: Capitalised to mineral exploration and evaluation expenditure	(8)	-
Total amortisation	-	-
Total depreciation and amortisation	22	34
Rental expense relating to operating leases		
Minimum lease payments	193	185
Options issued under Kula Gold Limited Option Plan	403	471
Less: Capitalised to mineral exploration and evaluation expenditure	(38)	(60)
Employee option expense	365	411
Write-off of mineral exploration and evaluation expenditure (note 12)	26,587	-

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

7 Income tax (benefit)/expense

	Consolidated	
	2012 \$'000	2011 \$'000
a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
	-	-
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	-	-
	-	-
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(29,234)	(1,354)
Tax at the Australian tax rate of 30% (2011: 30%)	(8,770)	(406)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	110	123
Impairment of capitalised exploration & evaluation expenditure	7,976	-
Management fees (elimination)	638	636
Unrealised foreign exchange variances	(7)	1
Sundry items	87	73
Prior year losses utilised	-	(403)
Allowable capital expenditure (Papua New Guinea)	(66)	(24)
Income tax benefit (loss) not recognised	32	-
Total income tax expense	-	-
c) Tax losses		
Australian unused tax losses for which no deferred tax asset has been recognised	152	45
Potential tax benefit at the Australian tax rate of 30% (2011: 30%)	46	14
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) Unrecognised temporary differences		
Temporary differences for which deferred tax asset has not been recognised due to there being no virtual certainty of the Group being profitable:		
Employee provision	119	131
Capital raising costs	91	-
Accruals	139	40
Sundry items	(1)	(8)
	348	163

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

7 Income tax (benefit)/expense (continued)

	Consolidated	
	2012 \$'000	2011 \$'000
e) Tax on exploration expenditure in Woodlark Mining Limited (Papua New Guinea)		
Exploration expenditure for which no deferred tax asset has been recognised	102,044	115,077
Potential tax benefit at the Papua New Guinea tax rate of 30% (2011: 30%)	30,613	34,523

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.

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 withdrawn from the area covered by the EL.

During the period of the 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 cannot be regarded as recoverable at this stage in the life of the project.

8 Current assets – Cash and cash equivalents

	Consolidated	
	2012 \$'000	2011 \$'000
Cash at bank and in hand	601	1,813
Short-term deposits*	7,323	18,299
	7,924	20,112

Reconciliation to consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

Cash at bank and in hand	601	1,813
Short-term deposits*	7,323	18,299
Non-current assets – deposits (Note 13)	112	107
	8,036	20,219

* Short-term deposits are made for varying periods of between one day and three 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

9 Current assets – Receivables and other assets

	Consolidated	
	2012 \$'000	2011 \$'000
Goods & services tax receivable	61	38
Prepayment and other receivables	268	825
	329	863

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	
	2012 \$'000	2011 \$'000
Inventory: Consumables	662	867
	662	867

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

11 Non-current assets – Property, plant and equipment

Consolidated					
	Buildings \$'000	Plant and equipment \$'000	Furniture and fittings \$'000	Motor vehicles and boats \$'000	Total \$'000
At 1 January 2011					
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
Year ended 31 December 2011					
Opening net book amount	532	1,299	112	215	2,158
Additions	90	921	40	459	1,510
Depreciation charge	(29)	(361)	(43)	(279)	(712)
Exchange differences	127	251	7	75	460
Closing net book amount	720	2,110	116	470	3,416
At 31 December 2011					
Cost	820	3,171	209	1,459	5,659
Accumulated depreciation	(100)	(1,061)	(93)	(989)	(2,243)
Net book amount	720	2,110	116	470	3,416
Year ended 31 December 2012					
Opening net book amount	720	2,110	116	470	3,416
Additions	29	82	15	16	142
Depreciation charge	(33)	(494)	(34)	(207)	(768)
Exchange differences	(2)	(6)	-	(2)	(10)
Closing net book amount	714	1,692	97	277	2,780
At 31 December 2012					
Cost	847	3,244	223	1,470	5,784
Accumulated depreciation	(133)	(1,552)	(126)	(1,193)	(3,004)
Net book amount	714	1,692	97	277	2,780

