KULA GOLD LIMITED

ABN 83 126 741 259

2013 ANNUAL REPORT

Corporate Directory

Directors:	David Frecker	Chairman
	Louis Rozman	Non-executive director
	Lee Spencer	Managing director and chief executive officer (resigned 1 July 2013), non-executive director (from 2 July 2013)
	Mark Stowell	Non-executive director
	John Watkins	Executive director and chief financial officer (resigned 1 July 2013), non-executive director from 2 July 2013, (resigned 19 July 2013)
Chief executive officer	Stuart Pether	(appointed 2 July 2013)
Company secretary:	Leanne Ralph	
Registered office:	Suite 2, Level 15, 1 York Street Sydney, NSW 2000 T: + 61 2 9262 5651 F: + 61 2 9262 5680 Email: info@kulagold.com.au Website: www.kulagold.com.au	
Auditor:	Ernst & Young Ernst & Young Centre 680 George Street Sydney, NSW 2000 Telephone: +61 2 9248 5555	
Share registry:	Link Market Services Limited Level 12, 680 George Street Sydney, NSW 2000 T: 1300 554 474 or +61 2 8280 7111	
Stock exchange listing:	Australian Securities Exchange ASX code: KGD	

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Chairman's letter

The focus of your Company's activities during 2013 continued to be the Woodlark Island Gold Project and the permitting process for it in Papua New Guinea. A major milestone was receipt of environmental approval in principle in November 2013, followed by the grant of the Environment Permit for the Project in February 2014. This process was successfully managed by Stuart Pether, who joined the Company as Chief Operating Officer in February 2013.

The Company expected the grant of the Mining Lease for the Project to follow closely upon receipt of the environmental approval and permit. The Mining Lease Application is currently undergoing final consideration by the PNG Mineral Resources Authority (**MRA**) and Mining Advisory Council (the inter-departmental body which advises the Minister for Mining on the grant of all mining tenements).

Since the completion of the Feasibility Study for the Project in October 2012, and the Company's submission of its Mining Lease Application and Proposal for Development to the MRA, there has been a significant change in the US dollar gold price from the 2012 levels of US$1,550 to US$1,800 per ounce to a low of around US$1,200 per ounce in late 2013. In 2014, the US dollar gold price has recovered somewhat from the low point reached in 2013.

The Company has assessed the Ore Reserves of the Woodlark Island Gold Project (under the 2004 JORC guidelines) to be 10.99 million tonnes at 2.2g/t Au for 766,000 contained ounces of gold, based on a gold price of US$1,200 per ounce. At current gold prices in excess of that price, the Feasibility Study for the Project shows that it is economically viable with acceptable returns. If the gold price increases, the Project returns will improve significantly.

There were a number of changes in the corporate management team of the Company during the year. In July 2013, the Board appointed Stuart Pether as Chief Executive Officer in place of Lee Spencer, who has continued to serve the Company as a non-executive director. At the same time, John Watkins stepped down as Chief Financial Officer and, after a short period as a non-executive director, elected to leave the Company in order to take up an executive position elsewhere. The Board thanks both Lee Spencer and John Watkins for their contributions to the Company in executive roles during its formative years, and is pleased to have continuing access to Lee's geological knowledge and experience in his role as a director.

Stuart Pether, being a mining engineer with a background in mine construction and development, is providing very good leadership of the Company as its Project moves towards development.

On Woodlark Island, the Company continues to provide employment opportunities for local people. Through its health clinic at Bomagai, it also provides an important service to the local people which they would not otherwise have. Over the year, the clinic (which is staffed and funded solely by the Company) saw an average of about 400 patients each month. The local people continue to demonstrate strong support for the Company and its Project. The Company looks forward to the benefit-sharing arrangements between the local people in the mining area, the local-level government on Woodlark Island, the Milne Bay Provincial Government and the National Government being concluded. The process to conclude a Memorandum of Agreement is well underway, and will build on the Compensation Agreement and Relocation Agreement with the local people which are already in place with the Company.

The Company thanks the people of Woodlark Island, the Milne Bay Provincial Government, the MRA and the Minister for Mining, the Honourable Byron Chan MP, for their ongoing support.

The Board has appreciated the support which the Company has received from a number of its major shareholders, through difficult times, and acknowledges that its shareholder base has increased through a significant number of retail investors buying shares on market. We hope to deliver better results for all shareholders in the future.

The Board also records its appreciation of the dedicated service of its employees, both in Australia and in Papua New Guinea.

David Frecker

David Frecker
Chairman

Chief Executive Officer's report

Overview

The year ending 31 December 2013 has been a year of consolidation and confirmation for Kula Gold and the Woodlark Island Gold Project (Project). A number of key milestones have been achieved. These milestones and activities prove our commitment towards the development of an operating gold mine on Woodlark Island in the near future.

Following are the key milestones and activities completed during the year:

- The Department of Environment and Conservation completed the assessment of the Environmental Impact Statement. The assessment involved an independent technical review, a public consultation process, a presentation to the PNG Environment Council and a final recommendation by the Environment Council to the Environment Minister to grant the Environment Permit. This process confirms the environmental credentials of the Project.
- The Mining Lease Application progressed significantly with the PNG Mineral Resources Authority, starting with the successful completion of the Warden hearing for the Mining Lease at Woodlark Island, a detailed review of the Project by the PNG State team, the calling of the community consultative workshop and the final review of the Mining Lease Application by the Mining Advisory Council.
- The Company received further funding through a working capital facility of A$3 million with RMB Resources, with the funds being provided by supportive major shareholders.
- Changes to the senior management team, reflecting the Company's transition from an explorer to an emerging gold developer and the new focus on permitting, construction and future operations, along with implementation of a number of cost control measures to conserve the Company's cash position during the permitting process.
- The completion of works to improve the projected Feasibility Study returns, through the development of a new mining schedule which reduced mining costs by US$10 million over the first three years of operation.
- The completion of a Scoping Study identifying the benefits of an upgrade in process plant capacity from 1.8Mtpa to 4Mtpa and the targeting of Resource growth opportunities.
- Confirmation of 2004 JORC Ore Reserves at US$1,200 per ounce gold price at 10.991 million tonnes at 2.2g/t Au for 766,000 contained ounces of gold at 1.0g/t gold lower cut off.
- Since the end of 2013, the Company has received the grant of the Environment Permit for the Project.

Corporate

A number of cost control measures were implemented to conserve cash during the permitting process. Personnel numbers were reduced at a corporate and Project level. Work activities within the Company were focused on achieving the Project approvals, improving the Project's Net Present Value and maintaining the Project's infrastructure and assets.

The Company completed a working capital facility of A$3 million at the end of 2013 arranged by RMB Resources. The Lenders were Kula Gold's major shareholders, RMB Australia Holdings Limited and the Pacific Road Resources Funds.

Chief Executive Officer's report (continued)

Mineral Resources

Mineral Resources for the Project remained unchanged from 2012. The current JORC 2004 Mineral Resources are 45.1 million tonnes at 1.5g/t Au for 2.12 million ounces of gold at a 0.5g/t Au lower cut off. See Table 1.

Table 1: JORC 2004 Mineral Resources for the Woodlark Island Gold Project at a 0.5 g/t gold lower cut off

Deposit	Category	Resource (Mt)	Grade (g/t Au)	Gold (Ounces)
Kulumadau	Measured	5.0	1.78	285,000
Kulumadau	Indicated	4.4	1.75	245,000
Kulumadau	Inferred	8.6	1.4	375,000
Kulumadau	Totals	18.0	1.6	910,000
Busai	Measured	3.9	1.54	190,000
Busai	Indicated	10.4	1.4	480,000
Busai	Inferred	8.8	1.3	370,000
Busai	Total	23.1	1.4	1,040,000
Boniavat	Indicated	3.0	1.2	115,000
Boniavat	Inferred	1.0	1.8	60,000
Boniavat	Total	4.0	1.4	175,000
All	Measured	8.9	1.67	480,000
All	Indicated	17.8	1.5	840,000
All	Inferred	18.5	1.4	800,000
Totals*		**45.1**	**1.5**	**2,120,000**

Totals may appear incorrect due to rounding

Note 1: The Busai Indicated Resource includes 0.4 million tonnes @ 1.4g/t Au for 20,000 ounces of gold from overlying alluvial mineralisation.

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

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

Chief Executive Officer's report (continued)

Feasibility Study

The Project Ore Reserves were determined at a US$1,200 per ounce gold price and remain unchanged from 2012. The JORC 2004 Ore Reserves are 10.991 million tonnes at a grade of 2.2g/t Au for 766,000 contained ounces at a 1.0g/t gold lower cut off. See Table 2 below.

Table 2: JORC 2004 Ore Reserves for the Woodlark Island Gold Project at a 1.0g/t gold lower cut off

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

Note: Totals may appear incorrect due to rounding

The table 3 below shows the change of key Project financial parameters to the US dollar gold price.

Table 3: Project Financial Summary at Range of US Dollar Gold Prices

	Gold Price US$1,400 per ounce	Gold Price US$1,600 per ounce
Pre-tax NPV @ 7%* (millions)	US$133	US$237
Pre-tax IRR	23%	34%
Post-tax NPV @ 7% (millions)	US$110	US$194
Post-tax IRR	22%	31%
Payback	3.2 years	2.6 years

The table also shows the significant upside to gold price, which exists in the Project.

