KULA GOLD LIMITED

ABN 83 126 741 259

2015 ANNUAL REPORT

Corporate Directory

Directors:	David Frecker	Chairman
	Louis Rozman	Non-executive director
	Lee Spencer	Non-executive director
	Mark Stowell	Independent Non-executive director
	Arnold Vogel	Independent Non-executive director
Company secretary:	Garry Perotti	
Registered office:	Suite 2, 20 Howard Street Perth, WA 6000 T: + 61 8 6144 0588 F: + 61 8 6144 0589 Email: info@kulagold.com.au Website: www.kulagold.com.au	
Auditor:	Ernst & Young 11 Mounts Bay Road Perth, WA 6000 Telephone: +61 8 9249 2222	
Share registry:	Link Market Services Limited Level 12, 680 George Street Sydney, NSW 2000 T: 1300 554 474 or +61 2 8280 7111	
Stock exchange listing:	Australian Securities Exchange ASX code: KGD	

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Management report

Overview

The Company's efforts during 2015 were directed at ways to develop and advance the Woodlark Island Gold Project notwithstanding the significant fall in the gold price. At the same time, the Company continued exploration activities on Woodlark Island, whilst securing and maintaining the tenements and assets of the Company.

A significant milestone achieved in December 2015 was the initialling by all parties of the Memorandum of Agreement which details 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.

In April the Board benefitted through the appointment of Arnold Vogel as a director. This was ratified at the AGM held on 25 May 2015. Arnold is a qualified metallurgist with experience in Papua New Guinea before following the path in mining finance. His varied experience is proving invaluable to the Company.

In June and July 2015, the Company raised $2.22 million capital to fund the continued exploration activities and costs up to the fourth quarter of 2016, through an equity placement to major shareholders and sophisticated investors.

Resource and Reserve Expansion Opportunities

As a result of gold price fluctuations since the 2012 feasibility study, and subsequent post feasibility study analysis, the Company has identified that:

(a) additional gold reserves in the order of 300,000 – 500,000 ozs will increase the project's financial robustness, potentially even in a lower gold price environment; and
(b) there are a number of resource extension opportunities recently identified within the company's tenements and mostly contained within the mining lease. These opportunities are within trucking distance to the proposed plant, and may host significant additional gold resources.

One of these, the Kulumadau area, has not been fully explored and there is potential to add significant further ounces to the project. This potential is indicated by:

(a) the Kulumadau West deposit is still open down plunge and to the South;
(b) the Adelaide Zone is open down plunge and to the North West on strike; and
(c) approximately 400,000ozs of Inferred Resource peripheral to Ore Reserves in the Eastern Zone and Adelaide Zone could fall into an enlarged open pit.