Total depreciation charge for the year is \$768,000 (2011: \$712,000) of which \$747,000 (2011: \$678,000) has been capitalised under exploration and evaluation expenditure (note 12) in accordance with the Group's accounting policy.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

12 Non-current assets – Mineral exploration and evaluation expenditure

	Consolidated		
	Exploration licences \$'000	Deferred exploration expenditure \$'000	Total \$'000
At 1 January 2011			
Cost	9,526	68,386	77,912
Accumulated amortisation	(9,519)	–	(9,519)
Net book amount	7	68,386	68,393
Year ended 31 December 2011			
Opening net book amount	7	68,386	68,393
Exchange differences	1	18,057	18,058
Additions	–	28,626	28,626
Amortisation charge	–	–	–
Closing net book amount	8	115,069	115,077
At 31 December 2011			
Cost	9,527	115,069	124,596
Accumulated amortisation	(9,519)	–	(9,519)
Net book amount	8	115,069	115,077
Year ended 31 December 2012			
Opening net book amount	8	115,069	115,077
Exchange differences	–	(364)	(364)
Additions	–	13,926	13,926
Amortisation charge	(8)	–	(8)
Write-off of exploration and evaluation expenditure*	–	(26,587)	(26,587)
Closing net book amount	–	102,044	102,044
At 31 December 2012			
Cost	9,527	128,631	138,158
Accumulated amortisation and write-off	(9,527)	(26,587)	(36,114)
Net book amount	–	102,044	102,044

*The Feasibility Study (see directors report – review of operations) is now completed and the areas where mining is planned have been determined. At this time the previously capitalised mineral exploration and evaluation expenditure incurred in areas of interest where mining is not presently anticipated in the mine plan have been written off through the statement of comprehensive income. This is in line with the Group's accounting policy for this type of expenditure.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

13 Non-current assets – Other non-current assets

	Consolidated	
	2012 \$'000	2011 \$'000
Deposits	112	107
	112	107

14 Current liabilities – Trade and other payables

	Consolidated	
	2012 \$'000	2011 \$'000
Trade payables	180	3,160
Other payables and accruals	1,149	555
	1,329	3,715

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:

Annual leave obligation expected to be settled after 12 months	119	119
	119	119

b) Risk exposure

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

15 Non-current liabilities – Provisions

	Consolidated	
	2012 \$'000	2011 \$'000
Provision for long service leave	137	162
Provision for demobilisation	250	–
Provision for rehabilitation	195	196
	582	358

a) Movements in provisions

Movements in each class of provision during the financial year, other than provision for long service leave, are set out below:

	Consolidated		
	Provision for demobilisation \$'000	Provision for rehabilitation \$'000	Total \$'000
Carrying amount at the start of the year – 1 January 2012	–	196	196
– additional provisions recognised	250	–	250
– exchange differences	–	(1)	(1)
Carrying amount at the end of the year – 31 December 2012	250	195	445

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

16 Contributed equity

	Parent entity		Parent entity	
	2012 Shares	2011 Shares	2012 \$'000	2011 \$'000

a) Share capital

Ordinary shares	126,253,023	112,615,523	139,946	134,792
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b) Movements in share capital

Date	Details	Number of shares	Issue price \$	Total \$'000
1 January 2011	Opening balance	112,615,523	-	134,792
31 December 2011	Balance	112,615,523		134,792
9 November 2012	Share placement (tranche 1)	6,987,500	0.40	2,795
30 November 2012	Share placement (tranche 2)	1,094,782	0.40	438
3 December 2012	Share placement (tranche 2)	4,417,718	0.40	1,767
4 December 2012	Share purchase plan	1,137,500	0.40	455
31 December 2012	Transaction costs on share placement	-	-	(301)
31 December 2012	Balance	126,253,023		139,946

c) 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 year and options outstanding at the end of the financial year, is set out in note 26.

e) Share buy-back

There is no current on-market buy-back

f) Capital risk management

The Group's objectives when managing capital are to safeguard its 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 provide additional cash resources.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