Chief Executive Officer's report (continued)

Feasibility Study and Project Improvement Opportunities

The Feasibility Study was reviewed for areas that could improve the Project value. A number of areas were identified to improve value and include; a review of staged pit designs and mining schedule, the construction delivery methodology and opportunities for secondhand or leased equipment.

A review of the staged pit designs and mining schedule was completed and showed a reduction in mining costs of US$10 million during the first 3 years of the Project could be achieved.

A number of discussions were held with engineering and manufacturing companies regarding opportunities to reduce construction costs. Whilst areas for construction cost reductions were identified, due to the uncertainty of the construction time frame these were not progressed.

A Scoping Study was completed by Lycopodium Minerals which assessed the possibility of an increase in process plant capacity from 1.8Mtpa to 4Mtpa and the use of a larger mining fleet. The study used key input parameters from the Feasibility Study, along with Lycopodium Mineral's recent construction cost experience and Woodlark Island specific requirements, to determine capital and operating cost estimates for the upgraded scenario. The work considered all of the Measured, Indicated and Inferred Resources in estimating a mining inventory, a new mining and processing schedule, costs and potential value. The study estimated the capital costs of the 4Mtpa scenario to be in the range of US$240 to US$260 million, an all in sustaining cost in the range of US$875 to US$925 per ounce and, based on a US$1,400 per ounce gold price, an after tax NPV in the range of US$150M to US$170M. The study estimated gold production between 180k and 220k ounces of gold per annum and a 4.5 year Project life.

The work identified the potential increase in Project value that could be delivered through an increase in Project capacity and the opportunity for a staged expansion from the 1.8Mtpa Feasibility Study to a 4Mtpa scenario.

The work refocused the identification of Resource expansion and regional exploration targets which could deliver significant Resource growth. Three major areas for Resource growth were identified:

- Resource Conversion. These opportunities are contained within the geological models of the known deposits. Increased drilling density is required to improve the confidence of Inferred Resource to the Indicated and Measured Resource categories, to allow their use in the determining Reserves.
- Resource Expansion. These opportunities are developed from advanced exploration models, additional geophysical surveys and limited resource definition drilling results.
- Resource Discovery. These opportunities have been developed by the use of a combination of vectoring indicators of structural analysis, aeromagnetic surveys and gold panning concentrate analysis.

The 2014 Project budget has indicated a range of work programs to further these opportunities. The implementation of the programs will be dependent on funding.

Environmental Impact Statement

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

The Department of Environment and Conservation completed the assessment of the Project Environmental Impact Statement during the year. The assessment involved an independent technical review, a public consultation process, a presentation to the PNG Environment Council and in November a final recommendation by the Council to the Environment Minister to grant the Project Environment Permit.

The technical review was completed by BMT WBM Pty Ltd, a marine and environmental consultancy company, and included a site visit, auditing and reviewing of designs and modelling assumptions used in the Project and the recommendation of permit conditions for the Project. The public consultation process involved a number of community meetings on Woodlark Island and mainland PNG. The Environmental Impact Statement document was made available for comment and review by the public and number of PNG and Australian institutions and authorities. All public comments were reviewed by the independent expert and considered in the technical review and permit conditions. The PNG Environment Council, an independent group of PNG professionals, reviewed the final assessment of the Environmental Impact Statement and permit conditions. Based upon this assessment, a recommendation was made to the Environment Minister to grant the Project Environment Permit.

In February 2014, the Company received the Environment Permit for the Project, which is a significant milestone. The assessment of the Environmental Impact Statement and the grant of the Environment Permit is a strong confirmation of the quality of the Project's environmental credentials.

Chief Executive Officer's report (continued)

Mining Lease Application

The Feasibility Study, together with an application for the Mining Lease and the Proposal for Development, were submitted to the PNG Mineral Resources Authority on 30 October 2012. The submission of the Mining Lease Application commenced a number of processes by the Mineral Resources Authority which were completed during the year. These included the wardens hearing for the Mining Lease, a review of the Project by a PNG State team, the community consultative workshop and final review of the Mining Lease Application by the Mining Advisory Council.

The Mining Lease Application was initiated in early 2013 with a successful onsite wardens hearing. A site visit was conducted by the PNG State team which included representatives from State Solicitors Office, Treasury, Mineral Resource Authority, Department of Environment and Conservation and the Department of Labour and Commerce. This multi-faceted team held a series of public and landowner meetings on Woodlark Island to inform the landowners about the Mining Lease Application and the Government approval processes and to familiarise the departments with Woodlark Island, the community and the Project.

Figure 1 – State Team Visit to Woodlark Island

A business training workshop was held on Woodlark Island to inform and train the traditional landowners about operating small businesses and their roles in the planned community consultative workshop. The figure 2 below shows Woodlark Island landowners receiving their business training certificates from the Mineral Resource Authority training program.

Figure 2 – Mineral Resource Authority Training Workshop.

Chief Executive Officer's report (continued)

Mining Lease Application (continued)

The community consultative workshop was held in Alotau, Milne Bay Province, PNG late in 2013. The workshop was opened by the Minister for Mining and attended by the Governor for Milne Bay, senior executives from the Mineral Resource Authority and the Milne Bay Provincial Government, Woodlark Island landowners and a number of interested parties.

The workshop laid out the key components of the Memorandum of Agreement to all stakeholders and a road map towards the finalisation of the Memorandum of Agreement in 2014. The Memorandum of Agreement defines the sharing of benefits and commitments for the Project to the Project stakeholders.

The Mining Advisory Council reviewed the Mining Lease Application in December and deferred their final decision on the application, subject to the Company providing additional information on the status of the Environment Permit and the business case for the Project on current gold prices.

Since the completion of the 2013 year, the Company has progressed discussions with stakeholders on the Memorandum of Agreement and provided additional information to the Mining Advisory Council regarding the grant of the Environment Permit and the Project economics at a gold price in the US$1,300 per ounce range. The Mineral Resource Authority have since engaged an independent expert to advise on the Project business case.

State Equity

In 2012, the Company was informed by the Minister for Mining that the State owned company, Petromin PNG Holdings Limited, was nominated as the State's nominee to assess the States options to acquire up to a 30% equity participation in the Project. Petromin signed a confidentiality agreement and commenced a review of the Feasibility Study to determine if the State should elects to exercise its option.

During the year the Company assisted Petromin and the PNG Treasury in completing their internal reviews on the Project. Treasury made a recommendation to the PNG National Executive Council late in the year. The Company is still waiting on notification from the State of its decision.

Project Financing

Discussions on financing were progressed towards the end of 2012 with several banks expressing interest to provide Project financing. During the year the Company provided details of its Feasibility Study to a group of selected financial institutions with strong credentials in both financing gold projects and lending into PNG. The Company received very positive responses and prepared a consensus term sheet with the shortlisted group of banks and financial institutions. Indications are that between 50% and 70% of the Project development costs can be financed by debt, with the final level dependent on detailed due diligence, the gold price and the extent to which gold hedging is undertaken.

Site Operations

No serious or lost time injury was record at the Project during the year. Work activities at the Woodlark Island Gold Project were focused on achieving the Project approvals and maintaining the Project infrastructure and assets.

Surveying of the associated tenements required for the Project's infrastructure commenced. These tenements include Leases for Mining Purposes (LMP's), which cover proposed waste storage areas and other infrastructure and Mining Easements (ME's) which cover road and pipeline routes.

A surface trenching program was completed to confirm the interpretation of the near surface mineralisation within the Busai deposit. A total of 13 trenches were excavated across the deposit and these were sampled and mapped on one metre intervals. The results from the program confirmed the interpretation of the mineralization within the Resource models.

No exploration drilling occurred and the drilling contractor was demobilised from site.

Chief Executive Officer's report (continued)

Health, Safety and the Community

The Company continues to conduct safety inductions, weekly tool box meetings, incident reporting and train local Woodlark Islanders in safety procedures and regulations.

The Company manages community and social issues through its community relations department on the island which continues to maintain excellent relations with the local communities. Key areas of activities with the local communities include:

- **Health:** The Company continued to operate the Bomagai clinic under the supervision of a health extension officer and provides services to Company employees, their extended families and the community. During the year an emergency case required the air evacuation of a community member to the Alotau Base Hospital, which was supported by the Company. The Company aided 'Rotary Against Malaria' to distribute nets across the island.
- **Employment:** The Company continued to employ personnel from the local communities and where possible provide a fair and reasonable spread of employment opportunities across the whole of the island.
- **Training:** The Company continued training programs for employees and landowners during the course of the year.

Thanks must be given to the Woodlark Island communities and all levels of local, provincial and national government in Papua New Guinea for the support they have given to the Company and the Project during the year. A special thanks must go to our enthusiastic team of employees and consultants both in Australia and PNG through whose persistence and efforts, the Company has completed these key milestones and activities. We look forward to the continued support of all stakeholders as the Project progresses towards development.

Stuart Pether
Chief Executive Officer

Kula Gold Limited

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 2013.

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 (resigned 19 July 2013)
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 (2012: $nil).

Result of operations
The net loss from operations of the consolidated entity was $2,535,000 (2012: loss of $29,234,000).
For the 2012 year, the Company wrote-off $26,587,000 of capitalised exploration and evaluation expenditure. See note 12 for more details.

Review of operations

With the lodgement of the mining lease application (MLA508) with the Papua New Guinea (PNG) Mineral Resources Authority (MRA) on 30th October 2012 and Environmental Impact Statement (EIS) to the PNG Department of Environment (DEC) on 17 January 2013, the Company has been active in moving through the permitting process.

