



KULA GOLD LIMITED

ABN 83 126 741 259

2014 ANNUAL REPORT

Kula Gold Limited ABN 83 126 741 259

2014 Annual Report

Corporate Directory

Directors:	David Frecker	Chairman
	Louis Rozman	Non-executive director
	Lee Spencer	Non-executive director
	Mark Stowell	Non-executive director

Chief Executive Officer Stuart Pether

Company secretary: Leanne Ralph

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Telephone: +61 2 9248 5555

Share registry: Link Market Services Limited
Level 12, 680 George Street
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T: 1300 554 474 or +61 2 8280 7111

Stock exchange listing: Australian Securities Exchange
ASX code: KGD

Kula Gold Limited ABN 83 126 741 259 **2014 Annual Report**

<u>Contents</u>	<u>Page</u>
Chairman's letter	4
Chief Executive Officer's report	5
Directors' report	13
Remuneration report	17
Auditor's independence declaration	26
Corporate governance statement	27
Consolidated statement of comprehensive income	34
Consolidated statement of financial position	35
Consolidated statement of changes in equity	36
Consolidated statement of cash flows	37
Notes to the consolidated financial statements	39
Directors' declaration	72
Independent auditor's report to the members of Kula Gold Limited	73
Shareholder information	75
Interest in mining tenements	77
Mineral resources and ore reserves	77

Chairman's letter

Your Company's major achievement during 2014 was to complete permitting for the Woodlark Island Gold Project in Papua New Guinea.

The Environment Permit for the Project was issued in February 2014 for a term of 20 years; and the Mining Lease was signed by the Minister for Mining and granted with effect from 4 July 2014 for a term of 20 years. Both the Permit and the Lease are subject to agreed conditions. We are appreciative of the professional manner in which the staff of the Department of Environment and Conservation and the Mineral Resources Authority worked through the permitting process with the Company.

In late August 2014, the Company received written confirmation from the PNG Government that it will exercise the State equity option to participate in the development of the Woodlark Island Gold Project by acquiring a 5% interest, to be held on behalf of landowners and the provincial government. In accordance with the terms of the option in all exploration licences, the purchase price will be 5% of the accumulated exploration expenditure on the Project and thereafter proportionate contributions to further exploration and development. The Company is in the process of agreeing the details of this participation with the Government.

The PNG Government's decision to acquire equity in the Project for landowners and the provincial government is further evidence of the strong support Kula Gold is receiving from the Government and local communities on Woodlark Island for the development of the Project.

On Woodlark Island, the Company continues to provide employment opportunities for local people, and health services for them through its clinic at Bomagai. 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 are expected to be formalised in a Memorandum of Agreement to be concluded soon.

During 2014, the Company undertook two equity capital raisings. In June, \$2.15 million was raised through an underwritten non-renounceable rights issue of shares. In November, a total of \$6.56 million, comprising \$3.56 million through an institutional equity placement and \$3.0 million through the conversion of the outstanding working capital debt facility into equity was obtained by the issue of shares and options. The Board was appreciative of the support of a number of its major shareholders in these capital raisings, and was also pleased to welcome a number of new shareholders. The Board is striving to deliver value for all these shareholders.

The next task for the Company's Board and management is to source the funds required, both equity capital and debt finance, to develop the Project. At current gold prices, this presents a challenge. However, the Company approaches this challenge fully permitted and debt free. It has been in discussion with a number of potential investors and financiers, and has appointed advisers to assist it in the process.

The Board thanks the small management team - energetically led by our CEO, Stuart Pether – and all our employees (especially our dedicated employees on Woodlark Island) for their efforts during the year. We thank the Minister for Mining, the Hon. Byron Chan MP, and the Milne Bay Provincial Governor, the Hon. Titus Philemon MP, for their ongoing support of the Woodlark Island Mining Project. We also thank the leaders of the people on Woodlark Island as they patiently wait for the development of the Project to proceed.



David Frecker
Chairman

Chief Executive Officer's report

Overview

The year ending 31 December 2014 has been a period of reducing risk for the Woodlark Island Gold Project. The issue of the Environment Permit and the Mining Lease, along with notification by the State of Papua New Guinea of its decision to acquire a 5% equity interest in the Project, are significant milestones that remove risk and uncertainty for existing shareholders, future investors and Project financiers.

The Company successfully raised funds for working capital and converted the 2013 working capital debt facility into equity. The Company is now free of debt and poised to advance the Woodlark Island Gold Project toward Project funding and production.

All activities during the year have been aimed at advancing the Project toward development and increasing the attractiveness of the Project to future investors and financiers. The key activities and milestones completed during the year are:

- The issues of the Environment Permit for the Woodlark Island Gold Project by the PNG Director of Environment on 17 February 2014. The Permit is for a twenty year term expiring on 15 March 2034.
- The issue of the Mining Lease 508 by the PNG Minister for Mining on 4 July 2014. The Lease is for a term of twenty years and can be extended for a further 10 years.
- The completion of an underwritten non-renounceable rights issue of shares in June 2014, raising funds for the demonstration of Resource discovery potential at the Project and for working capital.
- An institutional equity placement of shares and the conversion of the 2013 working capital debt facility into equity was completed in November. This has left the Company debt free and sufficiently funded to advance the Project toward development.
- A Helimag survey was undertaken in July 2014 on high priority target areas in the central part of Woodlark Island. The high quality magnetic and structural data will allow for more efficient on ground locating of identified exploration targets.
- Analysis of the Helimag data and follow up low cost drilling and trenching programs were undertaken on two of the highest priority target areas. The program where planned to demonstrate the improved targeting process and Resource growth potential. A number of zones of ore grade gold mineralisation were identified, confirming the significant potential to expand the Woodlark Island Gold Project resource base.
- The State of Papua New Guinea exercised the option to acquire a 5% equity in the Woodlark Island Gold Project for the payment of sunk costs and commitment to contributing to the corresponding percentage of future exploration and development costs within Mining Lease 508. The acquired equity interest will be allocated by the State to local landowners and the Milne Bay Provincial Government.

Corporate

The Company successfully raised working capital during the year via an underwritten 1 for 5 non-renounceable rights issue in June 2014, raising \$2.15 million from existing shareholders and via an institutional equity placement to major shareholders and new and sophisticated investors in November, raising \$3.56 million.

The \$3 million working capital debt facility was converted into equity under the same terms as the November equity placement and left the Company debt free and with working capital to continue to advance the Woodlark Island Gold Project towards production.

Cost control continued during the year to conserve the Company's cash position during the permitting process. Personnel numbers were further reduced at a corporate and Project level.

A funding advisor was appointed to assist the Company in identifying funding options for the development of the Woodlark Island Gold Project.

Strategic advisors for Australia and North America were appointed to assist with negotiations around the future funding and development opportunities for the Woodlark Island Gold Project.

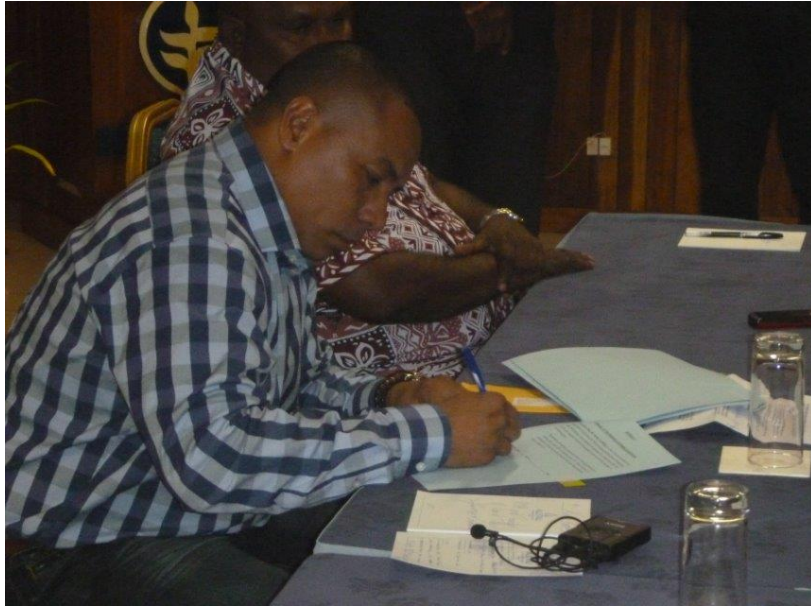
Permits and Licenses

The Environment Permit for the Woodlark Island Gold Project was issued by the PNG Director of Environment on 17 February 2014. The issue of the Permit was the result of a 12 month process assessing the Project Environmental Impact Statement (EIS) by the PNG Department of Environment and Conservation (DEC).

The DEC assessment involved a technical review by an independent marine and environmental consultancy, a public consultation process and a final recommendation to the Minister for Environment and Conservation by the PNG Environmental Council, a Government appointed independent group of PNG professionals.