17 Reserves and accumulated losses

	Consolidated	
	2012 \$'000	2011 \$'000
a) Reserves		
Share-based payments reserve	15	(388)
Foreign currency translation reserve	10,144	10,896
	10,159	10,508
Movements:		
Share-based payments reserve		
Balance 1 January	(388)	(859)
Option expense	403	471
Balance 31 December	15	(388)
Foreign currency translation reserve		
Balance 1 January	10,896	(9,355)
Currency translation differences arising during the year	(752)	20,251
Balance 31 December	10,144	10,896
b) Accumulated losses		
Balance 1 January	(8,931)	(7,577)
Net loss for the year	(29,234)	(1,354)
Balance 31 December	(38,165)	(8,931)

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

18 Key management personnel disclosures

a) Key management personnel

The names of persons who were key management personnel of Kula Gold Limited at any time during the financial year are as follows:

i) Chairman non-executive

D Frecker

ii) Executive directors

L Spencer, Managing director and chief executive officer

J Watkins, Executive director and chief financial officer

iii) Non-executive directors

L Rozman

M Stowell

	Consolidated	
	2012 \$	2011 \$
b) Key management personnel compensation		
Short-term employee benefits	885,813	1,245,524
Post-employment benefits	39,320	52,350
Long-term benefits	11,927	49,886
Share-based payments	360,115	431,346
	1,297,175	1,779,106

Detailed remuneration disclosures are provided in the remuneration report on pages 21 to 25.

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 key management personnel of Kula Gold Limited group during the period ended 31 December 2012 and 2011 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 26.

ii) Option holdings

No options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2012.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

18 Key management personnel disclosures (continued)

c) Equity instrument disclosures relating to key management personnel (continued)

The following options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2011:

Name	Granted Number	Grant Date	Vested Number	Forfeited Number	Expiry Date	Exercise Price	Fair Value at Grant Date
L Spencer*	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000
L Spencer**	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000
J Watkins*	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000
J Watkins**	750,000	16 Dec 2011	750,000	–	16 Dec 2016	\$2.00	\$45,000
T Mulroney**	300,000	13 Jan 2011	–	(300,000)	13 Jan 2016	\$1.80	\$96,000

* Options vested on 16 December 2011.

** Options vested on 16 November 2012.

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
L Spencer*	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
L Spencer**	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
J Watkins*	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
J Watkins**	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
T Mulroney**	300,000	13 Jan 2016	\$0.32	\$1.80	\$1.70	30%	5.28%

* Options vested on 16 December 2011.

** Options vested on 16 November 2012.

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

The assessed fair value at grant date of options granted to key management personnel 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 determined using a Black-Scholes option pricing model that takes into account the exercise price, the expected life 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 expected life 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. The expected life of the options has been determined as two years based upon the expected date of the Papua New Guinea Mineral Resources Authority issuing a mining licence for the Woodlark Island gold project.

iii) Shares provided on exercise of remuneration options

No options were exercised during the period ended 31 December 2012 (2011: Nil).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

18 Key management personnel disclosures (continued)

c) Equity instrument disclosures relating to key management personnel (continued)

iv) 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.

2012 – Options

Name	Balance at start of the year	Granted as compensation	Exercised	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	2,626,155	–	–	2,626,155	2,626,155	–
J Watkins	2,063,078	–	–	2,063,078	2,063,078	–
L Rozman	100,000	–	–	100,000	–	100,000
M Stowell	100,000	–	–	100,000	–	100,000

All vested options are exercisable.

2011 – 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	1,126,155	1,500,000	–	–	2,626,155	750,000	1,876,155
J Watkins	563,078	1,500,000	–	–	2,063,078	750,000	1,313,078
L Rozman	100,000	–	–	–	100,000	–	100,000
M Stowell	100,000	–	–	–	100,000	–	100,000
Former director							
P Bradford	100,000	–	–	(100,000)	–	–	–
Other key management personnel							
T Mulroney (resigned 31 August 2011)	–	300,000	–	(300,000)	–	–	–

* Other changes represent options cancelled during the period.