After undertaking a number of meetings with the MRA, MLA508 has been presented to the PNG Mining Advisory Council (MAC) which is the government body that makes the final recommendation to the Minister for Mining for the granting of the mining lease.

The MAC has considered the application and has raised a number of issues which need clarification. The Company will be meeting with the MRA during the March 2014 quarter to clarify the issues raised which it is hoped will be to the satisfaction of both the MRA and MAC.

On 17 February 2014, Woodlark Mining Limited received the Environment Permit for its Woodlark Island gold project (the Project). The permit was issued by the PNG Director of Environment. This is a major step forward in obtaining the Mining Lease.

Technical and financial due diligence was completed with Petromin and PNG Treasury regarding the PNG government's option to acquire up to 30% of the Project. No official recommendation has been received from the PNG National Executive Council on the level of government equity to be taken up.

On 2 July 2013 Stuart Pether was appointed Chief Executive Officer (CEO) of the Company. Stuart, who previously held the position of Chief Operating Officer of the Company, is a qualified mining engineer with over 25 years' experience.

On 1 July 2013, Lee Spencer resigned his executive position as CEO but remains as a non-executive director on the board. John Watkins resigned from his executive position as Chief Financial Officer (CFO) on 1 July 2013. He resigned as a director on 19 July 2013. John's resignation was due to other business commitments.

To ensure continued funding of the Company's operations, a working capital facility of AUD$3.0M was established with RMB Resources acting as agents for the financiers. This facility was fully drawn down prior to 31 December 2013.

Directors' report (continued)

Significant matters relating to the ongoing viability of operations

At 31 December 2013, the Company has cash and cash equivalents balance of $3,184,000 and a negative working capital of $224,000. The group reported a net loss of $2,535,000 for the current financial year.

The Company has lodged with the PNG Mineral Resources Authority its Mining Lease application. The application has been considered by the PNG Mining Advisory Council (MAC) in December 2013 at which it raised a number of issued which included the issuing of the Environment Permit. A reply has been made to the MAC on the issues raised in early 2014. On the 17 February 2014 the Environment Permit was issued by the PNG Director of Environment. The issue of the Mining Lease by the end of the March quarter 2014 is the Company's expectation.

The Company will likely need to secure further funding by debt, equity or joint venture or other for operations and/or development within the next 3 months depending on other corporate activities.

Given the reliance on securing funds from one or more of the above sources, there is some uncertainty as to whether the Company will be successful in securing funds and therefore be able to pay debts as and when they fall due. However, the directors are confident that funding can be obtained to enable the business to continue as a going concern. The Company has received debt funding from its major shareholders, and has expressions of interest from others. It is hoped additional debt funding can be secured from one of these sources or an equity or joint venture opportunity will arise. On this basis the directors consider it reasonable that the accounts be prepared on a going concern basis.

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.

Directors' report (continued)

Information on directors

David Frecker BA, LLM *Independent chairman and non-executive director.* Age 65.

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 Papua New Guinea (PNG). He is an employee (as special counsel) 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). 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.
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares. Exercise price $1.80, expiry 1 December 2015
- 612,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price $0.17, expiry 20 December 2018

Lee Spencer MSc App (Mineral exploration) *Non-executive director.* Age 60.

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 Papua New Guinea 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 was previously Kula Gold's chief executive officer and managing director for the period July 2007 to 1 July 2013.

Former directorships in last 3 years
None

Special responsibilities
Member of the risk committee.

Interests in shares and options
- 579,870 ordinary fully paid shares;
- 1,126,155 KGDOPT1 class options to acquire ordinary fully paid shares. Exercise price$1.80, expiry 1 December 2015
- 1,500,000 KGDOPT5 class options to acquire ordinary fully paid shares. Exercise price $2.00, expiry 16 December 2016
- 233,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price $0.17, expiry 20 December 2018

Directors' report (continued)

Information on directors (continued)

Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec) *Non-executive director.* Age 56.

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
- 315,277 ordinary fully paid shares;
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares. Exercise price $1.80, expiry 1 December 2015
- 291,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price $0.17, expiry 20 December 2018

Mark Stowell BBus, CA *Independent non-executive director.* Age 50.

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
None

Special responsibilities
Chairman of the audit committee.
Member of the risk committee.
Member of remuneration and nomination committee.

Directors' report (continued)

Information on directors (continued)

Mark Stowell (continued)

Interests in shares and options
- 2,980,060 ordinary fully paid shares
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares. Exercise price $1.80, expiry 1 December 2015
- 291,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price $0.17, expiry 20 December 2018

Company secretary
Mrs Leanne Ralph was appointed to the position of company secretary on 1 June 2011. Leanne is a member of the Governance Institute of Australia (formally Charter Secretaries Australia) and the 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 (to be updated from Leanne)
The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 31 December 2013, and the numbers of meetings attended by each director were:

	Board meetings		Meetings of committees					
			Audit		Risk		Remuneration and nomination	
Name	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
D Frecker	15	15	3	3	-	-	2	2
L Spencer	15	15	-	-	2	2	-	-
J Watkins	8	8	-	-	-	-	-	-
L Rozman	15	13	-	-	2	2	2	2
M Stowell	15	12	3	3	2	2	2	2

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

(i) Principles used to determine the nature and amount of remuneration

(ii) Role of remuneration and nomination committee

(iii) Details of remuneration

(iv) Service agreements of key management personnel

(v) Share-based compensation

(vi) Bonuses

(vii) Additional information

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

Directors' report (continued)

Remuneration report (continued)

I. 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.

II. 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 must comprise only non-executive directors, at least three members and a majority of independent directors. The committee must 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.

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 the 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.

Directors' report (continued)

Remuneration report (continued)

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 which include the chief executive 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.

III. 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 (resigned 1 July 2013)
J Watkins	Executive director and chief financial officer (resigned 1 July 2013)

Non-executive directors	**Position**
D Frecker	Non-executive chairman
L Rozman	Non-executive director
L. Spencer	Non-executive director (from 2 July 2013)
M Stowell	Non-executive director
J Watkins	Non-executive director (from 2 July 2013, resigned 19 July 2013)

Other key management personnel	
S Pether	Chief executive officer (from 2 July 2013)

Directors' report (continued)

Remuneration report (continued)

Key management personnel of the Group – 2013

Name	Short-term employee benefits: Cash salary and fees	Short-term employee benefits: Cash bonus	Annual Leave	Post-employment benefits: Superannuation	Long-term benefits: Long service leave	Share-based payments: Options	Percentage of total package	Total
	$	$	$	$	$	$	%	$
Directors								
D Frecker	70,000	-	-	6,388	-	31,638	29.3	108,026
L Spencer	^307,579	-	14,552	10,085	3,292	6,990	1.6	342,498
J Watkins*	^^225,000	-	12,474	8,235	2,822	-	-	248,531
L Rozman**	12,500	-	-	-	-	22,008	63.8	34,508
M Stowell	50,000	-	-	4,562	-	22,008	28.7	76,570
Other key management personnel								
S Pether #	239,591	115,375	18,609	15,750	5,743	138,380	25.9	533,448
Total	**904,670**	**115,375**	**45,635**	**45,020**	**11,857**	**221,024**		**1,343,581**

* Resigned from all positions of the company on 19 July 2013
** Waived receipt of directors fees from 1 April 2013
# Chief executive officer of Kula Gold Limited from 2 July 2013. From 2 July 2013 salary reduced to 60% of base salary.
^ Includes termination benefits of $112,579
^^ Includes termination benefits of $75,000

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

Name	Fixed remuneration 2013	At risk short-term incentives 2013	At risk long-term incentives 2013
	%	%	%
Directors			
D Frecker	71	-	29
L Spencer	98	-	2
J Watkins	100	-	-
L Rozman	36	-	64
M Stowell	71	-	29
Other key management personnel			
S Pether	52	22	26

Key management personnel of the Group – 2012

Name	Short-term employee benefits: Cash salary and fees	Short-term employee benefits: Cash bonus	Post-employment benefits: Superannuation	Long-term benefits: Long service leave	Share-based payments: Options	Percentage of total package	Total
	$	$	$	$	$	%	$
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**

Directors' report (continued)

Remuneration report (continued)

IV. Service agreements of key management personnel

Compensation and other terms of employment for the chief executive officer are formalised in a service agreement. All contracts with an executive may be terminated early, subject to termination payments as detailed below.

S Pether, Chief executive officer

- Commencement of employment date 4 February 2013, as Chief Operating Officer;
- Terms of agreement: Ongoing under new terms and conditions which commenced 23 July 2013;
- Base salary: $338,530 per annum plus superannuation guarantee, to be reviewed annually on 1 July each year; For the period 1 July to 31 December 2013 salary reduced to 60% of base, that is on a pro-rata rate of $203,118 per annum.
- Performance bonus: Eligible to be paid a performance related bonus of up to 50% 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 after the transition period of 12 months and before the end of the first 24 months of employment, 12 months base salary plus any bonus as determined by the board; if termination occurs after the first 24 months, then, 3 months base salary; and if termination occurs within 12 months after a change of control of the Company, 12 months of base salary grossed up to include any unpaid bonus. All payments will be net of all deductions required by law.

V. Share-based compensation

Options

Options over shares in Kula Gold Limited are granted under the Kula Gold Limited Option Plan (Plan) to employees. 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, and again in December 2013, non-executive directors were offered options. Details of options over ordinary shares in the Company provided as remuneration to each director of Kula Gold Limited and each of the key management personnel of the Group and not cancelled 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 27 to the financial statements.