Chief Executive Officer's report (continued)

The Mining Lease for the Project was signed by the Papua New Guinea Minister for Mining, the Hon. Byron Chan MP, on Friday 4 July 2014. The signing ceremony was held in Alotau, the capital of the Milne Bay Province and was attended by the Governor for Milne Bay Province, the Hon. Titus Philemon MP, senior executives from the Mineral Resources Authority and the Milne Bay Provincial Government, representatives of the Woodlark Island Landowner's Association, representatives of Woodlark Mining Limited and a number of other interested stakeholders.



The Minister for Mining the Hon. Byron Chan MP,
signing the Woodlark Island Gold Project Mining Lease.

The Mining Lease is for a term of 20 years and under the Mining Act is be capable of being extended for a further period not exceeding 10 years.

Chief Executive Officer's report (continued)

Mineral Resources

Mineral Resources for the Woodlark Island Gold Project remain unchanged. The current 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	905,000
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).

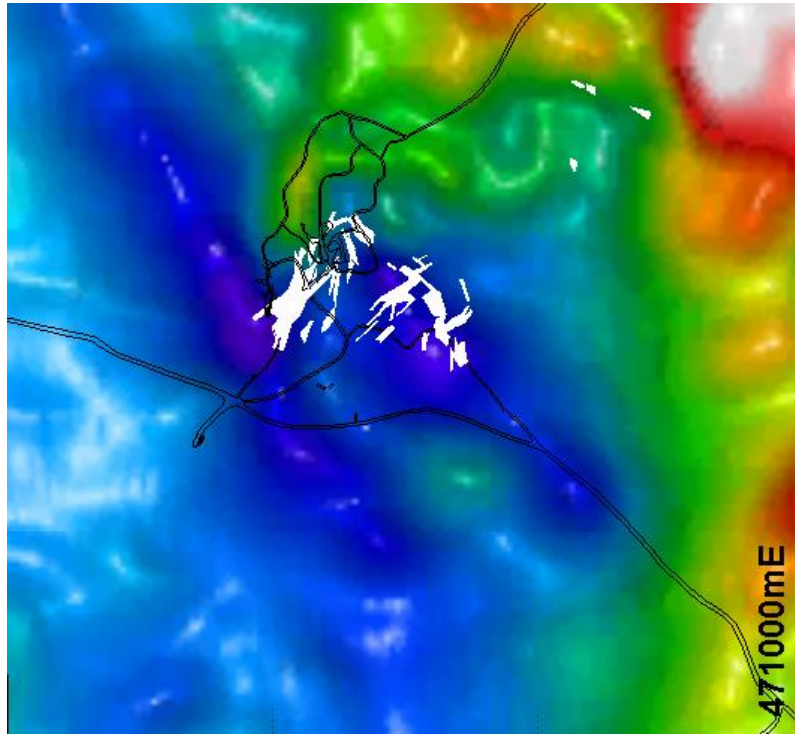
Helimag Survey

A Helimag survey over the central part of Woodlark Island was completed during the year. The survey covered the most prospective part of Woodlark Island which also contains the current 2.12 million ounces of Mineral Resources and the Mining Lease. The results confirm the Company's view that the Project's current resource base could be significantly expanded with further focused exploration beneath the thin overlying cover sediments.

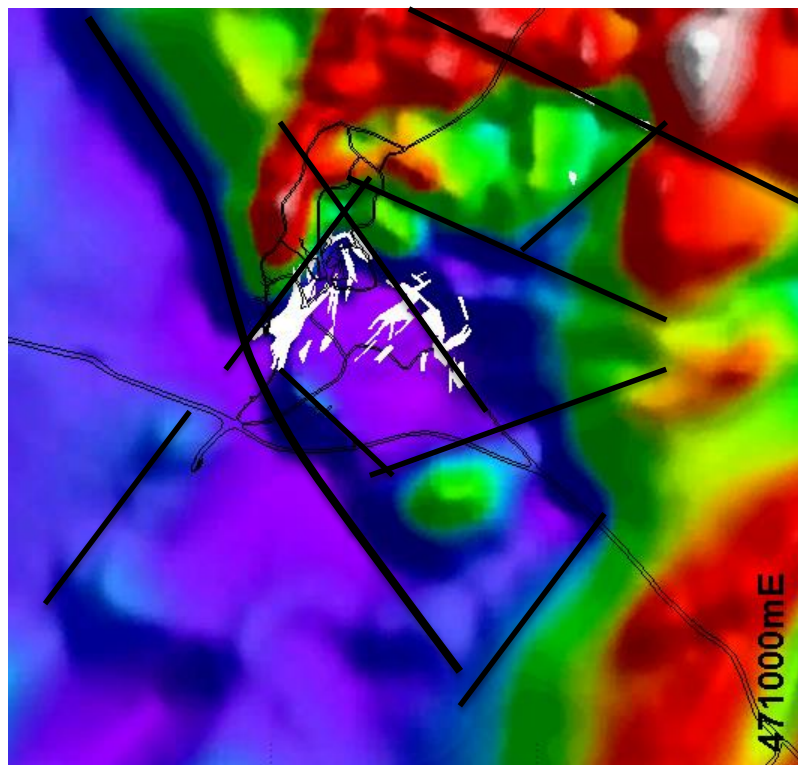
A significant amount of geological knowledge has been accumulated during the discovery of the current Mineral Resources. The relationship between host rocks, alteration, bounding structures and the economic mineralisation at the known deposits, has been integrated with the magnetic data resulting in a significantly improved understanding of gold mineralising controls within the current Mineral Resources. It is now clear that the magnetic lows associated with the Mineral Resources are fault bounded by NE and NW trending structures. The fault bounded nature of these magnetic lows were not apparent from the previous historic aeromagnetic data, collected by previous Project owners.

This understanding has been applied to enable a low cost and more efficient regional exploration phase. Additional resource discovery will add to the profitability of the 1.8Mtpa Project and potentially enable an upgrade of capacity in a stage 2 expansion to 4Mtpa.

Chief Executive Officer's report (continued)



Historic aeromagnetic data at Kulumadau and known mineralisation outlined in white.



New Helimag survey data and structural interpretation at Kulumadau and known mineralisation outlined in white.

This new understanding has led to an improved targeting process and resulted in the more efficient exploration of targets located under the thin sediment cover.

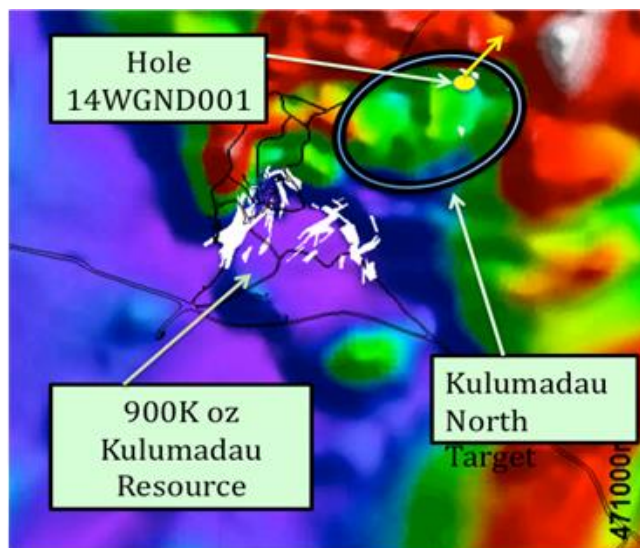
Chief Executive Officer's report (continued)

Kulumadau North Drilling Program

A drilling program was completed on the Kulumadau North area on the north-eastern flank of the interpreted magnetic low from the new magnetics data. The first hole 14WGND001 returned 11 metres of ore grade mineralisation over 3 zones from 58 metres down hole. The second hole 14WGND002 was drilled 200 metres west of the first hole intersected 36 metres of argillic alteration with associated elevated base metals, however contained no significant gold assays.