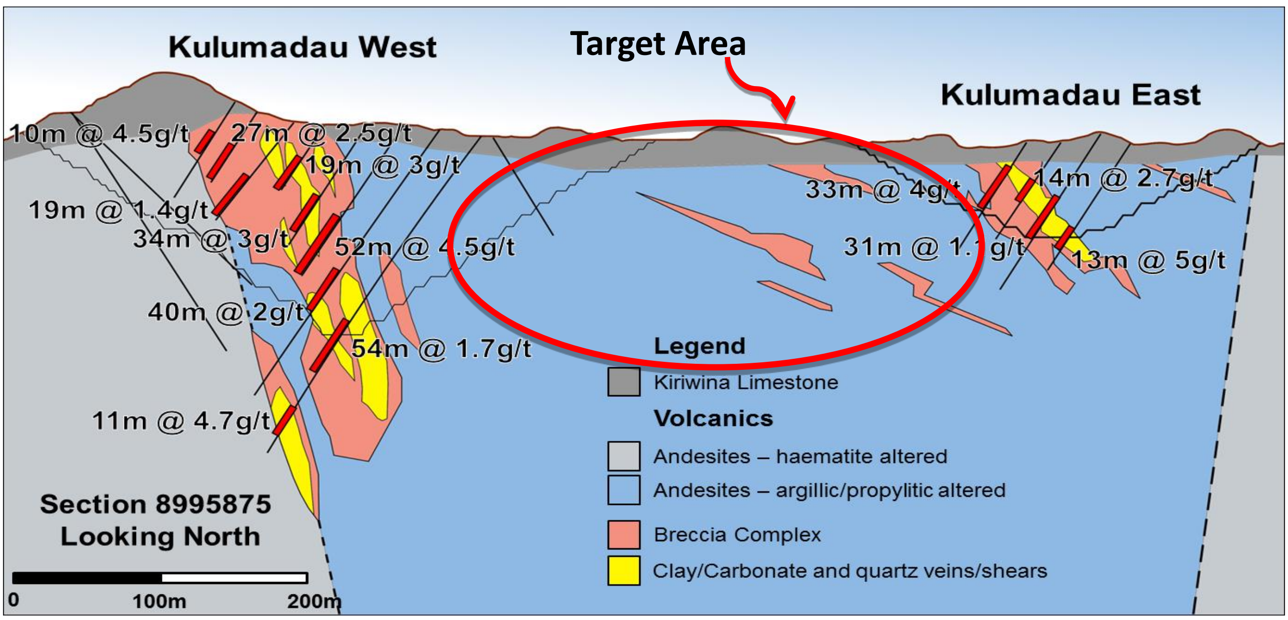

Figure 1.

Management report (continued)

Resource and Reserve Expansion Opportunities (continued)

Post the feasibility study, the Company has undertaken further surface exploration at Kulumadau including:

(a) detailed 3D Inversion modelling of the Helimag data flown in 2013. This has resulted in an understanding of the structure and distribution of peripheral haematite alteration which surrounds the mineralized zones. This alteration indicates that current drilling has only covered 50% of the potentially mineralized area at Kulumadau;
(b) surface mapping of volcanic basement exposures created by earth-moving activities and removal of coronus overburden during engineering drilling for the feasibility study. This has resulted in the discovery of previously unknown adits and shafts located along a NNE bearing structure showing free gold at surface and associated phyllic alteration, a key indicator to gold mineralization; and
(c) in an effort to better understand the relation between alteration and lithology at Kulumadau a 3 year PhD study is nearing completion. This work was started in early 2013 and includes analysis of the many hundreds of thin sections and associated multi-element geochemistry samples obtained prior to and since completion of the feasibility study.

Exploration - Regional Pan Concentrate Program

A regional pan concentrate drainage sampling program was undertaken to identify exploration and potential resource targets by the collection of drainage pan concentrate samples from a 30 square kilometre area of sub-cropping prospective Okiduse Volcanics within trucking distance of the plant site selected in the feasibility study. The initial phase of the program was focused on the immediate area surrounding the Watou Prospect where previous trenching has intersected vein and breccia hosted mineralisation with gold tenor currently averaging higher grades than the global resources for the Project. The Watou Prospect is postulated to be an extension of the Woodlark King Deposit, offset by a NE/SW regional structure and a continuation of the prospective 2.5 kilometre long Woodlark King Illawarra Fault Zone: see Figure 2.

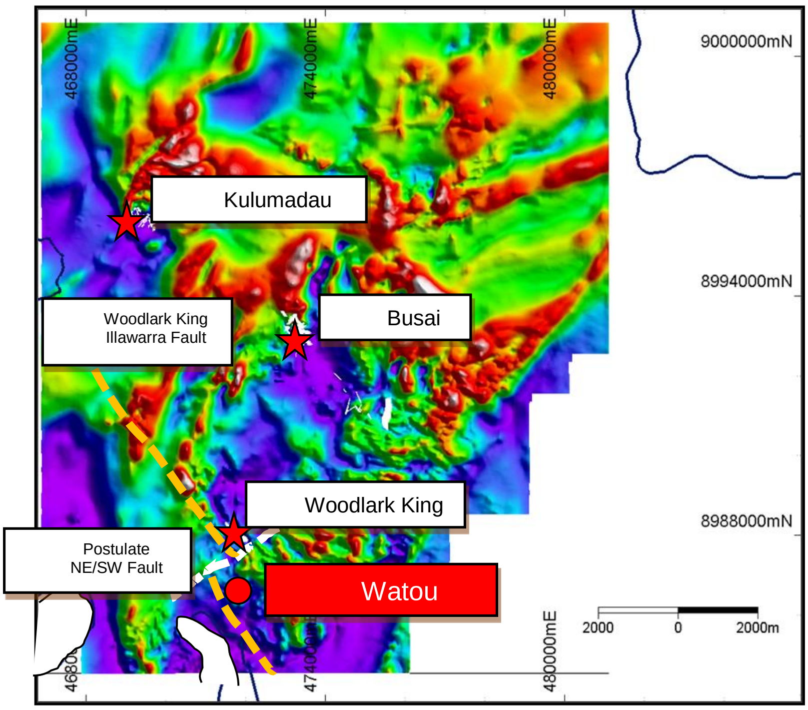

***Figure 2**. Location of Watou Prospect (red dot) in relationship to the Woodlark Island Gold Project Ore Reserves (red stars). The figure shows the postulated NE / SW offset of the prospective Woodlark King Illawarra Fault.*