The following options are held by directors and key management personnel of the Company as at 31 December 2013:

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	-
D Frecker	612,000	20 Dec 2013	612,000	-	20 Dec 2018	$0.17	$18,360	-
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	-
L Spencer	233,000	20 Dec 2013	233,000	-	20 Dec 2018	$0.17	$6,990	-
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	-
L Rozman	291,000	20 Dec 2013	291,000	-	20 Dec 2018	$0.17	$8,730	-
M Stowell #	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000	-
M Stowell	291,000	20 Dec 2013	291,000	-	20 Dec 2018	$0.17	$8,730	-
S Pether	1,000,000	25 Jan 2013	1,000,000	-	25 Jan 2016	$0.48	$50,000	-
S Pether	500,000	29 May 2013	500,000	-	29 May 2016	$0.16	$15,000	-
S Pether	2,446,000	8 Nov 2013	2,446,000	-	8 Nov 2018	$0.17	$73,380	-

^ 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
D Frecker #	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
D Frecker	612,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
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%
L Spencer	233,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
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%
L Rozman	291,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
M Stowell #	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
M Stowell	291,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
S Pether	1,000,000	25 Jan 2016	$0.05	$0.48	$0.33	47%	2.83%
S Pether	500,000	29 May 2016	$0.03	$0.16	$0.10	60%	3.03%
S Pether	2,446,000	8 Nov 2018	$0.03	$0.17	$0.12	67%	3.35%

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

These options granted to non-executive directors 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.

VI. 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 %	Potential Bonus unearned %
S Pether	65	35

Directors' report (continued)

Remuneration report (continued)

VII. Additional information

There were no loans to directors or executives during the reporting period.
No options were exercised during the year ended 31 December 2013 (2012: 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
29 May 2013	29 May 2016	$0.16	500,000
08 Nov 2013	08 Nov 2018	$0.17	4,355,000
20 Dec 2013	20 Dec 2018	$0.17	1,427,000
20 Dec 2013	31 Aug 2018	$0.13	24,000,000
			36,491,233

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

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.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify the auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Employees

Kula Gold Group staff members as at 31 December 2013:

Position	Kula Gold Limited		Woodlark Mining Limited		Total	
	Male	Female	Male	Female	Male	Female
Directors (Executive)	-	-	-	-	-	-
Directors (Non-executive)	4	-	1	-	5	-
Senior executive	2	-	2	-	4	-
Other	1	1	29	8	30	9
	7	1	32	8	39	9

Directors' report (continued)

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 (Ernst & Young) for non-audit services provided during the year are set out below. The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

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

	Consolidated	
	2013	2012
	$	$
Non-audit services		
Other assurance services		
Ernst & Young Australian firm:		
Other services	**-**	-
PricewaterhouseCoopers Australian firm:		
Other services	**3,500**	-
Total remuneration for other assurance services	**3,500**	-
Taxation services		
Ernst & Young Australian firm:		
Tax compliance service	**-**	-
Other tax advice	**-**	-
PricewaterhouseCoopers Australian firm:		
Tax compliance service	**8,800**	8,800
Other tax advice	**-**	-
Related practices of PricewaterhouseCoopers Australian firm	**16,179**	10,154
Total remuneration for taxation services	**24,979**	18,954
Total remuneration for non-audit services	**28,479**	18,954

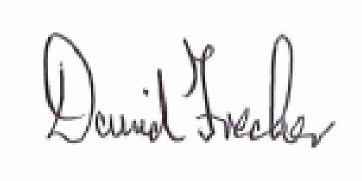
Directors' report (continued)

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 17 and forms part of this report.

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, 20 March 2014

Ernst & Young
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Sydney NSW 2000 Australia
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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of Kula Gold Limited

In relation to our audit of the financial report of Kula Gold Limited for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Anton Ivanyi
Partner
20 March 2014

Corporate governance statement

The board is committed to ensuring that Kula Gold Limited (Kula Gold or Company) is properly managed to protect and enhance shareholder interests, and that Kula Gold, its directors, officers and employees operate in an appropriate environment of corporate governance.

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

A description of the Group's main corporate governance practices is set out below. 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 (CEO), to deliver the strategic direction and goals determined by the board.

Corporate governance statement (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 CEO. 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 reviewed periodically to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

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

Recommendation 2.1: A majority of the board should be independent directors.

The board has adopted specific principles in relation to directors' independence, principals that are in line with those suggested in the ASX recommendations. 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 is currently comprised of all non-executive directors with Mr L Spencer, formally an executive director becoming a non-executive director during the year. The chairman is a non-executive director. The current members of the board are D Frecker (Chairman), L Spencer, L Rozman and M Stowell (all 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. Under the ASX Recommendations, L Spencer is not considered to be independent because he has been employed by the Company during the last three years. L Rozman is also not considered independent as he is a director of a group that is a substantial shareholder of the Company.

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 CEO 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 committees of the board and individual directors. There have been open communications between directors about issues of performance. However, given the size of the board, a formal review process was not undertaken during 2013.

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's 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 CEO. 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.

Corporate governance statement (continued)

Recommendation 3.2 (continued)

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).

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" (10 female employees out of a total of 48 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.

Corporate governance statement (continued)

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 have elected to receive it.

Principle 7 – Recognise and manage risk

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

Kula Gold 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 polices 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 under its charter 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 and currently consists of all non-executive directors.

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.

Corporate governance statement (continued)

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* 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 S Pether (CEO) and Mr L Solomon (Financial Controller) 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.

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 has 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".

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Financial Statements

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

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 12 to 24, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 19 March 2014. The directors have the power to amend and reissue the financial statements.

	Notes	Consolidated 2013 $'000	2012 $'000
Revenue from interest	5	**132**	504
Expenses			
Employee benefits expense		**(1,627)**	(1,717)
Professional and consulting expenses		**(490)**	(917)
Rental expense	6	**(179)**	(193)
Insurance expense		**(96)**	(100)
Borrowing costs	6	**(29)**	-
Write-off of exploration & evaluation expenditure	6	**-**	(26,587)
Foreign exchange gain		**1**	64
Other expenses		**(247)**	(288)
Loss before income tax		**(2,535)**	(29,234)
Income tax benefit/(expense)	7	**-**	-
Loss for the year from continuing operations		**(2,535)**	(29,234)
Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations	18(a)	**1,685**	(752)
Total comprehensive (loss)/income for the year		**(850)**	(29,986)
		Cents	Cents
Loss per share for losses from continuing operations attributable to the ordinary equity holders of the company:			
Basic loss per share	26	**(2.01)**	(25.45)
Diluted loss per share	26	**(2.01)**	(25.45)

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

	Notes	2013 $'000	Consolidated 2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**3,069**	7,924
Receivables and other assets	9	**181**	329
Inventories	10	**359**	662
Total current assets		**3,609**	8,915
Non-current assets			
Property, plant and equipment	11	**2,089**	2,780
Mineral exploration and evaluation expenditure	12	**109,654**	102,044
Other non-current assets	13	**115**	112
Total non-current assets		**111,858**	104,936
Total assets		**115,467**	113,851
LIABILITIES			
Current liabilities			
Trade and other payables	14	**805**	1,329
Borrowings	15	**2,069**	-
Total current liabilities		**2,874**	1,329
Non-current liabilities			
Provisions	16	**264**	582
Total non-current liabilities		**264**	582
Total liabilities		**3,138**	1,911
Net assets		**112,329**	111,940
EQUITY			
Contributed equity	17	**139,946**	139,946
Reserves	18(a)	**13,083**	10,159
Accumulated losses	18(b)	**(40,700)**	(38,165)
Total equity		**112,329**	111,940

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

	Notes	Contributed equity $'000	Share-based payments reserve $'000	Foreign currency translation reserve $'000	Total reserves $'000	Accumulated losses $'000	Total equity $'000
		Attributable to owners of Kula Gold Limited					
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	18	-	-	(752)	(752)	-	(752)
Total comprehensive income for the year		**-**	**-**	(752)	(752)	(29,234)	(29,986)
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transactions costs and tax	17	5,154	-	-	-	-	5,154
Share-based payments	18	-	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
Balance at 1 January 2013		**139,946**	**15**	**10,144**	**10,159**	**(38,165)**	**111,940**
Loss for the year		**-**	**-**	**-**	**-**	**(2,535)**	**(2,535)**
Exchange differences on translation of foreign operations	18	**-**	**-**	**1,685**	**1,685**	**-**	**1,685**
Total comprehensive loss for the year		**-**	**-**	**1,685**	**1,685**	**(2,535)**	**(850)**
Transactions with owners in their capacity as owners:							
Share-based payments	18	**-**	**1,239**	**-**	**1,239**	**-**	**1,239**
			1,239	**-**	**1,239**	**-**	**1,239**
Balance at 31 December 2013		**139,946**	**1,254**	**11,829**	**13,083**	**(40,700)**	**112,329**

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

	Notes	Consolidated 2013 $'000	2012 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,222)**	(2,552)
Interest income		**161**	787
Net cash outflow from operating activities	25	**(2,061)**	(1,765)
Cash flows from investing activities			
Payments for property, plant and equipment	11	**(32)**	(142)
Payments for exploration activities		**(5,808)**	(15,428)
Net cash outflow from investing activities		**(5,840)**	(15,570)
Cash flows from financing activities			
Proceeds from issues of shares (net of transaction costs)	17	**-**	5,154
Proceeds from borrowings	15	**3,000**	-
Net cash inflow from financing activities		**3,000**	5,154
Net decrease in cash and cash equivalents		**(4,901)**	(12,181)
Cash and cash equivalents at the beginning of the financial year	8	**8,036**	20,219
Effects of exchange rate changes on cash and cash equivalents		**49**	(2)
Cash and cash equivalents at end of year	8	**3,184**	8,036

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

Notes to the consolidated financial statements

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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

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2013 are as follows:

i) AASB 10 - Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112*Consolidation - Special Purpose Entities.*

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

ii) AASB 13 - Fair Value Measurement

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Consequential amendments were also made to other standards via AASB 2011-8.