The intersection of significant widths of ore grade mineralisation and the encouraging presence of alteration and associated base metals confirms that a significant hydrothermal system lies to the north of the Kulumadau Mineral Resource, as indicated by the Helimag data and shows the potential to expand the existing Project gold resource. The detailed results are in the table below:

Hole ID	Easting	Northing	Azimuth	Dip	Interval		Assay
					From	To	g/T Au
14 WGND001	470215mE	8996669mN	051.5°mag	-55°	3	5	1.77
					41	47	3.6
					55	58	1.6
14 WGND002	470041mE	8996712mN	059°mag	-59			No significant assays



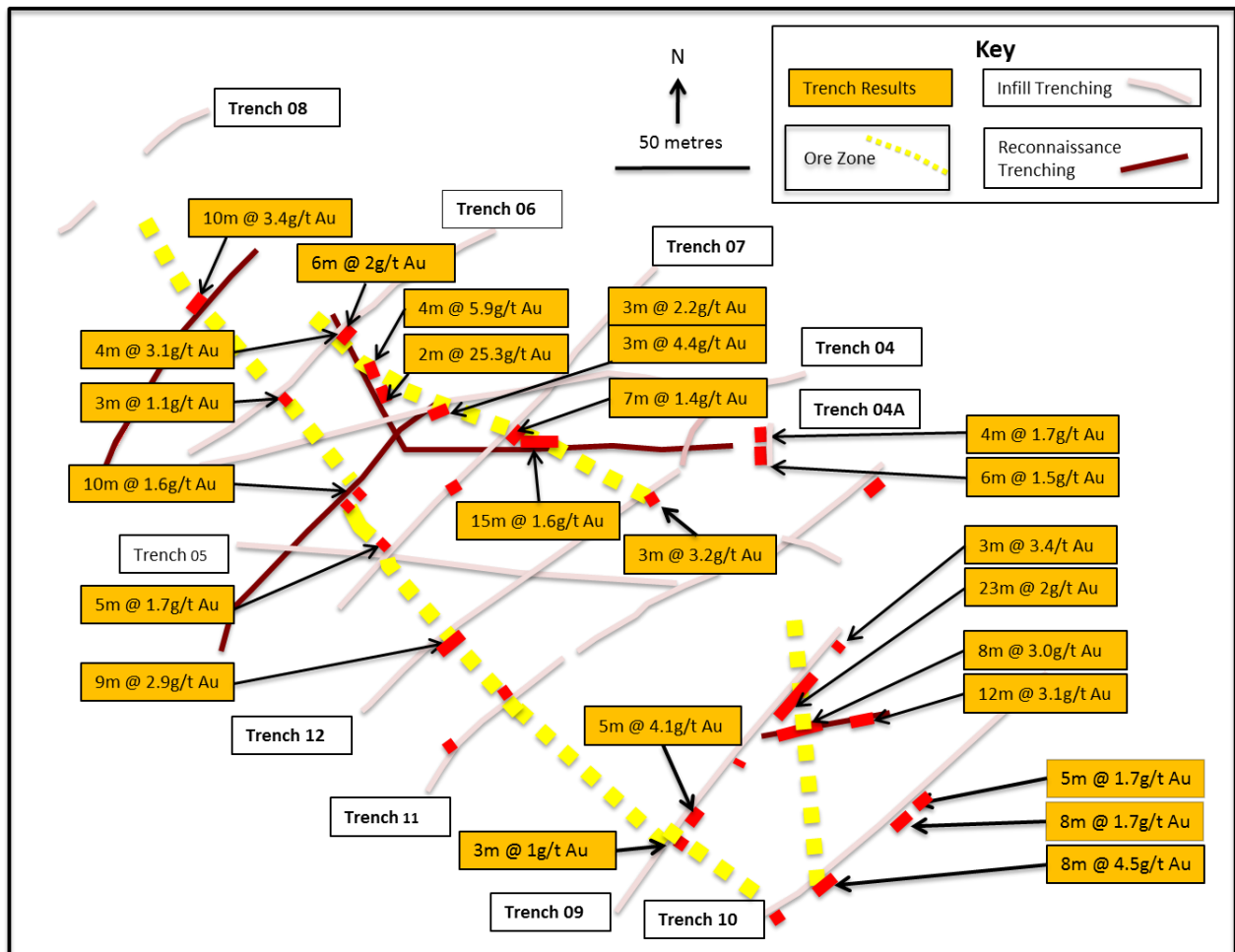
Helimag Image, Resources and Drill Hole Location Kulumadau North

Chief Executive Officer's report (continued)

Watou Trenching Program

A total of 1,930 metres of reconnaissance and infill trenches were completed on approximately 30 metres spacing over a 400 metre strike length within the Watou target area.

Samples were secured on one metres intervals by the collection of rock and soil material from a regular shaded slot cut into the wall of the trench. The trenching results have confirmed the presence of at least two zones of surface mineralisation which demonstrate strike continuity with associated ore grade gold assays and at the third new zone open along strike.



Watou Infill Trenching Locations and Results.

The western mineralised zone is associated with a steeply dipping NW striking structure hosting silicified hydrothermal breccias adjacent to a felsic dyke. A WNW striking quartz vein zone varying in width between 3 and 6 metres has been confirmed to the east of the breccia zone. This quartz vein system dips westerly towards the breccia zone with the postulated intersection of the two zones being of significant exploration interest.

A third quartz vein zone striking NS has been partially delineated in the south where indicative widths range from 8 to 23 metres with attendant higher gold grades. Further trenching is required to confirm strike continuity of this latter quartz vein zone towards the north and south. The western breccia zone is open to the SE and the NW where Helimag and geochemical data indicate the possibility of further mineralisation.

Chief Executive Officer's report (continued)

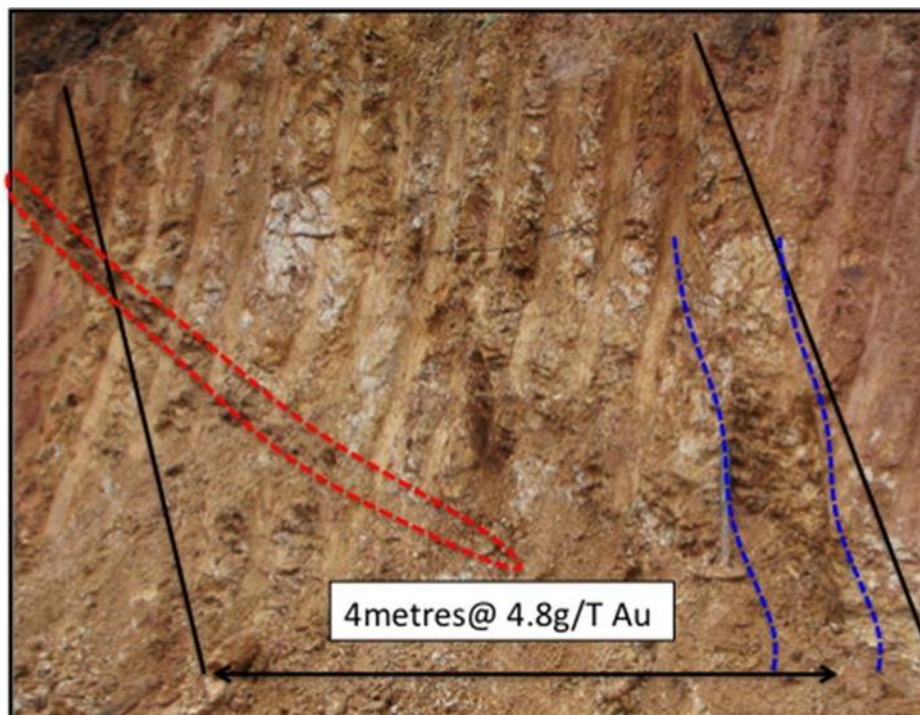
Little Mackenzie Trenching Program

A 106 metre long reconnaissance trench was completed at the Little Mackenzie target area which is formed by the north-west trending Woodlark King-Illawarra Fault Zone and a north-east trending fault adjacent to an intense magnetic low identified by the new Helimag data. The trench was located on the apex of a ridge characterised by thick soil cover and delineated as being a prime target for epithermal gold mineralisation. Assays from trenching returned the following results:

- Zone 1: 4 metres @ 4.8 g/t Au
- Zone 2: 13 metres @ 2.0 g/t Au
- Zone 3: 4 metres @ 1.9 g/t Au

The three zones were contained within a 40 metre section of the trench with Zones 2 and 3 separated by 4 metres and Zone 1 by 15 metres. The trench was oriented perpendicular to the NE strike of the zones, based on current geological understanding. Three other zones of strong alteration were also intersected of similar dimensions with assays of less than 1 g/t Au, but with associated base metals indicating potential at depth or along strike.

The mineralisation exposed by trenching at Zone 1 displayed silicified hydrothermal breccias, cut by later flat-lying quartz veins within a strongly argillised envelope. Grab samples of the breccia returned assays up to 28.9 g/t Au. A chip sample from a 0.3 metre wide silicified structure in Zone 2 returned 11.6 g/t Au within a 1 metre zone assaying 4.5 g/t Au.



Little Mackenzie trenching exposed NE trending 4 metre wide zone of argillic alteration showing silicified hydrothermal breccias (blue), flat-lying quartz vein (red).

State Equity

The PNG State exercised its option to acquire a 5% interest in the Woodlark Island Gold Project, which will be shared between the local landowners and the Milne Bay Provincial Government. The 5% interest will see the PNG State contributing 5% of the historic sunk costs, estimated at between US\$5 and US\$6 million and 5% of the future exploration and construction costs up to the point of first production on the Mining Lease.

Chief Executive Officer's report (continued)

Site Operations

No serious or lost time injury were record at the Project during the year. Work activities at the Woodlark Island Gold Project were focused on Project approvals, demonstrating further resource potential through the Helimag survey, conducting trenching and drilling programs and maintaining the Project infrastructure and assets.