All vested options are exercisable.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

18 Key management personnel disclosures (continued)

c) Equity instrument disclosures relating to key management personnel (continued)

v) Share holdings

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

2012 – 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	–	–	47,500	57,500
L Spencer	542,370	–	–	37,500	579,870
J Watkins	290,000	–	–	170,000	460,000
L Rozman	359,023	–	–	51,264	410,287
M Stowell	25,000	–	–	337,500	362,500

* All directors participated in Share Placement Plan and have purchased 37,500 shares each. All other changes represent shares purchased on market.

2011 – 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	542,370	–	–	–	542,370
J Watkins	275,600	–	–	14,400	290,000
L Rozman	359,023	–	–	–	359,023
M Stowell	25,000	–	–	–	25,000
Former directors					
P Bradford (resigned 30 June 2011)	432,900	–	–	–	432,900

* Other changes for J Watkins represent shares purchased on market.

d) Loans and other transactions with key management personnel

There were no loans made to key management personnel during the reporting period (2011: \$nil).

Other transactions with key management personnel are disclosed in note 22.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

19 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	
	2012 \$'000	2011 \$'000
a) PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	100,000	120,000
Total remuneration for audit and other assurance services	100,000	120,000
Taxation services		
Tax compliance services	8,800	12,450
Other tax advice	-	5,000
Total remuneration for taxation services	8,800	17,450
Total remuneration of PricewaterhouseCoopers Australia	108,800	137,450
b) Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	45,790	49,834
Total remuneration of audit and other assurance services	45,790	49,834
Taxation services		
Tax compliance services	10,154	5,512
Total remuneration for taxation services	10,154	5,512
Total remuneration of related practices of PricewaterhouseCoopers Australia	55,944	55,346

20 Contingencies

The Group had no contingent assets or liabilities at 31 December 2012 (2011: \$nil).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

21 Commitments

	Consolidated	
	2012 \$'000	2011 \$'000
a) Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	159	193
Later than one year but not later than five years	491	654
Later than five years	-	-
	650	847
The Group leases office space and a warehouse under non-cancellable operating leases. On renewal, the terms of the lease are renegotiated. The Group does not have an option to purchase the leased asset at the expiry of the lease period.		
b) Service commitments		
Commitments for minimum service payments in relation to drilling services, air charter, barge charter and aerial survey are payable as follows:		
	-	47
	-	47

22 Related party transactions

a) Subsidiaries

Details of the interest in the subsidiary are set out in note 23.

b) Key management personnel compensation

Details of key management personnel remuneration are disclosed in note 18 and the remuneration report section of the directors' report.

c) Transactions with other related parties

The following transactions occurred with related parties during the year ending 31 December 2012:

- * Pacific Road Capital Management Pty Ltd was paid for services of L Rozman as a director of the parent entity \$50,000.
- * Fees paid to Ashurst Australia \$97,004 and Ashurst Papua New Guinea \$11,705 for general legal advice. D Frecker, a director of the company is a non-equity partner of Ashurst.

The following transactions occurred with related parties during the year ending 31 December 2011:

- * Consulting fees paid to Goldkidz Pty Ltd for services of P Bradford as a director of the parent entity \$25,000.
- * Pacific Road Capital Management Pty Ltd was paid for services of L Rozman as a director of the parent entity \$50,000.
- * Fees paid to Pacific Road Capital Management Pty Ltd for facilitation of the 2010 share capital raisings \$121,018.
- * Fees paid to Ashurst Australia (formerly Blake Dawson) for general legal advice \$12,425. D Frecker, a director of the company is a non-equity partner of Ashurst.
- * Consulting fees paid to PACT Mining Pty Ltd for the services of T Mulroney \$392,399.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

23 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	
			2012 %	2011 %
Woodlark Mining Limited	Papua New Guinea	Ordinary	100	100

24 Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated	
	2012 \$'000	2011 \$'000
Loss for the year	(29,234)	(1,354)
Depreciation and amortisation	22	34
Non-cash employee benefits expense – share-based payments	365	411
Net exchange differences	(76)	(14)
Write-off of exploration & evaluation expenditure	26,587	-
Change in operating assets and liabilities:		
(Increase) decrease in receivables	301	174
(Decrease) increase in trade and other payables	270	(98)
Net cash inflow (outflow) from operating activities	(1,765)	(847)

25 Earnings per share

	Consolidated	
	2012 Cents	2011 Cents
a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the company	(25.45)	(1.20)
b) Diluted loss per share		
From continuing operations attributable to the ordinary equity holders of the company	(25.45)	(1.20)
c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	114,888,440	112,615,523
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	114,888,440	112,615,523

d) Information concerning the classification of securities

Options

Options granted to employees under the Kula Gold Limited Option 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 26.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

26 Share-based payments

a) i) Employee option plan

The Kula Gold Limited Option Plan (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:

2012

There were no options granted under the Plan during the year ended 31 December 2012.