1 Summary of significant accounting policies (continued)

New and amended standards adopted by the group (continued)

iii) AASB 119 - Employee Benefits

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Consequential amendments were also made to other standards via AASB 2011-10.

The adoption of these standards did not have any impact on the current period or prior period and is not likely to affect future periods.

(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 2013 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.

(c) Segment reporting

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

1 Summary of significant accounting policies (continued)

(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 associated 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.

1 Summary of significant accounting policies (continued)

(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.

Deferred income tax is provided in full, 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 22). 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 liability resulting from a 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.

1 Summary of significant accounting policies (continued)

(i) Impairment of assets

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

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of 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.

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(i)).

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.

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 (i)).

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the 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) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a repayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharge, cancelled or expired.

1 Summary of significant accounting policies (continued)

(q) 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.

(r) 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.

(s) 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 27.

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.

1 Summary of significant accounting policies (continued)

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) Parent entity financial information

The financial information for the parent entity, Kula Gold Limited, disclosed in note 28 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).

1. Summary of significant accounting policies (continued)

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) **AASB1053 Application of Tiers of Australian Accounting Standards.**(effective for annual reporting periods from 1 January 2014)

This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:
(a) Tier 1: Australian Accounting Standards
(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:
(a) For-profit entities in the private sector that have public accountability (as defined in this standard)
(b) The Australian Government and State, Territory and Local governments

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:
(a) For-profit private sector entities that do not have public accountability
(b) All not-for-profit private sector entities
(c) Public sector entities other than the Australian Government and State, Territory and Local governments.

Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012-11.

As a publicly listed entity this standard will not have any effect on the group's reporting.

(ii) **AASB9 Financial Instruments** (effective for reporting periods from 1 January 2017)

AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

1. Summary of significant accounting policies (continued)

(y) New accounting standards and interpretations (continued)

(iii) **AASB9 Financial Instruments** (effective for reporting periods from 1 January 2017) (continued)

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

1) The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
2) The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.

The AASB issued a revised version of AASB 9 during December 2013. The revised standard incorporates three primary changes:

1) New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures;
2) Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and
3) The mandatory effective date moved to 1 January 2017.

(iv) **AASB 2013-3 Amendments to AASB 136 – Recoverable amounts disclosed for non-financial assets** (effective for reporting periods from 1 January 2014)

AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The group will adopt the new standard from its operative date of 1 January 2014.

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			
	2013 PGK A$'000	**2013 USD A$'000**	2012 PGK A$'000	2012 USD A$'000
Cash	**87**	**25**	243	128
Payables	**(46)**	**(30)**	(35)	(13)
Net exposure	**41**	**(5)**	208	115

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	
Impact on post-tax loss	**2013 $’000**	2012 $’000
AUD increase against foreign currencies	**(5)**	(29)
AUD decrease against foreign currencies	**6**	36

(ii) Interest rate risk

The Group is exposed to both interest rate risk arising from cash and cash equivalents and on borrowings from an external counter party. Interest on borrowings is fixed on a quarterly basis by the external counter party.

Group sensitivity
At 31 December 2013, the Group's exposure to interest received rates is not deemed to be material to its primary activities and the interest is generally floating rate. For borrowings, interest rates are fixed quarterly at the commencement of the quarter. Interest rates are calculated as defined in the debt facility agreement. Interest payable would not be deemed material to the results of the group. Reasonably possible movements in interest rates would not have a material impact on the results of the Group or the fair value of any borrowings.

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 has a fully drawn borrowing facilities of $3.0M in place at the reporting date. The facility is due for repayment on 30 November 2014. The Company will be required to re-negotiate the facility prior to this 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

At 31 December 2013	**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**
Trade and other payables	**805**	**-**	**-**	**-**	**-**	**805**	**805**
Borrowings	**-**	**3,000**	**-**	**-**	**-**	**3,000**	**3,000**
Total non-derivatives	**805**	**3,000**	**-**	**-**	**-**	**3,805**	**3,805**

At 31 December 2012	**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**
Trade and other payables	1,329	-	-	-	-	1,329	1,329
Total non-derivatives	1,329	-	-	-	-	1,329	1,329

(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. The fair value of borrowings approximates the carrying value, adjusted for capitalised transaction costs, if any. The Company's borrowings are categorised as level 2 in the fair value hierarchy. The fair value of these borrowings are measured based upon market interest rate.

2 Financial Risk Management (continued)

(e) Financial liability related to options on issue

Equity-settled share based payments granted are measured at fair value at the date of grant. The fair value of share options is measured by the Black Scholes model and require substantial judgement. Management has made its best estimates for the effects of probability of meeting market conditions attached to the options and for options issued to directors and employee the continued employment of the director and employee by the group. It is believed the fair value of the options is equal to the book value of the liability the Company has for the options issued. The Company's share price will need to rise by 25% from current levels for the 24,000,000 options issued to the financiers of the Syndicated debt facility to be exercisable.

Should the options be exercised then the Company will issue additional equity to the option holder. At balance date the exercise price of all options is higher than the Company's share price.

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.

The group has completed a feasibility study on the Woodlark Island Gold Project which concluded that a viable gold project exists. The key assumptions used in the base case forecast were as follows:

- Recovery of 672,000 ounces over the first six years through a 1.8 Mtpa plant.
- Estimated operating costs of US$762/ounce for years 1 to 6.
- Establishment capital cost of US$160 million.
- Gold price at an average of US$1,373 per ounce (As quoted on the gold futures market) for years 1 to 6.
- Discount rate of 7%.

Sensitivity

If the post-tax discount rate in the NPV calculation was 10% (instead of 7% as used in the base case model), and all other assumptions were held constant, the NPV under the based case scenario would be USD$67,067,000 – (AUD$75,255,000).

If the gold price decreased by USD$50/ounce to the price assumptions used in the base case, and all other assumptions were held constant, the NPV under the base case scenario would be USD$74,842,000 – (AUD$83,979,000).

If either of these scenarios eventuated in the future it would not necessarily result in an impairment, despite the fact that the base case NPV would be lower than book value, as the Company is continually optimising the mine plan and there is upside to the base case model which is yet to be fully verified and quantified.

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

3 Critical Accounting Estimates and Judgements (continued)

(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.

4 Segment information

During the year the Group operated predominantly in one business segment, being the exploration and evaluation of the Woodlark Island gold project in PNG. There is no material difference between the financial information provided to the Chief Operating Decision Maker, being the board of directors and the chief executive officer, and the financial information presented in this report. Segment accounting policies are the same as the Group's policies described in Note 1.

5 Revenue

	Consolidated	
	2013	2012
	$'000	$'000
Revenue from continuing operations		
Interest income	**132**	504
	132	504

6 Expenses

	Consolidated	
	2013	2012
	$'000	$'000
Loss before income tax includes the following specific expenses		
Depreciation		
Buildings	**34**	33
Plant and equipment	**508**	494
Furniture and fittings	**37**	34
Motor vehicle and boats	**176**	207
Less: Capitalised to mineral exploration and evaluation expenditure	**(730)**	(746)
Total depreciation	**25**	22
Amortisation		
Exploration licence	**-**	8
Less: Capitalised to mineral exploration and evaluation expenditure	**-**	(8)
Total amortisation	**-**	-
Total depreciation and amortisation	**25**	22
Rental expense relating to operating leases		
Minimum lease payments	**179**	193
Options issued under Kula Gold Limited Option Plan	**279**	403
Less: Capitalised to mineral exploration and evaluation expenditure	**(38)**	(38)
Employee option expense	**241**	365
Debt borrowing costs	**29**	-
Write-off of mineral exploration and evaluation expenditure (note 12)	**-**	26,587

7 Income tax (benefit)/expense

	Consolidated	
	2013	2012
	$'000	$'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

	2013	2012
Loss from continuing operations before income tax expense	**(2,535)**	(29,234)
Tax at the Australian tax rate of 30% (2012: 30%)	**(760)**	(8,770)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**81**	110
Impairment of capitalised exploration & evaluation expenditure		7,976
Management fees (elimination)	**631**	638
Unrealised foreign exchange variances	**(12)**	(7)
Sundry items	**(163)**	87
Borrowing expenses	**77**	-
Allowable capital expenditure (Papua New Guinea)	**116**	(66)
Income tax benefit not recognised	**31**	32
Total income tax expense	**-**	-

(c) Tax losses

	2013	2012
Australian unused tax losses for which no deferred tax asset has been recognised	**211**	152
Potential tax benefit at the Australian tax rate of 30% (2012: 30%)	**63**	46

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

	2013	2012
Temporary differences for which a deferred tax asset has not been recognised due to there being no virtual certainty of the Group being profitable:		
Employee provision	**53**	119
Capital raising costs	**-**	91
Borrowing costs	**(77)**	-
Accruals	**110**	139
Sundry items	**12**	(1)
	98	348

7 Income tax (benefit)/expense (continued)

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

	Consolidated	
	2013	2012
	$'000	$'000
Exploration expenditure for which no deferred tax asset has been recognised	**109,654**	102,044
Potential tax benefit at the Papua New Guinea tax rate of 30% (2012: 30%)	**32,896**	30,613

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	
	2013	2012
	$'000	$'000
Cash at bank and in hand	**3,069**	601
Short-term deposits*	**-**	7,323
	3,069	7,924

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	**3,069**	601
Short-term deposits*	**-**	7,323
Non-current assets – deposits (Note 13)	**115**	112
	3,184	8,036

*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.