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

The Company manages community and social issues through its community relations department on the island 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 health services to Company employees, their extended families and the community.
- **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 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. This was especially so during the Mining Lease and Memorandum of Agreement processes. 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 2014.

Directors

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

David Frecker
Lee Spencer
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 (2013: \$nil).

Result of operations

The net loss from operations of the consolidated entity was \$53,230,000 (2013: loss of \$2,535,000).

Review of operations

The receipt of the Environment Permit for Woodlark Island Gold Project (the Project) on 17 February 2014 and the Mining Lease (ML508) on 4 July 2014 means the Project is fully permitted and licensed, and is the result of the hard work and determination of the Board, management and employees of the Company.

On 19 August 2014 management received notification that the PNG State had exercised its right to acquire a 5% interest in the Woodlark Island Gold Project, on behalf of the landowners and Provincial Government, through a letter dated 17 June 2014. Initial communication and negotiations have commenced with the PNG Treasury and Mineral Resource Development Company, with the intention of concluding the terms of the agreement in the first half of 2015.

During the year the Company raised proceeds of \$5,375,000 (net of transaction costs) and the working capital debt facility of \$3.0M, that was set up to ensure continued funding of the Company's operations, was converted to equity. This leaves the Company in a debt free position and funded to continue the efforts of securing Project funding.

On 21 October 2014 Garry Perotti was appointed Chief Financial Officer (CFO) of the Company. Garry has over 27 years' experience in corporate finance, financial management, accounting and commercial roles.

Significant matters relating to the ongoing viability of operations

At 31 December 2014 the Company had cash and cash equivalents balance of \$2,732,000. The Group reported a net loss of \$53,230,000 for the current financial year.

Now that the Project is fully permitted and licensed, the Board's objective is to place the Project in a position to secure funding through debt, equity, a corporate transaction or a joint venture agreement in order to progress the Project to the construction phase.

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 converted the debt funding, received from its major shareholders, to equity. It is anticipated that funds will be made available to the Company through equity raising or through a joint venture or corporate transaction should an opportunity arise. On this basis the Directors consider it reasonable that the accounts be prepared on a going concern basis.

Directors' report (continued)

Significant changes in the state of affairs

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

Likely developments and expected results of operations

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

Environmental regulation

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

Information on directors

David Frecker BA, LL.M *Independent Chairman and Non-executive director.* Age 66.

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

- 1,120,000 ordinary fully paid shares.
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares. Exercise price \$1.80, expiry 1 Dec 2015
- 612,000 KGDOPT8 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018
- 500,000 KGDOPT10 class options to acquire ordinary fully paid shares. Exercise price \$0.125, expiry 28 Nov 2016

Directors' report (continued)

Information on directors (continued)

Lee Spencer MSc App (Mineral exploration) *Non-executive director. Age 61.*

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 Dec 2015
- 1,500,000 KGDOPT5 class options to acquire ordinary fully paid shares. Exercise price \$2.00, expiry 16 Dec 2016
- 233,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018

Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec) *Non-executive director. Age 57.*

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 Fellow 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 and Carbon Energy Ltd.

Former directorships in last 3 years

Mawson West Ltd.

Special responsibilities

Non-executive director.

Chairman of the risk committee.

Chairman of the remuneration and nomination committee.

Interests in shares and options

- 813,605 ordinary fully paid shares;
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares. Exercise price \$1.80, expiry 1 Dec 2015
- 291,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018
- 20,944 KGDOPT9 class options to acquire ordinary fully paid shares. Exercise price \$0.125, expiry 31 Aug 2018
- 159,280 KGDOPT10 class options to acquire ordinary fully paid shares. Exercise price \$0.125, expiry 28 Nov 2016

Directors' report (continued)

Information on directors (continued)

Mark Stowell BBus, CA *Independent Non-executive director. Age 51.*

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 director of Incremental Petroleum Limited, an oil and gas producer with operations in Turkey and the USA until its takeover in 2009. He is a Non-executive director and founder of Mawson West Ltd, a Toronto Stock Exchange (TSX:MWE) listed copper miner operating in Africa. Mark is also Chairman of Incremental Oil and Gas Ltd, (ASX: IOG) a USA oil and gas producer and a director of Orrex Resources Limited.

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.

Interests in shares and options

- 5,515,001 ordinary fully paid shares
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares. Exercise price \$1.80, expiry 1 Dec 2015
- 291,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018
- 800,000 KGDOPT10 class options to acquire ordinary fully paid shares. Exercise price \$0.125, expiry 28 Nov 2016

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 2014, and the numbers of meetings attended by each director were:

Name	Board meetings		Meetings of committees					
	Number eligible to attend	Number attended	Audit		Risk		Remuneration and nomination	
			Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
D Frecker	15	15	3	3	-	-	2	2
L Spencer	15	13	-	-	-	-	-	-
L Rozman	15	15	-	-	-	-	2	2
M Stowell	15	14	3	3	-	-	2	2

Directors' report (continued)

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*.

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.

Directors' report (continued)

Remuneration report (continued)

The Chairman is paid an annual fee of \$70,000 plus superannuation. Other Non-executive directors are paid annual base fees of \$40,000 plus \$10,000 for each chairman of a Board committee, plus superannuation. Where a director acts as a Chairman of more than one Board committee, the maximum remuneration payable is \$10,000.

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

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

Executive compensation

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

The executive compensation and reward framework has three components:

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

Fixed compensation

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

Short-term incentives ("STI")

The remuneration and nomination committee is responsible for assessing whether the key performance indicators are met in light of the Company's corporate goals and objectives and arranges annually a performance evaluation of the Company's senior executives 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
Nil	
Non-executive directors	Position
D Frecker	Non-executive chairman
L Rozman	Non-executive director
L. Spencer	Non-executive director
M Stowell	Non-executive director
Other key management personnel	
S Pether	Chief Executive Officer
G Perotti	Chief Financial Officer (appointed 21 October 2014)

Directors' report (continued)

Remuneration report (continued)

Key management personnel of the Group – 2014

Name	Short-term employee benefits		Annual Leave	Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus		Superannuation	Long service leave	Options	Percentage of total package	
	\$	\$	\$	\$	\$	\$	%	\$
Directors								
D Frecker	70,000	-	-	6,563	-	-	-	76,563
L Spencer	40,000	-	-	3,750	-	-	-	43,750
M Stowell	50,000	-	-	4,688	-	-	-	54,688
Other key management personnel								
S Pether	338,885	140,049	8,785	18,279	6,904	-	-	512,902
G Perotti #	29,891	-	-	2,840	-	-	-	32,731
Total	528,776	140,049	8,785	36,120	6,904	-	-	720,634

Appointed Chief Financial Officer on 21 October 2014

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

Name	Fixed remuneration 2014 %	At risk	At risk
		short-term incentives 2014 %	long-term incentives 2014 %
Directors			
D Frecker	100	-	-
L Spencer	100	-	-
M Stowell	100	-	-
Other key management personnel			
S Pether	61	39	-
G Perotti	100	-	-

Key management personnel of the Group – 2013

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

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 January each year. The annual salary was increased effective 1 January 2014 by CPI of 2.7% to an annual rate of \$347,670. On the 1st of January 2015 the base salary was again increased by the CPI of 1.7% to the annual base rate of \$353,581.
- 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.

G Perotti, Chief Financial Officer

- Commencement of employment date 21 October 2014 as contract Chief Financial Officer;
- Terms of agreement: Contracted to 31 March 2015;
- Base salary: \$150,000 per annum plus superannuation guarantee, inclusive of all benefits;
- Performance bonus: Eligible to be paid a performance related bonus on the successful completion of stipulated KPI's up to a potential total of \$50,000;
- There are no termination benefits and, if required by the Company, the contract will be re-negotiated.

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.

Directors' report (continued)

The following options are held by directors and key management personnel of the Company as at 31 December 2014:

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	77	23

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 2014 (2013: 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	3,962,000
20 Dec 2013	20 Dec 2018	\$0.17	1,427,000
20 Dec 2013	31 Aug 2018	\$0.125	24,000,000
28 Nov 2014	28 Nov 2016	\$0.125	54,604,178
			90,702,411

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 2014:

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	37	9	37	10
	6	1	40	9	46	10

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	
	2014	2013
	\$	\$
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	6,750	-
Other tax advice	-	-
PricewaterhouseCoopers Australian firm:		
Tax compliance service	-	8,800
Other tax advice	-	-
Related practices of PricewaterhouseCoopers Australian firm	-	16,179
Total remuneration for taxation services	6,750	24,979
Total remuneration for non-audit services	6,750	28,479

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.