The selected sample points and drainage basins were defined by high quality LiDar data for the regional drainage sampling program. A standard 44 kilogram sample is secured from active drainage sediments and the sample was panned to produce a concentrate. The pan concentrate was grain counted using a binocular microscope for detrital gold at three screen fraction sizes to denote fine, medium and coarse grained gold particles and associated base metal sulphides and quartz-gold composites were also logged. The anomalies were rated not only on total gold particle counts but also on the proportion of coarse and fine gold particles. The anomalous drainage basins were defined on the basis of pan concentrate samples containing a total gold particle count in excess of 100 colours, with attendant coarse particles.

Management report (continued)

Exploration - Regional Pan Concentrate Program (continued)

The program's objective was to identify and priority rank regional pan concentrate anomalies as a prelude to trenching and to demonstrate the potential for a significant increase in the Project resources which may result in an increase in Ore Reserves. Previous work by the Company had identified benefits of increased Ore Reserves to the economics of the Project.

During the year, pan concentrates were generated from 157 sample sites covering an area of 4 square kilometres of the Okiduse Range, primarily centred around the Watou Prospect: see Figure 3.

The Watou pan concentrate anomalies demonstrate:

- The area of the anomalies is at least two orders of magnitude larger than the Watou Prospect mineralisation, defined by the previous trenching programs
- The overall shape of the anomalies confirms the current understanding of regional NW and NE structural controls on mineralisation.
- Current limits of the Watou mineralisation are highly likely to be expanded by further trenching within the limits of the defined anomalies
- The potential for the mineralised zone to significantly increase in size and add to the resources of the Project
- Several of the drainages within the anomalies have been extensively sluiced during the colonial period attesting to the high levels of detrital gold within the active drainages. There are no exposures of basal conglomerates or other sediments within the anomalous area that would contribute to the gold within the active drainages, indicating that the gold has been shed from the volcanics.