2011

Name	Grant date	Expiry date	Issue price	Assessed fair value at date of grant	Number of options granted
L Spencer	16 Dec 2011	16 Dec 2016	\$0.06	\$45,000	750,000
L Spencer	16 Dec 2011	16 Dec 2016	\$0.06	\$45,000	750,000
J Watkins	16 Dec 2011	16 Dec 2016	\$0.06	\$45,000	750,000
J Watkins	16 Dec 2011	16 Dec 2016	\$0.06	\$45,000	750,000
T Mulroney	13 Jan 2011	13 Jan 2016	\$0.32	\$96,000	300,000
Other employees	16 Mar 2011	16 Mar 2016	\$0.29	\$58,000	200,000
Other employees	14 Apr 2011	16 Mar 2016	\$0.43	\$51,600	120,000
Total				\$385,600	3,620,000

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. On 30 June 2011 a non-executive director (P Bradford) resigned from the board and 100,000 options were forfeited.

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:

- i) the Company's Woodlark Island gold project (Project) reaches commercial production as determined by the pour of the first gold from the Project or,
- ii) there is a change of control of the Company.

No options have been granted to non-executive directors during the years ended 31 December 2012 or 2011.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

26 Share-based payments (continued)

b) Options granted under the Plan

2012

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number
01 Dec 2010	01 Dec 2015	\$1.80	1,989,233	-	-	-	1,989,233	1,689,233
16 Mar 2011	16 Mar 2016	\$1.80	100,000	-	-	-	100,000	100,000
14 Apr 2011	16 Mar 2016	\$1.80	120,000	-	-	-	120,000	120,000
16 Dec 2011	16 Dec 2016	\$2.00	3,000,000	-	-	-	3,000,000	3,000,000
Total			5,209,233	-	-	-	5,209,233	4,909,233
Weighted average exercise price			\$1.80				\$1.92	

2011

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number
01 Dec 2010	01 Dec 2015	\$1.80	2,089,233	-	-	(100,000)	1,989,233	-
13 Jan 2011	13 Jan 2016	\$1.80	-	300,000	-	(300,000)	-	-
16 Mar 2011	16 Mar 2016	\$1.80	-	200,000	-	(100,000)	100,000	-
14 Apr 2011	16 Mar 2016	\$1.80	-	120,000	-	-	120,000	-
16 Dec 2011	16 Dec 2016	\$2.00	-	3,000,000	-	-	3,000,000	1,500,000
Total			2,089,233	3,620,000	-	(500,000)	5,209,233	1,500,000
Weighted average exercise price			\$1.80	\$1.97			\$1.92	

No options expired during the periods covered by the tables above.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.5 years (2011: 4.5 years).

Fair value of options granted

The assessed fair value at grant date of options granted to key management personnel 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 determined using a Black-Scholes option pricing model that takes into account the exercise price, the expected life 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 expected life 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. The expected life of the options has been determined as two years based upon the expected date of the Papua New Guinea Mineral Resources Authority issuing a mining licence for the Woodlark Island gold project.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

26 Share-based payments (continued)

b) Options granted under the Plan (continued)

The following factors were used in determining the fair value of options granted during the year ended 31 December 2011:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
L Spencer*	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
L Spencer**	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
J Watkins*	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
J Watkins**	750,000	16 Dec 2016	\$0.06	\$2.00	\$1.09	37%	3.24%
T Mulroney**	300,000	13 Jan 2016	\$0.32	\$1.80	\$1.70	30%	5.28%
Other employees**	200,000	16 Mar 2016	\$0.29	\$1.80	\$1.65	30%	5.10%
Other employees**	120,000	16 Mar 2016	\$0.43	\$1.80	\$1.86	30%	5.36%

* Options vested on 16 December 2011.