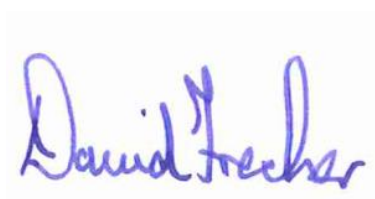
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26 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, 30 March 2015

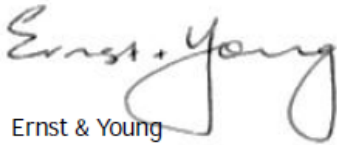


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Auditor's Independence Declaration to the Directors of Kula Gold Limited

In relation to our audit of the financial report of Kula Gold Limited for the financial year ended 31 December 2014, 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



Trent van Veen
Partner
Sydney
30 March 2015

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, principles 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. 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 Chief Executive Officer is not occupied by the same individual.

Recommendation 2.4: The Board should establish a nomination committee.

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

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

The Company's corporate governance plan provides for annual performance reviews of the Board as a whole, the 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 2014.

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.

These objectives were not achieved. Due to natural attrition of the workforce during the reporting period the percentage of females to total employees has reduced, as shown in the directors' report under the title "Employees" (10 female employees out of a total of 51 employees). There was no need to appoint any directors during the year and thus no opportunity to appoint 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 policies are in place. The Board has established a risk committee. The Board has delegated to the risk committee responsibility for identifying and overseeing major risk areas and that systems are in place to manage them, and report to the Board as and when appropriate.

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

The risk committee has developed and maintains a risk register which identifies the risks to the Company and its operation and assesses the likelihood of their occurrence. The risk register is updated periodically and is normally presented to the Board for its consideration 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 G Perotti (CFO) have made the following certifications to the Board:

- the financial records of the Company (and the consolidated entity) have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*; and
- the financial statements and notes to the financial statements of the Company and the consolidated entity comply with the relevant accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- give a true and fair view of the Company's (and consolidated entity's) financial position and performance.

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 contract of employment or engagement 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".

Kula Gold Limited ABN 83 126 741 259
Annual report - 31 December 2014

<u>Contents</u>	<u>Page</u>
<u>Financial Statements</u>	
Consolidated statement of comprehensive income	34
Consolidated statement of financial position	35
Consolidated statement of changes in equity	36
Consolidated statement of cash flows	37
Notes to the consolidated financial statements	39
Directors' declaration	72
Independent auditor's report to the members of Kula Gold Limited	73

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 13 to 25, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 26 March 2015. The directors have the power to amend and reissue the financial statements.

Kula Gold Limited
Consolidated statement of comprehensive income
For the year ended 31 December 2014

		2014 \$'000	Consolidated	2013 \$'000
	Notes			
Other income - interest	5	51		132
Expenses				
Employee benefits expense		(1,135)		(1,627)
Professional and consulting expenses		(285)		(490)
Rental expense	6	(243)		(179)
Insurance expense		-		(96)
Borrowing costs	6	(931)		(29)
Impairment of exploration & evaluation expenditure	12	(50,214)		-
Foreign exchange gain		1		1
Other expenses		(474)		(247)
Loss before income tax		<u>(53,230)</u>		<u>(2,535)</u>
Income tax benefit/(expense)	7	-		-
Loss for the year from continuing operations		<u>(53,230)</u>		<u>(2,535)</u>
Other comprehensive income				
Items that may be reclassified to profit and loss				
Exchange differences on translation of foreign operations	18(a)	2,067		1,685
Total comprehensive (loss)/income for the year		<u>(51,163)</u>		<u>(850)</u>
			Cents	Cents
Loss per share for losses from continuing operations attributable to the ordinary equity holders of the Company:				
Basic loss per share	26	(35.02)		(2.01)
Diluted loss per share	26	(35.02)		(2.01)

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

Kula Gold Limited
Consolidated statement of financial position
As at 31 December 2014

	Notes	2014 \$'000	Consolidated 2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	2,617	3,069
Receivables and other assets	9	186	181
Inventories	10	291	359
Total current assets		3,094	3,609
Non-current assets			
Property, plant and equipment	11	1,571	2,089
Mineral exploration and evaluation expenditure	12	65,428	109,654
Other non-current assets	13	115	115
Total non-current assets		67,114	111,858
Total assets		70,208	115,467
LIABILITIES			
Current liabilities			
Trade and other payables	14	390	805
Borrowings	15	-	2,069
Total current liabilities		390	2,874
Non-current liabilities			
Provisions	16	303	264
Total non-current liabilities		303	264
Total liabilities		693	3,138
Net assets		69,515	112,329
EQUITY			
Contributed equity	17	148,295	139,946
Reserves	18(a)	15,150	13,083
Accumulated losses	18(b)	(93,930)	(40,700)
Total equity		69,515	112,329

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

Kula Gold Limited
Consolidated statement of changes in equity
For the year ended 31 December 2014

Attributable to owners of Kula Gold Limited

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Total reserves	Accumulated losses	Total equity
Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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	-	-	1,685	1,685	-	1,685
Total comprehensive income/(loss) for the year	-	-	1,685	1,685	(2,535)	(850)
Transactions with owners in their capacity as owners:						
Share-based payments	-	1,239	-	1,239	-	1,239
Balance at 31 December 2013	139,946	1,254	11,829	13,083	(40,700)	112,329
Balance at 1 January 2014	139,946	1,254	11,829	13,083	(40,700)	112,329
Loss for the year	-	-	-	-	(53,230)	(53,230)
Exchange differences on translation of foreign operations	-	-	2,067	2,067	-	2,067
Total comprehensive income/(loss) for the year	-	-	2,067	2,067	(53,230)	(51,163)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transactions costs and tax	8,349	-	-	-	-	8,349
Balance at 31 December 2014	148,295	1,254	13,896	15,150	(93,930)	69,515

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

Kula Gold Limited
Consolidated statement of cash flows
For the year ended 31 December 2014

	Notes	2014 \$'000	Consolidated 2013 \$'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(1,785)	(2,222)
Interest and other costs of finance paid		(239)	-
Interest income		51	161
Net cash outflow from operating activities	25	<u>(1,973)</u>	<u>(2,061)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	11	(15)	(32)
Payments for exploration activities		(3,814)	(5,808)
Net cash outflow from investing activities		<u>(3,829)</u>	<u>(5,840)</u>
Cash flows from financing activities			
Proceeds from issues of shares (net of transaction costs)	17	8,349	-
Proceeds from borrowings	15	(3,000)	3,000
Net cash inflow from financing activities		<u>5,349</u>	<u>3,000</u>
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the financial year	8	3,184	8,036
Effects of exchange rate changes on cash and cash equivalents		(99)	49
Cash and cash equivalents at end of year	8	<u>2,732</u>	<u>3,184</u>

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

Notes to the consolidated financial statements

<u>Contents</u>	<u>Page</u>
1. Summary of significant accounting policies	39
2. Financial risk management	47
3. Critical accounting estimates and judgements	49
4. Segment information	50
5. Revenue	50
6. Expenses	50
7. Income tax (benefit)/expense	51
8. Current assets - Cash and cash equivalents	52
9. Current assets – Receivables and other assets	52
10. Current assets - Inventories	53
11. Non-current assets - Property, plant and equipment	53
12. Non-current assets - Mineral exploration and evaluation expenditure	54
13. Non-current assets - Other non-current assets	55
14. Current liabilities - Trade and other payables	55
15. Borrowings	55
16. Non-current liabilities - Provisions	56
17. Contributed equity	56
18. Reserves and accumulated losses	58
19. Key management personnel disclosures	59
20. Remuneration of auditors	63
21. Contingencies	63
22. Commitments	64
23. Related party transactions	64
24. Subsidiary	65
25. Reconciliation of loss after income tax to net cash outflow from operating activities	65
26. Earnings per share	65
27. Share-based payments	66
28. Parent entity financial information	70
29. Events occurring after the reporting period	70
30. Significant matters relating to the ongoing viability of operations	71

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

The new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2014 are as follows:

i) AASB 2013-3 Amendments to AASB 136 – Recoverable amounts disclosed for non-financial assets

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.

(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 2014 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.

(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.

1 Summary of significant accounting policies (continued)

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.

(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 and exploration and evaluation expenditure, 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.

1 Summary of significant accounting policies (continued)

(k) 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.

(l) Property, plant and equipment

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

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(m) 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)).

(n) 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.

(o) 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.

(p) Provisions

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

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

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

(q) 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.

1 Summary of significant accounting policies (continued)

(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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

1 Summary of significant accounting policies (continued)

(v) 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).

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 reporting periods. The group's assessment of the relevant new standards and interpretations are set out below.

i) AASB 9 - Financial Instruments (effective for reporting periods from 1 January 2018)

AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Amendments to AASB 9 (December 2009 & 2010 editions) (AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

AASB 9 includes requirements for a simpler 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.
- 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:
 - i. The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
 - ii. The remaining change is presented in profit or loss

1 Summary of significant accounting policies (continued)

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised 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, AASB 2010-10 and AASB 2014-1 – Part E.

AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.

ii) AASB 2014-4 – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for reporting periods from 1 January 2016)

AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

iii) AASB 15 – Revenue from Contracts with Customers (effective for reporting periods from 1 January 2017)

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services).

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- a. Step 1: Identify the contract(s) with a customer
- b. Step 2: Identify the performance obligations in the contract
- c. Step 3: Determine the transaction price
- d. Step 4: Allocate the transaction price to the performance obligations in the contract
- e. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Early application of this standard is permitted.

AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

iv) AASB 2014-10 – Amendments to Australian Accounting Standards (effective for reporting periods from 1 January 2016)

AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:

- a. a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and
- b. a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

AASB 2014-10 also makes an editorial correction to AASB 10.

AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.

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:

	2014	Consolidated	2013	2013
	PGK	2014	2013	2013
	A\$'000	USD	PGK	USD
	A\$'000	A\$'000	A\$'000	A\$'000
Cash	154	24	87	25
Payables	(52)	-	(46)	(30)
Net exposure	72	24	41	(5)

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	2014	2013
	\$'000	\$'000
AUD increase against foreign currencies	(11)	(5)
AUD decrease against foreign currencies	14	6

(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 2014, 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. 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.

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 2014	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	390	-	-	-	-	390	390
Total non-derivatives	390	-	-	-	-	390	390

At 31 December 2013	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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

(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 employees for continued employment of the directors and employees 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 more than 125% from current levels for the 24,000,000 options at 12.5 cents each issued to the financiers of the Syndicated debt facility and the 54,604,178 options at 12.5 cents each issued to the financiers on the conversion of the Syndicated debt facility to equity and to the investors who purchased shares through the share placement in November 2014 to reach the option exercise price.

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

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%.

The Company reviews the value of exploration and evaluation on a periodic basis in accordance with AASB6. Following permitting of the Woodlark Island Gold Project in the second half of the financial year, the carrying value of Exploration Expenditure has been reviewed at year end. The assumptions used are disclosed in Note 12.

(ii) Functional currency

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

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 Other income

	2014	Consolidated
	\$'000	2013
		\$'000
Other income from continuing operations		
Interest income	51	132
	51	132

6 Expenses

	2014	Consolidated
	\$'000	2013
		\$'000
Loss before income tax includes the following specific expenses		
Depreciation		
Buildings	33	34
Plant and equipment	376	508
Furniture and fittings	19	37
Motor vehicle and boats	97	176
Less: Capitalised to mineral exploration and evaluation expenditure	(519)	(730)
Total depreciation	6	25
Amortisation		
Exploration licence	-	-
Less: Capitalised to mineral exploration and evaluation expenditure	-	-
Total amortisation	-	-
Total depreciation and amortisation	6	25
Rental expense relating to operating leases		
Minimum lease payments	243	179
Options issued under Kula Gold Limited Option Plan	-	279
Less: Capitalised to mineral exploration and evaluation expenditure	-	(38)
Employee option expense	-	241
Debt borrowing costs	931	29
Impairment of exploration and evaluation expenditure	50,214	-

7 Income tax (benefit)/expense

	2014	Consolidated
	\$'000	2013
		\$'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(53,230)	(2,535)
Tax at the Australian tax rate of 30% (2013: 30%)	(15,969)	(760)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	-	81
Impairment of capitalised exploration & evaluation expenditure	15,064	-
Management fees (elimination)	737	631
Unrealised foreign exchange variances	7	(12)
Sundry items	(6)	(163)
Borrowing expenses	-	77
Allowable capital expenditure (Papua New Guinea)	7	116
Income tax benefit not recognised	159	31
Total income tax expense	-	-

(b) Tax losses

Australian unused tax losses for which no deferred tax asset has been recognised	742	211
Potential tax benefit at the Australian tax rate of 30% (2013: 30%)	223	63

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.

(c) Unrecognised temporary differences

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	(12)	53
Capital raising costs	(105)	-
Borrowing costs	-	(77)
Accruals	18	110
Sundry items	(7)	12
	(106)	98

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

	2014	Consolidated
	\$'000	2013
		\$'000
Exploration expenditure for which no deferred tax asset has been recognised	65,428	109,654
Potential tax benefit at the Papua New Guinea tax rate of 30% (2013: 30%)	19,628	32,896

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.

7 Income tax (benefit)/expense

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

	2014 \$'000	Consolidated 2013 \$'000
Cash at bank and in hand	307	3,069
Short-term deposits*	2,310	-
	<u>2,617</u>	<u>3,069</u>

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	307	3,069
Short-term deposits*	2,310	-
Non-current assets – deposits (Note 13)	115	115
	<u>2,732</u>	<u>3,184</u>

*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

	2014 \$'000	Consolidated 2013 \$'000
Goods & services tax receivable	18	18
Prepayment and other receivables	168	163
	<u>186</u>	<u>181</u>

(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

	2014	Consolidated
	\$'000	2013
		\$'000
Inventory: Consumables	291	601
Less: provision for write-down	-	(242)
	291	359

(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 \$245,000 (2013: \$242,000).

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 2013						
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	5,885	
Accumulated depreciation	(169)	(2,079)	(164)	(1,384)	(3,796)	
Net book amount	689	1,219	63	118	2,089	
Year ended 31 December 2014						
Opening net book amount	689	1,219	63	118	2,089	
Additions	-	12	3	-	15	
Depreciation charge	(35)	(401)	(19)	(103)	(558)	
Exchange differences	8	16	0	1	25	
Closing net book amount	662	846	47	16	1,571	
At 31 December 2014						
Cost	868	3,349	235	1,519	5,971	
Accumulated depreciation	(206)	(2,503)	(188)	(1,503)	(4,400)	
Net book amount	662	846	47	16	1,571	

Total depreciation charge for the year is \$526,000 (2013: \$755,000) of which \$519,000 (2013: \$730,000) 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 2013			
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
Closing net book amount	-	109,654	109,654
At 31 December 2013			
Cost	9,527	109,654	119,181
Accumulated amortisation	(9,527)	-	(9,527)
Net book amount	-	109,654	109,654
Year ended 31 December 2014			
Opening net book amount	-	109,654	109,654
Exchange differences	-	1,689	1,689
Additions	-	4,299	4,299
Impairment of exploration and evaluation expenditure	-	(50,214)	(50,214)
Closing net book amount	-	65,428	65,428
At 31 December 2014			
Cost	9,527	65,428	74,955
Accumulated amortisation and write-off	(9,527)	-	(9,527)
Net book amount	-	65,428	65,428

The Feasibility Study was completed in the prior period and determined where mining was to occur. 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 expenditure is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. Given the adverse movements in commodity prices and following obtaining all necessary permitting approvals, a full review of the carrying value of exploration and evaluation expenditure has been conducted as at 31 December 2014.

Impairment of exploration and evaluation expenditure

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggests that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The Company's review of its exploration and evaluation expenditure included consideration of :

- a discounted future gold price of US\$1,208 (average for the first six years)
- US\$ to A\$1 exchange rate of US\$0.77
- a weighted average cost of capital of 7.0% per annum
- the mine plan having been updated for latest estimates of construction and operating costs

The evaluation of the carrying value and the recoverability of this asset has resulted in an impairment charge of \$50,213,829 (2013: \$nil)

13 Non-current assets - Other non-current assets

	2014	Consolidated
	\$'000	2013
		\$'000
Deposits	115	115
	115	115

14 Current liabilities - Trade and other payables

	2014	Consolidated
	\$'000	2013
		\$'000
Trade payables	118	392
Other payables and accruals	272	413
	390	805

(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:

	2014	Consolidated
	\$'000	2013
		\$'000
Annual leave obligation expected to be settled after 12 months	80	80
	80	80

(b) Risk exposure

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

15 Current liabilities – Borrowings

	2014	Consolidated
	\$'000	2013
		\$'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 that was provided equally by the two majority shareholders of the Company, Pacific Road

15 Current liabilities – Borrowings (continued)

Capital funds and RMB Australia Holdings Limited (the Lenders) was converted to equity during the current period.

Terms of the loan conversion to equity:

Amount converted: AUD\$3.0million

Date of conversion: 28 November 2014

Share issue: The Company issued 50 million shares at a price of 6 cents per share totalling AUD\$3.0 million.

Security: The mortgage over Woodlark Mining Limited's shares owned by the Company was cancelled and the share certificates returned to the Company on the 27th of February 2015. Furthermore the registration with the "Personal Property Securities Register" was discharged on the 10th of March 2015.

Other: The lenders received options for shares issued for the loan conversion at a rate of one option for every two shares issued (totalling 25 million options) at an option exercise price of 12.5 cents and with an expiry date of 28 November 2016.