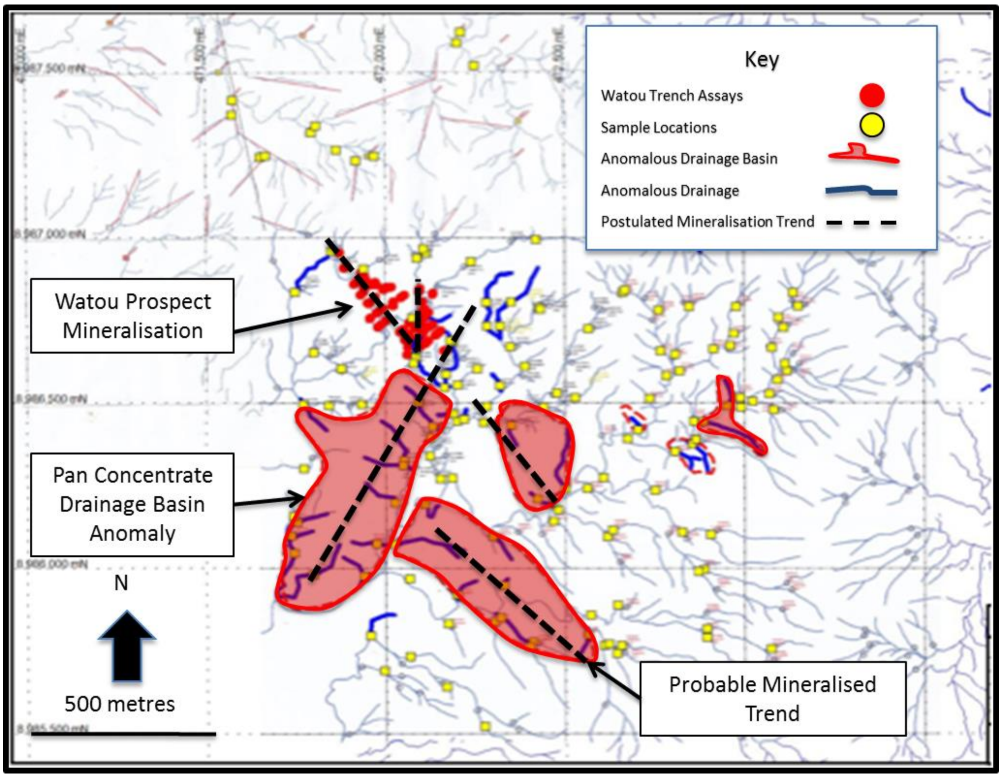

Figure 3. *Location of Watou Prospect with significant gold assays from previous trenching (red dots), anomalous drainage basins defined by pan concentrates and grain counting of discrete gold particles (pale red shapes), individual anomalous drainages (blue lines) and targeted sample locations (yellow dots).   The postulated mineralisation trends show the NW and NE regional mineralisation controls (dashed black lines).*

Management report (continued)

Exploration - Regional Pan Concentrate Program (continued)