9 Current assets – Receivables and other assets

	Consolidated	
	2013	2012
	$'000	$'000
Goods & services tax receivable	**18**	61
Prepayment and other receivables	**163**	268
	181	329

(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	
	2013	2012
	$'000	$'000
Inventory: Consumables	**601**	662
Less: provision for write-down	**(242)**	-
	359	662

(a) Inventory expense
A provision for write-down to net realisable value has been created to reflect the expected value of drilling consumables currently held in inventory. This is due to the cessation of exploration drilling. The write-down amounted to $242,000 (2012: $Nil).

11 Non-current assets - Property, plant and equipment

	Consolidated				
	Buildings	**Plant and equipment**	**Furniture and fittings**	**Motor vehicles and boats**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
At 1 January 2012					
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
Year ended 31 December 2013					
Opening net book amount	**714**	**1,692**	**97**	**277**	**2,780**
Additions	**-**	**16**	**2**	**14**	**32**
Depreciation charge	**(34)**	**(508)**	**(37)**	**(176)**	**(755)**
Exchange differences	**9**	**19**	**1**	**3**	**32**
Closing net book amount	**689**	**1,219**	**63**	**118**	**2,089**
At 31 December 2013					
Cost	**858**	**3,298**	**227**	**1,502**	**5,884**
Accumulated depreciation	**(169)**	**(2,079)**	**(164)**	**(1,384)**	**(3,796)**
Net book amount	**689**	**1,219**	**63**	**118**	**2,089**

Total depreciation charge for the year is $755,000 (2012: $768,000) of which $730,000 (2012: $747,000) has been capitalised under exploration and evaluation expenditure (note 12) in accordance with the Group's accounting policy.

12 Non-current assets – Mineral exploration and evaluation expenditure

	Consolidated		
	Exploration licences	**Deferred exploration expenditure**	**Total**
	$'000	**$'000**	**$'000**
At 1 January 2012			
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	(9,527)	(26,587)	(36,114)
Net book amount	-	102,044	102,044
Year ended 31 December 2013			
Opening net book amount	**-**	**102,044**	**102,044**
Exchange differences	**-**	**1,622**	**1,622**
Additions	**-**	**5,988**	**5,988**
Write-off of exploration and evaluation expenditure	**-**	**-**	**-**
Closing net book amount	**-**	**109,654**	**109,654**
At 31 December 2013			
Cost	**9,527**	**109,654**	**119,181**
Accumulated amortisation and write-off	**(9,527)**	**-**	**(9,527)**
Net book amount	**-**	**109,654**	**109,654**

*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.

13 Non-current assets - Other non-current assets

	Consolidated	
	2013	2012
	$'000	$'000
Deposits	**115**	112
	115	112

14 Current liabilities - Trade and other payables

	Consolidated	
	2013	2012
	$'000	$'000
Trade payables	**392**	180
Other payables and accruals	**413**	1,149
	805	1,329

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

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

	Consolidated	
	2013	2012
	$'000	$'000
Annual leave obligation expected to be settled after 12 months	**80**	119
	80	119

(b) Risk exposure

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

15 Current liabilities – Borrowings

	Consolidated	
	2013	2012
	$'000	$'000
Secured interest bearing loan		
Working capital facility (see loan details below)	**3,000**	-
Borrowings option costs (see note 27)	**(960)**	-
Amortisation of option borrowing costs	**29**	-
	2,069	-

The secured shareholders loan has been provided equally by the two majority shareholders of the Company, Pacific Road Capital funds and RMB Australia Holdings Limited (the Lenders).

Terms of the loan
Facility amount: AUD$3.0million
Interest rate: 90 day BBSW + margin of 5.5% p.a.
Interest payment due: Quarterly
Date of drawn down: 20 December 2013
Maturity of loan: 30 November 2014
Security: Fixed and floating charge over the assets of the Company.
Mortgage over Woodlark Mining Limited's shares owned by the Company.
Other: Lenders to receive options for shares in the Company in proportion to the value of funds drawn down. Option exercise price is 30 working days VWAP (prior to 16 December 2013) plus a margin of 25%. Expiry date of options issued is 31 August 2018.

a) Risk exposure
Details of the group's exposure to risks arising from current borrowings are set out in note 2.

16 Non-current liabilities – Provisions

	Consolidated	
	2013	2012
	$'000	$'000
Provision for long service leave	**67**	137
Provision for demobilisation	**-**	250
Provision for rehabilitation	**197**	195
	264	582

(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 2013	250	195	445
- charge/(credited) to profit & loss	126	-	126
- payments from provision	(379)		(379)
- exchange differences	3	2	5
Carrying amount at the end of the year - 31 December 2013	-	197	197

17 Contributed equity

	Parent entity 2013 Shares	Parent entity 2012 Shares	Parent entity 2013 $'000	Parent entity 2012 $'000
(a) Share capital				
Ordinary shares	**126,253,023**	126,253,023	**139,946**	139,946

(b) Movements in share capital

Date	Details	Number of shares	Issue price $	Total $'000
1 January 2012	Opening 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**
31 December 2013	**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 27.

(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.

18 Reserves and accumulated losses

	Consolidated	
	2013	2012
(a) Reserves	**$'000**	$'000
Share-based payments reserve	**1,254**	15
Foreign currency translation reserve	**11,829**	10,144
	13,083	10,159
Movements:		
Share-based payments reserve		
Balance 1 January	**15**	(388)
Option expense	**1,239**	403
Balance 31 December	**1,254**	15
Foreign currency translation reserve		
Balance 1 January	**10,144**	10,896
Currency translation differences arising during the year	**1,685**	(752)
Balance 31 December	**11,829**	10,144

	Consolidated	
	2013	2012
(b) Accumulated losses	**$'000**	$'000
Balance 1 January	**(38,165)**	(8,931)
Net loss for the year	**(2,535)**	(29,234)
Balance 31 December	**(40,700)**	(38,165)

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.

(ii) Foreign currency translation reserve

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

19 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 (resigned 1 July 2013)
J Watkins, Executive director and chief financial officer (resigned 1 July 2013)

(iii) Non-executive directors
L Rozman
L Spencer (from 2 July 2013)
M Stowell
J Watkins (from 2 July 2013 to 19 July 2013)

(iv) Other key management personnel
S Pether (appointed Chief executive officer from 2 July 2013)

(b) Key management personnel compensation

	Consolidated	
	2013	2012
	$	$
Short-term employee benefits	**1,065,680**	885,813
Post-employment benefits	**45,020**	39,320
Long-term benefits	**11,857**	11,927
Share-based payments	**221,024**	360,115
	1,343,581	1,297,175

Detailed remuneration disclosures are provided in the remuneration report on pages 10 to 14.

(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 2013 and 2012 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 27.

19 Key management personnel disclosures (continued)

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

Option holdings

The following options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2013:

Name	Granted Number	Grant Date	Vested Number	Forfeited Number	Expiry Date	Exercise Price	Fair Value At Grant Date
S Pether	1,000,000	25 Jan 2013	1,000,000	-	25 Jan 2016	$0.48	$50,000
S Pether	500,000	29 May 2013	500,000	-	29 May 2016	$0.16	$15,000
S Pether	2,446,000	8 Nov 2013	2,446,000	-	8 Nov 2018	$0.17	$73,380
D Frecker	612,000	20 Dec 2013	612,000	-	20 Dec 2018	$0.17	$18,360
L Spencer	233,000	20 Dec 2013	233,000	-	20 Dec 2018	$0.17	$6,990
L Rozman	291,000	20 Dec 2013	291,000	-	20 Dec 2018	$0.17	$8,730
M Stowell	291,000	20 Dec 2013	291,000	-	20 Dec 2018	$0.17	$8,730

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
S Pether	1,000,000	25 Jan 2016	$0.05	$0.48	$0.33	47%	2.83%
S Pether	500,000	29 May 2016	$0.03	$0.16	$0.10	60%	3.03%
S Pether	2,446,000	8 Nov 2018	$0.03	$0.17	$0.12	67%	3.35%
D Frecker	612,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
L Spencer	233,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
L Rozman	291,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
M Stowell	291,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%

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.

(iii) Shares provided on exercise of remuneration options

No options were exercised during the period ended 31 December 2013 (2012: Nil).

19 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.

2013 - 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	612,000	-	712,000	612,000	100,000
L Spencer	2,626,155	233,000	-	2,859,155	2,859,155	-
L Rozman	100,000	291,000	-	391,000	291,000	100,000
M Stowell	100,000	291,000	-	391,000	291,000	100,000
Former director						
J Watkins (resigned 19 July 2013)	2,063,078	-	-	2,063,078	2,063,078	-
Other key management personnel						
S Pether	-	3,946,000	-	3,946,000	3,946,000	-

All vested options are exercisable.

2012 - 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	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

* Other changes represent options cancelled during the period.

All vested options are exercisable.

19 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.