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

	2014 \$'000	Consolidated 2013 \$'000
Provision for long service leave	103	67
Provision for rehabilitation	200	197
	<u>303</u>	<u>264</u>

(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 rehabilitation \$'000
Carrying amount at the start of the year - 1 January 2014	197
- charge/(credited) to profit & loss	-
- payments from provision	-
- exchange differences	3
Carrying amount at the end of the year - 31 December 2014	<u>200</u>

17 Contributed equity

	2014 Shares	Parent entity 2013 Shares	2014 \$'000	Parent entity 2013 \$'000
(a) Share capital				
Ordinary shares	<u>260,712,018</u>	126,253,023	<u>148,295</u>	139,946

17 Contributed equity (continued)

(b) Movements in share capital

Date	Details	Number of shares	Issue price \$	Total \$'000
1 January 2013	Opening balance	126,253,023	-	139,946
31 December 2013	Balance	126,253,023		139,946
25 June 2014	Rights issue	25,250,662	0.085	2,146
25 June 2014	Transaction costs on rights issue			(83)
24 October 2014	Share placement (tranche 1)	29,077,459	0.060	1,745
28 November 2014	Share placement (tranche 2)	30,130,874	0.060	1,808
28 November 2014	Debt conversion to equity	50,000,000	0.060	3,000
28 November 2014	Transaction costs of debt conversion and share placement			(267)
31 December 2014	Balance	260,712,018		148,295

Details of the rights issue are as follows:

Rights issue:	
Share price of issue:	8.5 cents per share
Number of shares issued:	25,250,662 ordinary shares
Capital raised:	A\$2,146,110
Associated costs of issue:	A\$ 82,511
Date of issue:	25 June 2014

Non-renounceable entitlement issue of one share for every five shares held by the registered shareholders at the "Record Date" at an issue price of 8.5 cents per share to raise up to \$2,146,301 based on the number of shares on issue. The issue was partially underwritten by Pacific Road Corporate Finance Limited to a total of \$1,200,000.

Details of share placement are as follows:

Share placement:	
Share price of issue:	6.0 cents per share
Number of shares issued:	59,208,333 ordinary shares
Capital raised:	A\$3,552,500
Associated costs of issue:	A\$ 241,258
Date of issue:	24 October 2014 and 28 November 2014

Options:	
Option offer:	One option offered for every two shares issued
Option price:	12.5 cents per option
Options granted:	29,604,178 options
Date of issue:	28 November 2014
Date of expiry:	28 November 2016

Fosters Stockbroking Pty Ltd were engaged to facilitate a placement of 60,000,000 shares at an issue price of 6 cents per share. The placement included a one for two free attaching option at an option price of 12.5 cents per option and a two year expiry period. Details of share placement are as follows:

Details of the debt conversion to equity are as follows:

Debt conversion to equity:	
Share price of issue:	6.0 cents per share
Number of shares issued:	50,000,000 ordinary shares
Capital raised:	A\$3,000,000
Associated costs of issue:	A\$ 25,422
Date of issue:	28 November 2014

17 Contributed equity (continued)

Options:	
Option offer:	One option offered for every two shares issued
Option price:	12.5 cents per option
Options granted:	25,000,000 options
Date of issue:	28 November 2014
Date of expiry:	28 November 2016

This conversion of debt to equity was transacted at the same time and under the same conditions of the share placement as detailed above.

(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

	2014	Consolidated
	\$'000	2013
		\$'000
(a) Reserves		
Share-based payments reserve	1,254	1,254
Foreign currency translation reserve	13,896	11,829
	<u>15,150</u>	<u>13,083</u>
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 January	1,254	15
Option expense	-	1,239
Balance 31 December	<u>1,254</u>	<u>1,254</u>
<i>Foreign currency translation reserve</i>		
Balance 1 January	11,829	10,144
Currency translation differences arising during the year	2,067	1,685
Balance 31 December	<u>13,896</u>	<u>11,829</u>
(b) Accumulated losses		
Balance 1 January	(40,700)	(38,165)
Net loss for the year	(53,230)	(2,535)
Balance 31 December	<u>(93,930)</u>	<u>(40,700)</u>

18 Reserves and accumulated losses (continued)

(b) 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

(iii) Non-executive directors

L Rozman

L Spencer

M Stowell

(iv) Other key management personnel

S Pether - Chief Executive Officer

G Perotti - Chief Financial Officer

(b) Key management personnel compensation

	2014	Consolidated 2013
	\$	\$
Short-term employee benefits	677,610	1,065,680
Post-employment benefits	36,120	45,020
Long-term benefits	6,904	11,857
Share-based payments	-	221,024
	720,634	1,343,581

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 2014 and 2013 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.

No options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2014.

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 2014 (2013: 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 provided as remuneration and 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.

2014 - Options

Name	Balance at start of the year	Granted on basis of 1 option for every 2 shares purchased through share placement	Exercised	Balance at end of the year	Vested and exercisable	Unvested
Directors of Kula Gold Limited						
D Frecker	712,000	500,000	-	1,212,000	1,112,000	100,000
L Spencer	2,859,155	-	-	2,859,155	2,859,155	-
L Rozman	391,000	137,500	-	528,500	428,500	100,000
M Stowell	391,000	800,000	-	1,191,000	1,091,000	100,000
Other key management personnel						
S Pether	3,946,000	500,000	-	4,446,000	4,446,000	-

All vested options are exercisable.

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.

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.

2014 – Ordinary shares

Name	Balance at the start of the year	Purchased during the year on placement	Received during the year on the exercise of options	Received during the year on rights issue	Balance at the end of the year
Directors of Kula Gold Limited					
D Frecker	100,000	1,000,000	-	20,000	1,120,000
L Spencer	579,870	-	-	-	579,870
L Rozman	410,287	318,560	-	84,758	813,605
M Stowell	3,262,500	1,600,000	-	652,501	5,515,001
Other key management personnel					
S Pether	1,300,000	1,000,000	-	300,000	2,600,000

* Represents shares purchased/sold on market.

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	-	-	-	410,287
M Stowell	362,500	-	-	2,900,000	3,262,500
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.

(d) Loans and other transactions with key management personnel

There were no loans made to key management personnel during the reporting period (2013: \$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:

	2014	Consolidated
	\$	2013 \$
(a) PricewaterhouseCoopers Australia		
<i>Audit and other assurance services</i>		
Statutory audit and review of financial statements	-	-
Other assurance services	-	3,500
Total remuneration for audit and other assurance services	-	3,500
<i>Taxation services</i>		
Tax compliance services	-	8,800
Other tax advice	-	-
Total remuneration for taxation services	-	8,800
Total remuneration of PricewaterhouseCoopers Australia	-	12,300
(b) Network firms of PricewaterhouseCoopers Australia		
<i>Audit and other assurance services</i>		
Statutory audit and review of financial statements	-	-
Total remuneration of audit and other assurance services	-	-
<i>Taxation services</i>		
Tax compliance services	-	6,292
Other tax advice	-	9,887
Total remuneration for taxation services	-	16,179
Total remuneration of related practices of PricewaterhouseCoopers Australia	-	16,179
(c) Ernst & Young Australia		
<i>Audit and other assurance services</i>		
Statutory audit and review of financial statements	60,000	82,500
Total remuneration for audit and other assurance services	60,000	82,500
<i>Taxation services</i>		
Tax compliance services	6,750	-
Other tax advice	-	-
Total remuneration for taxation services	6,750	-
Total remuneration of Ernst & Young Australia	66,750	82,500

21 Contingencies

The Group had no contingent assets or liabilities at 31 December 2014 (2013: \$nil).

22 Commitments

	2014	Consolidated
	\$'000	2013
		\$'000
(a) Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	250	240
Later than one year but not later than five years	-	250
	250	490

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 2014:

- Companies associated with Pacific Road group of entities & RMB Resources Limited (& associated entities), who are the majority shareholders of the Company converted the debt finance with the Company to equity during the year.

Terms of the conversion of the finance facility to equity are as follows:

Amount converted: AUD\$3.0million

Shares:

Share price on conversion: 6 cents per share

Number of shares issued: 50,000,000 (fifty million) ordinary shares

Date of issue: 28 November 2014

Options:

Option offer: One option offered for every two shares issued

Option price: 12.5 cents per option

Options granted: 25,000,000 (twenty five million) options

Date of issue: 28 November 2014

Date of expiry: 28 November 2016

Security: The charge over the Company's assets and the mortgage over Woodlark Mining shares owned by the Company have been cancelled.

This transaction was approved by the shareholders at a General Meeting held at the Kula Gold offices on Wednesday 26 November 2014. The security held has been released and all documents returned to the Company.