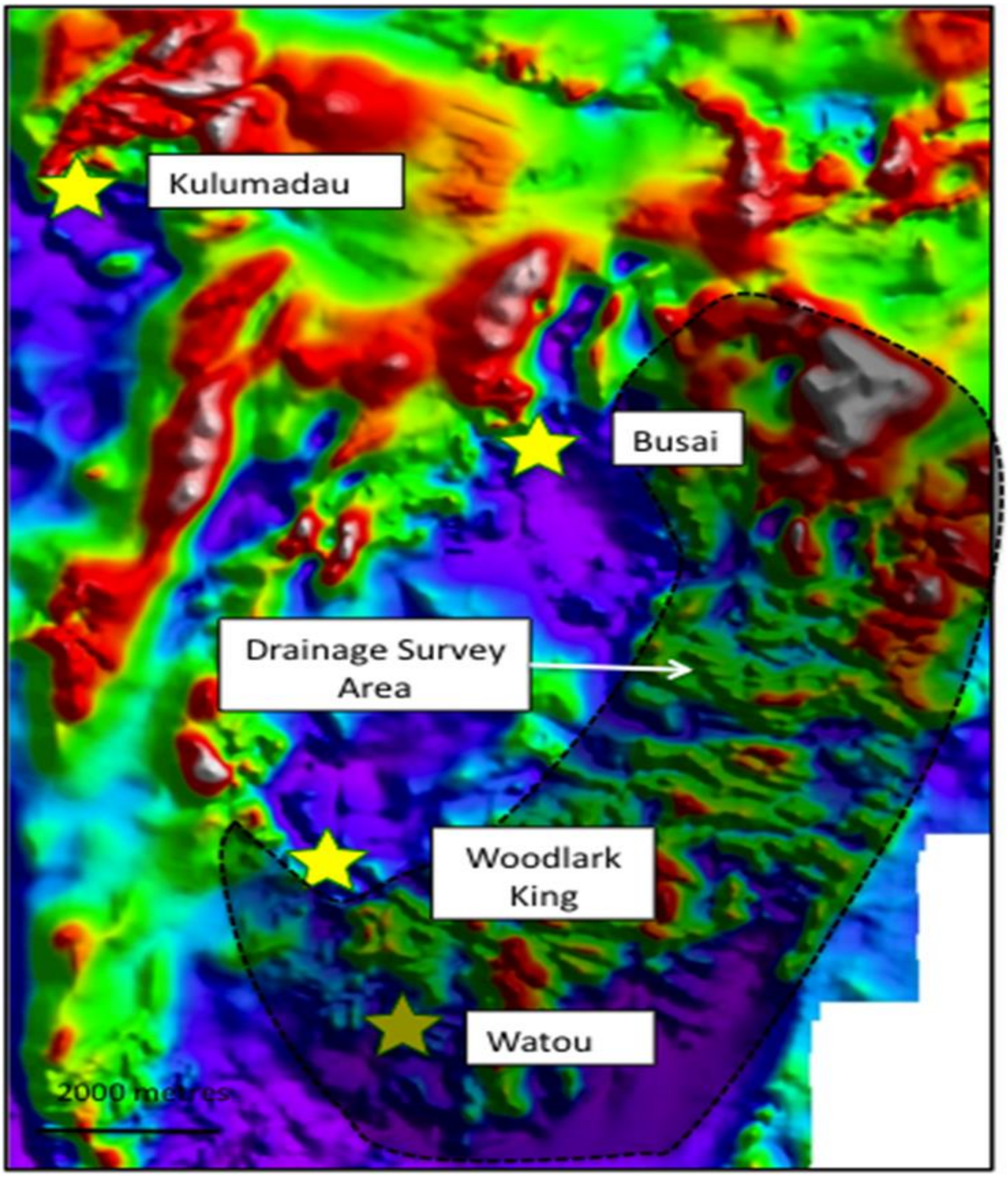

Figure 4. *Location of Project Ore Reserves and the Watou Prospect (yellow stars) on a reduced to pole magnetic data. The regional pan concentrate sampling program area corresponding to the approximate outcrop of Okiduse Volcanics is shown by the black shaded area. First phase sampling was initiated around the Watou Prospect.*

Management report (continued)

Exploration - Regional Pan Concentrate Program (continued)

A total of six individual pan concentrate anomalies were identified in Figure 5 below.