2013 – 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	57,500	-	-	42,500	100,000
L Spencer	579,870	-	-	-	579,870
L Rozman	410,287	-	-	(95,010)	315,277
M Stowell	362,500	-	-	2,617,560	2,980,060
Former director					
J Watkins (resigned 19 July 2013)	460,000	-	-	180,000	640,000
Other key management personnel					
S Pether	-	-	-	1,300,000	1,300,000

* Represents shares purchased/sold on market.

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 the Share Placement Plan and have purchased 37,500 shares each. All other changes 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 (2012: $nil).

Other transactions with key management personnel are disclosed in note 23.

20 Remuneration of auditors

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

	Consolidated	
	2013	2012
	$	$
(a) PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	**-**	100,000
Other assurance services	**3,500**	-
Total remuneration for audit and other assurance services	**3,500**	100,000
Taxation services		
Tax compliance services	**8,800**	8,800
Other tax advice	**-**	-
Total remuneration for taxation services	**8,800**	8,800
Total remuneration of PricewaterhouseCoopers Australia	**12,300**	108,800
(b) Network firms of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	**-**	45,790
Total remuneration of audit and other assurance services	**-**	45,790
Taxation services		
Tax compliance services	**6,292**	10,154
Other tax advice	**9,887**	-
Total remuneration for taxation services	**16,179**	10,154
Total remuneration of related practices of PricewaterhouseCoopers Australia	**16,179**	55,944
(c) Ernst & Young Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	**82,500**	-
Total remuneration for audit and other assurance services	**82,500**	-
Taxation services		
Tax compliance services	**-**	-
Other tax advice	**-**	-
Total remuneration for taxation services	**-**	-
Total remuneration of Ernst & Young Australia	**82,500**	-

21 Contingencies

The Group had no contingent assets or liabilities at 31 December 2013 (2012: $nil).

22 Commitments

	Consolidated	
	2013	2012
	$'000	$'000
(a) Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**240**	159
Later than one year but not later than five years	**250**	491
Later than five years	**-**	-
	490	650

The Group leases office space 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.

23 Related party transactions

(a) Subsidiaries

Details of the interest in the subsidiary are set out in note 24.

(b) Key management personnel compensation

Details of key management personnel remuneration are disclosed in note 19 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 2013:

- Companies associated with Pacific Road group of entities & RMB Resources Limited (& associated entities), who are the majority shareholders of the Company provided debt finance to the Company during the year. Terms of the finance facility are as follows:

  Terms of the loan

Facility amount:	AUD$3.0million
Interest rate:	90 day BBSW + margin of 5.5% p.a.
Interest payment date:	Quarterly
Date of draw down:	20 December 2013
Maturity of loan:	30 November 2014
Security:	Fixed and floating charge over the assets of the Company. Mortgage over Woodlark Mining shares owned by the Company.
Other:	Lenders to receive options for shares (based upon the share price at time of draw down) in the Company in proportion to the value of funds drawn down plus a premium of 25%. Options to expire 31 August 2018.

- Pacific Road Capital Management Pty Ltd was paid for services of L Rozman as a director of the parent entity $12,500.
- Fees paid to Ashurst Australia $7,556 for general legal advice. D Frecker, a director of the Company is an employee of Ashurst.

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 was a non-equity partner of Ashurst.

24 Subsidiary

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2013 %	Equity holding 2012 %
Woodlark Mining Limited	Papua New Guinea	Ordinary	**100**	100

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Loss for the year	**(2,535)**	(29,234)
Depreciation and amortisation	**25**	22
Non-cash employee benefits expense – share-based payments	**279**	365
Non-cash benefit to financiers of debt facility agreement	**29**	-
Write-down in value of inventory	**242**	-
Write-off of exploration & evaluation expenditure	**-**	26,587
Change in operating assets and liabilities:		
(Increase) decrease in receivables	**152**	506
(increase) decrease in inventories	**69**	202
(Decrease) increase in trade and other payables	**(69)**	(463)
(Decrease) increase in de-mobilisation provision	**(253)**	250
Net cash inflow (outflow) from operating activities	**(2,061)**	(1,765)

26 Earnings per share

	Consolidated 2013 Cents	Consolidated 2012 Cents
(a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the company	**(2.01)**	(25.45)
(b) Diluted loss per share		
From continuing operations attributable to the ordinary equity holders of the company	**(2.01)**	(25.45)

	Consolidated 2013	Consolidated 2012
(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	**126,253,023**	114,888,440
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	**126,253,023**	114,888,440

(d) Information concerning the classification of securities

(i) 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 27.

27 Share-based payments

(a) (i) Employee option plan

The Kula Gold Limited Option Plan (Plan) is designed to provide long-term incentives for executives and 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 cash 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 at the time of grant. The options vest immediately and may be exercised at the discretion of the option holder.

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

2013

Name	Grant date	Expiry date	Fair value per option	Assessed fair value at date of grant	Number of options granted
S Pether	25 Jan 2013	25 Jan 2016	$0.05	$ 50,000	1,000,000
S Pether	29 May 2013	29 May 2016	$0.03	$ 15,000	500,000
S Pether	8 Nov 2013	8 Nov 2018	$0.03	$ 73,380	2,446,000
K Neate	8 Nov 2013	8 Nov 2018	$0.03	$ 22,290	743,000
F Swart	8 Nov 2013	8 Nov 2018	$0.03	$ 14,700	490,000
Other employees	8 Nov 2013	8 Nov 2018	$0.03	$ 20,280	676,000
Total				$195,650	5,855,000

2012

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

(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 these options is $1.80. 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 further options with these conditions have been granted to non-executive directors during the years ended 31 December 2013 and 2012.

Pursuant to the decision of the board on 20 December 2013, a total of 1,427,000 options were granted to Kula Gold non-executive directors. Options were granted for no consideration. Options carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of these options is $0.17. The options vest immediately and may be exercised at the discretion of the option holder.

27 Share-based payments (continued)

(ii) Options for non-executive directors (continued)

2013

Name	Grant date	Expiry date	Fair value per option	Assessed fair value at date of grant	Number of options granted
D Frecker	20 Dec 2013	20 Dec 2018	$0.03	$ 18,360	612,000
L Spencer	20 Dec 2013	20 Dec 2018	$0.03	$ 6,990	233,000
L Rozman	20 Dec 2013	20 Dec 2018	$0.03	$ 8,730	291,000
M Stowell	20 Dec 2013	20 Dec 2018	$0.03	$ 8,730	291,000
Total				$42,810	1,427,000

2012

There were no options granted to directors during the year ended 31 December 2012.

(b) Options granted under the employee option plan and to non-executive directors

2013

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
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
25 Jan 2013	25 Jan 2016	$0.48	-	1,000,000	-	-	1,000,000	1,000,000
29 May 2013	29 May 2016	$0.16	-	500,000	-	-	500,000	500,000
8 Nov 2013	8 Nov 2013	$0.17	-	4,355,000	-	-	4,355,000	4,355,000
20 Dec 2013	20 Dec 2018	$0.17	-	1,427,000	-	-	1,427,000	1,427,000
Total			5,209,233	7,282,000	-	-	12,491,233	12,191,233
Weighted average exercise price			$1.92	$0.21			$0.92	

2012

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Balance at end of the year Number	Exercisable at end of the year 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	

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 3.6 years (2012: 3.5 years).

27Share-based payments (continued)

(b) Options granted under the employee option plan and to non-executive directors (continued)

Fair value of options granted

Refer to note 19 for assessing the fair value of options.

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.

The following factors were used in determining the fair value of options granted during the year ended 31 December 2013:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
S Pether	1,000,000	25 Jan 2016	$0.05	$0.48	$0.33	47%	2.83%
S Pether	500,000	29 May 2016	$0.03	$0.16	$0.10	60%	3.03%
S Pether	2,446,000	8 Nov 2018	$0.03	$0.17	$0.12	67%	3.35%
K Neate	743,000	8 Nov 2018	$0.03	$0.17	$0.12	67%	3.35%
F Swart	490,000	8 Nov 2018	$0.03	$0.17	$0.12	67%	3.35%
Other employees	676,000	8 Nov 2018	$0.03	$0.17	$0.12	67%	3.35%
D Frecker	612,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
L Spencer	233,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
L Rozman	291,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
M Stowell	291,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%

Options were granted for no consideration and vest based on terms detailed in the Kula Gold Limited Option Plan. All options vested on the date of issue.

(c) options issued to major shareholders as part of a debt facility

Pursuant to the Syndicated debt facility agreement dated 16 December 2013, it was agreed to provide the parties listed under the agreement (see below) options for shares (based upon the 10 business day VWAP share price at the time of draw down) in proportion to the funds advanced to the Company plus a premium of 25%. The options exercise price was set at $0.125.

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 the options is based upon Company's share price. The options vest immediately and may be exercised at the discretion of the option holders.

27 Share-based payments (continued)

(c) Options issued to major shareholders as part of a debt facility (continued)

Set out below are options issued to date under the Syndicated facility agreement.