** Options vested on 16 November 2012.

Options were granted for no consideration and vest based on terms detailed in the Kula Gold Limited Option Plan. Options vested on 16 November 2012 except for the options granted to Lee Spencer and John Watkins which vested on 16 December 2011.

c) Expenses arising from share-based payment transactions

	Consolidated	
	2012 \$'000	2011 \$'000
Options issued under Kula Gold Limited Option Plan	403	471
	403	471

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

27 Parent entity financial information

a) Summary financial information

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

	Parent entity	
	2012 \$'000	2011 \$'000
Balance sheet		
Current assets	5,870	20,023
Total assets	109,378	134,280
Current liabilities	392	3,771
Total liabilities	468	3,829
Net Assets	108,910	130,451
Shareholders' equity		
Contributed equity	139,946	134,792
Share-based payment reserve	15	(388)
Accumulated losses	(31,051)	(3,953)
Total shareholders' equity	108,910	130,451
(Loss)/Profit for the year	(27,098)	806
Total comprehensive(loss)/ profit	(27,098)	806

b) Guarantees entered into by the parent entity

The parent entity has provided an unconditional bank guarantee to the lessor of Suite 2, Level 15, 1 York Street, Sydney in respect of a lease agreement which amounts to \$112,486 (2011: \$107,286).

c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2012 (31 December 2011: \$nil).

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

The parent entity had no contractual commitments for the acquisition of property, plant and equipment as at 31 December 2012 (31 December 2011: \$nil).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

28 Events occurring after the reporting period

- a) On 17 January 2013, the Group lodged the Environmental Impact Statement with the Papua New Guinea Department of Environment and Conservation. This completes all the initial lodgement requirements in the process of applying for a mining lease.
- b) On 25 January 2013, Kula Gold Limited's board approved the issue of 1,000,000 unlisted options in favour of Stuart Pether (Chief Operating Officer) pursuant to the terms of the Kula Gold Option Plan. The options issued have an exercise price of \$0.48, vest at the date of issue (25 January 2013) and have a term of three years from grant date (25 January 2016). The fair value at grant date calculated by using a Black-Scholes option pricing model is \$50,000 (or \$0.05 per option).

29 Significant matters relating to the ongoing viability of operations

The Company has completed both the Feasibility Study (FS), and the Environmental Impact Statement (EIS), and has formally submitted a Mining Lease Application (MLA) to commence construction for mining of the gold resources proven to exist on Woodlark Island, Milne Bay Province, Papua New Guinea. The Warden's Hearing for the MLA was held on 17 January 2013.

The directors are actively reviewing the various funding options to take the project to a position where it will be self-sustaining (i.e. producing and selling gold).

The continuing viability of the Company and its ability to continue as a going concern and meet its commitments as and when they fall due is dependent upon the Company being successful in either one or a combination of the following alternatives:

- * Debt finance.
- * Partial sale of the project.
- * Joint venture of the project.
- * Equity raising.
- * Pre-sales of future gold production.
- * The Government of Papua New Guinea exercising its option to purchase up to 30% of the project.

As a result of these matters, there is a material uncertainty that may cast significant doubt on whether the Company will continue as a going concern and therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

Conclusion:

The directors believe the Company has sufficient funds to settle its debts as and when they become due and payable. The Company will need to conclude one or more of the above arrangements to further its development plans.

On that basis the directors have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the annual financial report at 31 December 2012. Accordingly, no adjustments, other than as required due to the Company's standard accounting policies, have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Director's declaration

For the year ended 31 December 2012

In the directors' opinion:

- a) the financial statements and notes set out on pages 36 to 75 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 2012 and its performance for the financial year ended on that date, and
- 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

Sydney
27 March 2013



Lee Spencer
Director



Independent auditor's report to the members of Kula Gold Limited

Report on the financial report

We have audited the accompanying financial report of Kula Gold Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 disclosing entity 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*.

We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Kula Gold Limited on 27 March 2013, would be in the same terms if provided to the directors as at the date of this auditor's report.