- Fees paid to Ashurst Australia \$5,995 for general legal advice. D Frecker, a director of the Company, is a consultant to 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	
			2014 %	2013 %
Woodlark Mining Limited	Papua New Guinea	Ordinary	100	100

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

	2014 \$'000	Consolidated 2013 \$'000
Loss for the year	(53,230)	(2,535)
Depreciation and amortisation	6	25
Non-cash employee benefits expense – share-based payments	-	279
Non-cash benefit to financiers of debt facility agreement	931	29
Write-down in value of inventory	-	242
Impairment of exploration and evaluation expenditure	50,214	-
Change in operating assets and liabilities:		
(Increase) decrease in receivables	(3)	152
(increase) decrease in inventories	71	69
(Decrease) increase in trade and other payables	38	(69)
(Decrease) increase in de-mobilisation provision	-	(253)
Net cash inflow (outflow) from operating activities	<u>(1,973)</u>	<u>(2,061)</u>

26 Earnings per share

	2014 Cents	Consolidated 2013 Cents
(a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the Company	(35.02)	(2.01)
(b) Diluted loss per share*		
From continuing operations attributable to the ordinary equity holders of the Company	(35.02)	(2.01)
(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	<u>151,989,903</u>	126,253,023
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	<u>193,024,952</u>	126,253,023
(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.

*As the resulting EPS is anti-dilutive no adjustment is recorded to basic EPS.

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:

2014

There were no options granted under the Plan during the year.

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

(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 2014 and 2013.

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)

2014

There were no options granted to directors during the year in lieu of remuneration.

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

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

2014

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	-	-	393,000	3,962,000	3,962,000
20 Dec 2013	20 Dec 2018	\$0.17	1,427,000	-	-	-	1,427,000	1,427,000
Total			12,491,233	-	-	393,000	12,098,233	11,798,233

Weighted average exercise price	\$0.92	\$0.17	\$0.95
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(b) Options granted under the employee option plan and to Non-executive directors (continued)

2013

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
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
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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 (2013: 3.6 years).

27 Share-based payments (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)

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	\$0.125	\$0.11	69%	3.25%
Pacific Road Capital A Pty Limited	1,190,000	31 Aug 2018	\$0.04	\$0.125	\$0.11	69%	3.25%
Pacific Road Capital B Pty Limited	1,190,000	31 Aug 2018	\$0.04	\$0.125	\$0.11	69%	3.25%
RMB Australia Holdings Limited	12,000,000	31 Aug 2018	\$0.04	\$0.125	\$0.11	69%	3.25%

Consolidated

(d) Expenses arising from share-based payment transactions

	2014 \$'000	2013 \$'000
Options issued under Kula Gold Limited Option Plan	-	279

28 Parent entity financial information

(a) Summary financial information

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

Balance sheet	2014	Parent entity
	\$'000	2013
		\$'000
Current assets	5,001	4,918
Total assets	94,057	138,583
Current liabilities	86	2,196
Total liabilities	102	26,254
Net Assets	93,955	112,329
Shareholders' equity		
Contributed equity	148,295	139,946
Share-based payment reserve	1,254	1,254
Accumulated losses	(55,594)	(28,871)
Total equity	93,955	112,329
(Loss)/Profit for the year	(50,742)	(24,406)
Total comprehensive (loss)/profit	(50,742)	(24,406)

(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 \$114,652 (2013: \$112,486).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2014 (31 December 2013: \$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 2014 (31 December 2013: \$nil).

29 Events occurring after the reporting period

There were no significant events after the reporting period.

30 Significant matters relating to the ongoing viability of operations

At 31 December 2014, the Company has cash and cash equivalents balance of \$2,731,310. The group reported a net loss of \$53,229,829 for the current financial year primarily resulting from the write off of Exploration Expenditure of \$50,213,829 in the current period.

On 17 February 2014 Woodlark Mining Limited received the Environment Permit for its Woodlark Island gold Project from the PNG Director of Environment. In addition the PNG Mineral Resources Authority issued Mining Lease 508 to Woodlark Mining Limited on 4 July 2014. The receipt of these documents means that Woodlark Mining Limited is now fully permitted to commence with the Woodlark Island Mining Project.

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

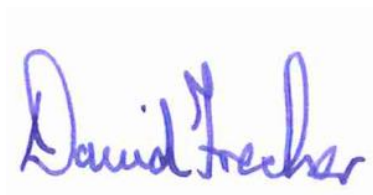
Given the reliance on securing funds from one or more of the above sources, there is some uncertainty as to whether the Company will be successful in securing funds and therefore be able to pay debts as and when they fall due. However, the directors are confident that funding can be obtained to enable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

**Kula Gold Limited
Directors' declaration
31 December 2014**

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 2014 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 2014 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 2014.

On behalf of the Board



David Frecker
Chairman

Sydney
30 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 2014, 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 2014 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.

Material Uncertainty Regarding Continuation as a Going Concern

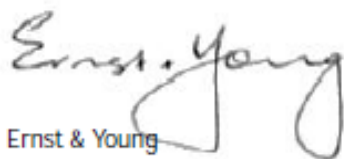
Without qualifying our opinion, we draw attention to Note 30 in the financial report which describes the principal conditions that raise doubt about the consolidated entities' ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant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

Report on the remuneration report


We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Trent van Veen
Partner
Sydney
30 March 2015

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 26 March 2015.

Ordinary share capital

As at 26 March 2015, the issued capital comprised of 260,712,018 ordinary fully paid quoted shares.

Distribution of equity securities

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

Holding	Ordinary shares		Options	
	Number of Holders	Number of Shares	Number of Holders	Number of options
1 to 1,000	62	31,758	-	-
1,001 to 5,000	112	327,512	-	-
5,001 to 10,000	87	690,669	-	-
10,001 to 100,000	236	8,990,298	2	164,000
100,001 and over	105	250,671,781	13	36,327,233
	602	260,712,018	15	36,491,233

There were 273 holders of less than a marketable parcel of ordinary shares.

Unquoted options

The Company had the following unquoted options on issue:

- Employee option plan – there are 10,371,233 unquoted options on issue, held by 8 employees or contractors.
- 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%

- Options issued under the Syndicated facility agreement

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)

d) Options issued under the conversion of the Syndicated facility agreement to equity.

Pacific Road Capital Management acting as General Partner of the Pacific Road Resources Fund limited partnership	10,017,500	40.00%
Pacific Road Capital A Pty Limited as trustee of Pacific Road Resources Fund A	1,241,250	5.00%
Pacific Road Capital B Pty Limited as trustee of Pacific Road Resources Fund B	1,241,250	5.00%
RMB Australia Holdings Limited	12,500,000	50.00%
	<u>25,000,000</u>	<u>100.00%</u>

e) Share placement option plan – there are 29,604,178 unquoted options on issue, held by 35 registered shareholders, including entities associated with D Frecker, L Rozman and M Stowell which acquired shares and options under the placement on the same terms as all other subscribers.

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	16.71%
2	National Nominees Limited	35,521,219	13.62%
3	Pacific Road Capital Management G.P. Ltd	29,986,562	11.50%
4	RMB Australia Holdings Limited	25,000,000	9.59%
5	RMB Resources Limited	18,651,496	7.15%
6	C S Fourth Nominees Pty Ltd	9,977,772	3.83%
7	Pacific Road Capital B Pty Ltd	9,113,907	3.50%
7	Pacific Road Capital A Pty Ltd	9,113,907	3.50%
9	HSBC Custody Nominees (Australia) Limited	5,597,228	2.15%
10	Citicorp Nominees Pty Ltd	4,907,478	1.88%
11	JP Morgan Nominees Australia Limited	4,836,639	1.86%
12	Zero Nominees Pty Ltd	3,722,516	1.43%
13	Washington H Soul Pattinson and Company Ltd	3,333,333	1.28%
14	Merchant Holdings Pty Ltd	2,959,282	1.14%
15	Brispot Nominees Pty Ltd	2,838,670	1.09%
16	Mr Stuart James Pether & Mrs Fiona Maree Pether	2,600,000	1.00%
17	USB Nominees Pty Ltd	2,000,000	0.77%
18	Ascot Park Enterprises Pty Ltd	1,915,000	0.73%
19	Foster Stockbroking Nominees Pty Ltd	1,666,667	0.64%
19	KTAP Pty Ltd	1,666,667	0.64%
19	Prospect Custodian Ltd	1,666,667	0.64%
		<u>220,649,389</u>	<u>84.63%</u>

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	91,788,755	35.21%
RMB Resource Limited	43,651,496	16.74%
National Nominees Limited	35,521,219	13.62%
	<u>170,961,470</u>	<u>65.57%</u>

Shareholder Information (continued)

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 26 March 2015 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%

Interest in Mining Leases

Current interest in mining leases held by Kula Gold Limited and its subsidiary, as at 26 March 2015 are listed below:

Country / Location	Mining Lease	Interest
Papua New Guinea / Woodlark Island	ML 508	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 (Cut) (g/t Gold)	Gold (Cut) (Oz)
Kulumadai	Measured	5.0	1.78	285,000
Kulumadai	Indicated	4.4	1.75	245,000
Kulumadai	Inferred	8.6	1.4	375,000
Kulumadai	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

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	1,545,000

* 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 cutoff 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 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 2012 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 2012 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 2012 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.