2013

Name	Grant date	Expiry date	Fair value per option	Assessed fair value at date of grant	Number of options granted
Pacific Road Capital Management acting as General Partner of the Pacific Road Resources Fund limited partnership	20 Dec 2013	31 Aug 2018	$0.04	$384,800	9,620,000
Pacific Road Capital A Pty Limited as trustee of Pacific Road Resources Fund A	20 Dec 2013	31 Aug 2018	$0.04	$47,600	1,190,000
Pacific Road Capital B Pty Limited as trustee of Pacific Road Resources Fund B	20 Dec 2013	31 Aug 2018	$0.04	$47,600	1,190,000
RMB Australia Holdings Limited	20 Dec 2013	31 Aug 2018	$0.04	$480,000	12,000,000
				$960,000	24,000,000

The following factors were used in determining the fair value of options granted during the year ended 31 December 2013:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
Pacific Road Capital Management	9,620,000	31 Aug 2018	$0.04	$0.13	$0.11	69%	3.25%
Pacific Road Capital A Pty Limited	1,190,000	31 Aug 2018	$0.04	$0.13	$0.11	69%	3.25%
Pacific Road Capital B Pty Limited	1,190,000	31 Aug 2018	$0.04	$0.13	$0.11	69%	3.25%
RMB Australia Holdings Limited	12,000,000	31 Aug 2018	$0.04	$0.13	$0.11	69%	3.25%

Options vest based on terms detailed in the Syndicated facility agreement dated 16 December 2013. All options vested on the date of issue.

(d) Expenses arising from share-based payment transactions

	Consolidated	
	2013	2012
	$'000	$'000
Options issued under Kula Gold Limited Option Plan	**279**	403

28 Parent entity financial information

(a) Summary financial information

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

	Parent entity	
Balance sheet	**2013**	2012
	$'000	$'000
Current assets	**4,918**	5,870
Total assets	**138,583**	109,378
Current liabilities	**2,196**	392
Total liabilities	**26,254**	468
Net Assets	**112,329**	108,910
Shareholders' equity		
Contributed equity	**139,946**	139,946
Share-based payment reserve	**1,254**	15
Accumulated losses	**(28,871)**	(31,051)
Total equity	**112,329**	108,910
(Loss)/Profit for the year	**(24,406)**	(27,098)
Total comprehensive (loss)/profit	**(24,406)**	(27,098)

(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 (2012: $112,486).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2013 (31 December 2012: $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 2013 (31 December 2012: $nil).

29 Events occurring after the reporting period

On 17 February 2014 Woodlark Mining Limited received the Environment Permit for its Woodlark Island gold project. The permit was issued by the PNG Director of Environment. This is a major step forward in obtaining the Mining Lease.

30 Significant matters relating to the ongoing viability of operations

At 31 December 2013, the Company has cash and cash equivalents balance of $3,184,000 and a negative working capital of $224,000. The group reported a net loss of $2,535,000 for the current financial year.

The Company has lodged with the PNG Mineral Resources Authority its Mining Lease Application. The application has been considered by the PNG Mining Advisory Council (MAC) in December 2013 at which it raised a number of issued which included the issuing of the Environment Permit. A reply has been made to the MAC on the issues raised in early 2014. On the 17 February 2014 the Environment Permit was issued by the PNG Director of Environment. The issue of the Mining Lease by the end of the March quarter 2014 is the Company's expectation.

The Company will likely need to secure further funding by debt, equity or joint venture or other for operations and/or development within the next 3 months depending on other corporate activities.

Given the reliance on securing funds from one or more of the above sources, there is some uncertainty as to whether the Company will be successful in securing funds and therefore be able to pay debts as and when they fall due. However, the directors are confident that funding can be obtained to enable the business to continue as a going concern. The Company has received debt funding from its major shareholders, and has expressions of interest from others. Directors are confident that additional debt funding can be secured from one of these sources or an equity or joint venture opportunity will arise. On this basis the directors consider it reasonable that the accounts be prepared on a going concern basis.

In accordance with a resolution of the directors of Kula Gold Limited, I state that:

1. In the opinion of the directors:

   (a) the financial statements and notes of Kula Gold Limited for the financial year ended 31 December 2013 are 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 2013 and of its performance for the year ended on that date; and

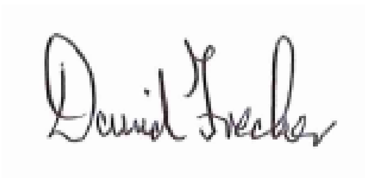
   (ii) complying with Accounting Standards and the *Corporations Regulations 2001;*

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

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

2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for financial year ended 31 December 2013*.*

On behalf of the board



David Frecker
Chairman

Sydney
20 March 2014

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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, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls 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 controls. 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.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

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 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2013. 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.

Opinion

In our opinion, the Remuneration Report of Kula Gold Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 30 in the financial report which describes the principal conditions that raise doubt about the consolidated entities' ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that 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.

Ernst & Young

Anton Ivanyi
Partner
Sydney
20 March 2014

Shareholder Information

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 24 April 2014.

Ordinary share capital

As at 24 April 2014, 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:

	Ordinary shares		Options	
Holding	**Number of Holders**	**Number of Shares**	**Number of Holders**	**Number of options**
1 to 1,000	66	35,898	-	-
1,001 to 5,000	138	420,774	-	-
5,001 to 10,000	92	752,258	-	-
10,001 to 100,000	226	8,552,299	2	164,000
100,001 and over	60	116,491,794	13	36,327,233
	582	126,253,023	15	36,491,233

There were 243 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 10,764,233 unquoted options on issue, held by 9 employees or contractors.

b) Other unlisted options

Option holder	**Number of Options**	**Percentage**
DC Frecker & JM Frecker ATF The GEO Superannuation Fund	712,000	41.23%
Pacific Road Capital Management Holdings Pty Ltd	391,000	22.64%
Merchant Holdings Pty Ltd ATF The Zulu Family Trust	391,000	22.64%
Lee Keith Spencer & Ani Susilo Spencer	233,000	13.49%
	1,727,000	100.00%

c) Options issued under the Syndicated facility agreement

	Number of Options	**Percentage**
Pacific Road Capital Management acting as General Partner of the Pacific Road Resources Fund limited partnership	9,620,000	40.00%
Pacific Road Capital A Pty Limited as trustee of Pacific Road Resources Fund A	1,190,000	5.00%
Pacific Road Capital B Pty Limited as trustee of Pacific Road Resources Fund B	1,190,000	5.00%
RMB Australia Holdings Limited	12,000,000	50.00%
	24,000,000	100.00%

Shareholder Information (continued)

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	18,651,496	14.77%
3	National Nominees Limited	11,101,016	8.79%
4	Pacific Road Capital B Pty Ltd	5,398,327	4.28%
4	Pacific Road Capital A Pty Ltd	5,398,327	4.28%
5	Zero Nominees Pty Ltd	5,142,107	4.07%
6	Brispot Nominees Pty Ltd	2,813,670	2.23%
7	Merchant Holdings Pty Ltd	2,466,068	1.95%
8	Mr Stuart James Pether & Mrs Fiona Maree Pether	1,300,000	1.03%
9	Fancourt Links Pty Ltd	1,267,866	1.00%
10	ABN Amro Clearing Sydney Nominees Pty Ltd	1,193,016	0.94%
11	JP Morgan Nominees Australia Limited (cash income a/c)	1,161,172	0.92%
12	HSBC Custody Nominees (Australia) Limited	985,442	0.78%
13	Citicorp Nominees Pty Limited	951,250	0.75%
14	Awesone Asset Securities Pty Ltd	865,000	0.69%
15	Mr Stanislaw Antoni Zychewicz	805,000	0.64%
16	Gecko Resources Pty Ltd	800,000	0.63%
17	JP Morgan Nominees Australia Limited	735,000	0.58%
18	Mr Godfrey Norman Mantle & Mrs Jennifer Deborah Mantle	695,593	0.55%
19	JDW Investments Australia Pty Ltd	640,000	0.51%
20	UBS Wealth Management Australia Nominees Pty Ltd	608,636	0.48%
		106,553,365	**84.38%**

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	18,651,496	14.77%
National Nominees Limited	11,101,016	8.79%
	84,123,545	66.63%

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 subsidiary, as at 24 April 2014 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%

Mineral Resources and Ore Reserves Statement

JORC 2004 Mineral Resources for the Woodlark Island Gold Project at 0.5g/t gold cut-off grade

Deposit	Category	Resource (Mt)	Grade (Uncut) (g/t Gold)	Grade (Cut) (g/t Gold)	Gold (Uncut) (Oz)	Gold (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**

Note 1: Totals may appear incorrect due to rounding
Note 2: The Busai Indicated Resource includes 0.4Mt @ 1.4/t Au for 20,000oz from overlying alluvial mineralisation.
Note 3: The Busai Inferred Resource includes 0.4Mt @ 1.2/t Au for 15,000oz from overlying alluvial mineralisation and 3.9Mt @ 0.9g/t Au for 110,000oz from Munasi (2km southeast of Busai).
Note 4: The Boniavat Inferred Resource includes 0.3Mt @ 3.0g/t for 30,000oz Au from Watou (1.5km south of Woodlark King).

Mineral Resources and Ore Reserves (continued)

JORC 2004 Woodlark Island Gold Project Resources at 1.0g/t gold cut-off grade

Resource Category	Resource (Mt)	Gold Cut (g/t)	Gold Oz Cut
Measured	5.1	2.34	385,000
Indicated	7.6	2.5	615,000
Inferred	7.0	2.4	545,000
Totals*	**19.7**	**2.45**	**1,550,000**

* as at July 2012 at a 1g/t Au lower cut. Totals may appear incorrect due to rounding

JORC 2004 Woodlark Island Gold Project Ore Reserves at a 1.0g/t gold cut off grade

Deposit	Proved Gold			Probable Gold			Total Gold		
	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**

*as at July 2012 at a 1g/t Au lower cut. Totals may appear incorrect due to rounding

Note: There have been no material changes to the reported resources from what was previously reported under the old 2004 JORC code.

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 a non-executive director 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 Kulumadau, 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.