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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 2012 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.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 29 "Significant matters relating to the ongoing viability of operations" in the financial report which indicates that the continuing viability of the consolidated entity and its ability to continue as a going concern and meet its debts and commitments as and when they fall due is dependent upon the consolidated entity being successful in raising additional funds. These conditions, along with other matters as set forth in Note 29 "Significant matters relating to the ongoing viability of operations", indicate the existence of a material uncertainty related to events or conditions which may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 21 to 25 of the directors' report for the year ended 31 December 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
28 March 2013

Shareholder information

For the year ended 31 December 2012

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

The shareholder information set out below was applicable as at 19 March 2013.

Ordinary share capital

As at 19 March 2013, the issued capital comprised of 126,253,023 ordinary fully paid quoted shares.

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Ordinary shares		Options	
	Number of Holders	Number of shares	Number of Holders	Number of options
1 to 1,000	60	36,328	–	–
1,001 to 5,000	132	384,061	–	–
5,001 to 10,000	94	764,443	–	–
10,001 to 100,000	181	6,092,364	6	520,000
100,000 and over	50	118,975,827	3	5,689,233
	517	126,253,023	9	6,209,233

There were no holders of less than a marketable parcel of ordinary shares.

Unquoted options

The Company had the following unquoted options on issue:

a) Employee option plan

There are 5,909,233 unquoted options on issue, held by 6 employees or contractors.

b) Other unlisted options

Option holder	Number of Options	Percentage
DC Frecker & JM Frecker ATF The GEO Superannuation Fund	100,000	33.33
Pacific Road Capital Management Holdings Pty Ltd	100,000	33.33
Merchant Holdings Pty Ltd ATF The Zulu Family Trust	100,000	33.33
	300,000	100.00

Shareholder information (continued)

For the year ended 31 December 2012

Twenty largest holders of quoted equity securities

No.	Shareholder	Ordinary shares	
		Number held	Percentage of quoted shares
1	Pacific Road Holdings NV	43,574,379	34.51%
2	RMB Resources Limited	16,663,253	13.20%
3	National Nominees Limited	16,331,317	12.94%
4	JP Morgan Nominees Australia Limited	6,256,674	4.96%
5	HSBC Custody Nominees (Australia) Limited	5,741,956	4.55%
6	Pacific Road Capital B Pty Ltd	5,398,327	4.28%
6	Pacific Road Capital A Pty Ltd	5,398,327	4.28%
7	Zero Nominees Pty Ltd	2,900,000	2.30%
8	UBS Nominees Pty Ltd	1,207,275	0.96%
9	Fancourt Links Pty Ltd	1,055,366	0.84%
10	Warbont Nominees Pty Ltd	991,374	0.79%
11	AMP Life Limited	971,967	0.77%
12	BNP Paribas Nominees Pty Ltd	918,715	0.73%
13	Escor Investments Pty Ltd	800,000	0.63%
14	Mr Stanislaw Antoni Zychewicz	705,000	0.56%
15	Mr Godfrey Norman Mantle & Mrs Jennifer Deborah Mantle	695,593	0.55%
16	Houghton Waterville Pty Ltd	690,000	0.55%
17	Lee Keith Spencer & Ani Susilo Spencer	579,870	0.46%
18	Merchant Holdings Pty Ltd	533,932	0.42%
19	Buttonwood Nominees Pty Ltd	500,000	0.40%
20	JDW Investments Australia Pty Ltd	460,000	0.36%
		112,373,325	89.01%

Shareholder information (continued)

For the year ended 31 December 2012

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	54,371,033	43.07%
RMB Resource Limited	16,663,253	13.20%
National Nominees Limited	16,331,317	12.94%
JP Morgan Nominees Australia Limited	6,256,674	4.96%
HSBC Custody Nominees (Australia) Limited	5,741,956	4.55%
	99,364,233	78.70%

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 19 March 2013 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 chief executive officer 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 Mineral Resource estimates for Kulumadai, Busai and Boniavat is based on information compiled by Mr John Doepel, Principal Geologist for Continental Resource Management Pty Limited (CRM) (Resource Report, Woodlark Island). CRM has acted as independent consulting geologist to Woodlark Mining Limited 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 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.

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