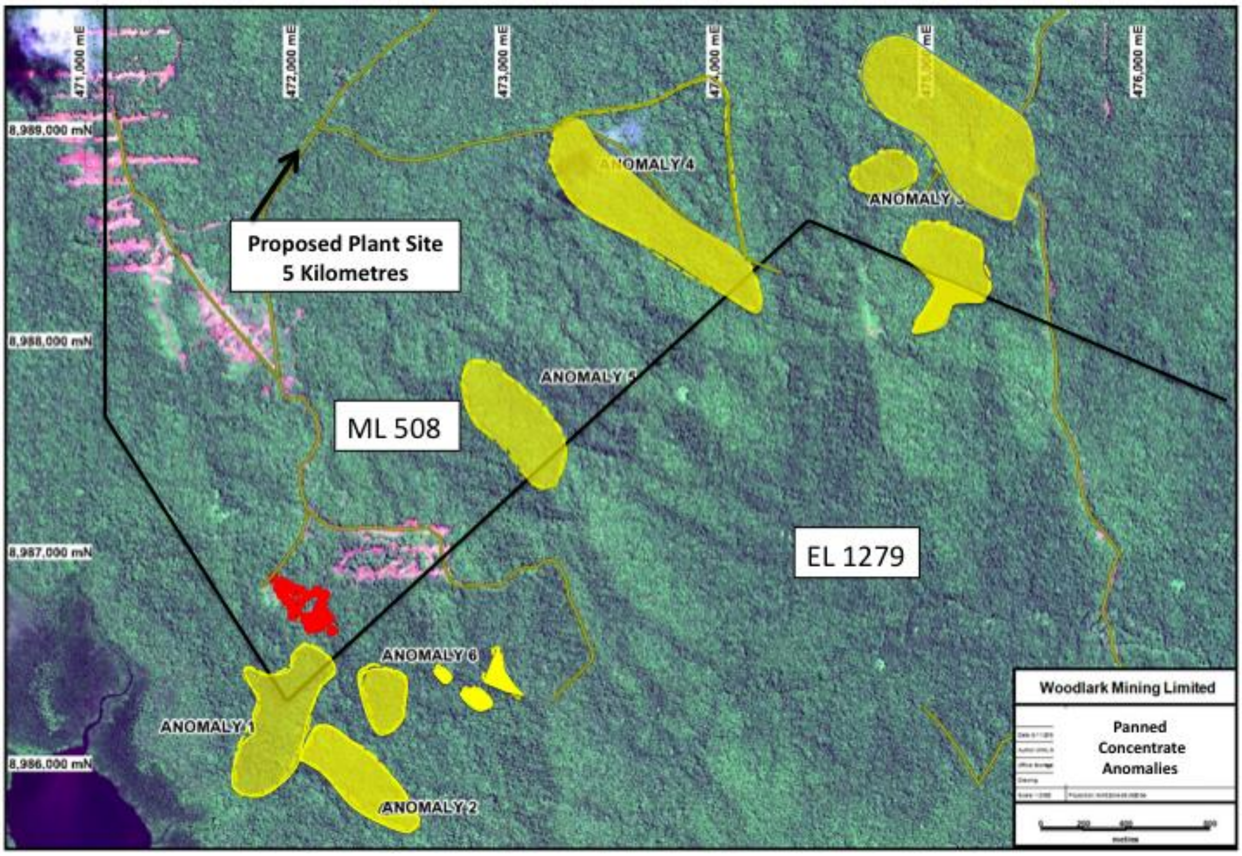

Figure 5. *Concentrate Anomalies with Watou mineralisation in red*

Initialing of the Memorandum of Agreement

On 9 December 2015, following several meetings of the parties including representatives from the Woodlark Island landowners, the Woodlark Island Local Level Government, the Milne Bay Provincial Government, the Mineral Resources Authority and the PNG Treasury Department, all parties agreed the terms and conditions of the Memorandum of Agreement (MOA). Under the MOA, the benefits from the 5% State equity in the Project and royalties from the Project will be shared between the local people in the mining area, the local-level government on Woodlark Island, the Milne Bay Provincial Government and the National Government.

This settled and agreed MOA will be forwarded to the State Solicitor's office and then to the National Executive Council for final approval and execution at the appropriate time.

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 demonstrating further resource potential through the Regional Pan Concentrate program, gaining agreement from all stakeholders to the terms and conditions of the Memorandum of Agreement, nurturing of relationships with the landowners, Local and Provincial Governments and securing and maintaining the Project assets and infrastructure.

The Company continues to conduct safety inductions (as required), weekly tool box meetings and incident reporting.

Management report (continued)

Site Operations (continued)

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 Clinic:** The Company donated a building and water tank to establish a clinic in the village of Kulumadau and continues supplying drugs to the clinic to supplement those drugs supplied by the Provincial Government Health department.
- **Employment:** The Company continued to employ personnel from the local communities and where possible to provide a fair and reasonable spread of employment opportunities across the whole of Woodlark Island.
- **Training:** The Company continued training programs for employees and landowners during the course of the year.

The Management and Board express their thanks to all of the Woodlark Island employees for their efforts during the year. We thank the Woodlark Island Local Level Government, the Mine Bay Provincial Government, Minister for Mining and the leaders and people of Woodlark Island for their continued support during this extremely difficult economic period and re-assure them all that the Company is committed to as soon as we can secure the necessary finance on commercial terms developing the Project in due course.

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 2015.

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
Arnold Vogel – appointed on 20 April 2015

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 (2014: $nil).

Result of operations
The net loss from operations of the consolidated entity was $27,490,398 (2014: loss of $53,230,000).

Review of operations
The Environment Permit and the Mining Lease (ML508) for the Woodlark Island Gold Project (the Project) were obtained during 2014 as the result of the hard work and determination of the Board, management and employees of the Company. The focus during 2015 has therefore been on ways in which the Company might secure funds to proceed with the Project. The Company been pursuing several possibilities for securing Project funding.

On 20 April 2015 the Company appointed Arnold Vogel as a director and his appointment was ratified at the AGM held on 25 May 2015.

During June and July the Company raised proceeds of $2,209,700 (net of transaction costs) via a share placement to major shareholders and significant investors.

The CFO, Garry Perotti, was appointed Company secretary on 31 July 2015. Garry has many years' experience as Company secretary of both unlisted and listed entities on the Johannesburg, London and Australian Stock Exchanges. The Company thanks Leanne Ralph for her services as Company secretary, undertaken in an efficient and professional manner.

In December a significant milestone was achieved when all of the parties to the Memorandum of Agreement (**MOA**) initialled the MOA to signify their acceptance of its terms and conditions. The parties included the Woodlark Island landowners, Local Level Government on Woodlark Island, Milne Bay Provincial Government, Mineral Resources Authority and the PNG State Treasury.

Significant matters relating to the ongoing viability of operations
At 31 December 2015, the Company had a cash and cash equivalents balance of $1,059,104. The Group reported a net loss of $27,490,398 for the current financial year.

There remains some uncertainty as to whether the Company will be successful in securing funds in the future. However, with the implementation of cost reduction programs both at the Woodlark Island Gold Project and at a corporate level and the proceeds of $298,000 from the Share Purchase Plan, which closed on 24 March 2016, and a possible share placement to follow, the Directors are satisfied that the Company expects to be able to meet its debts as and when they fall due at least until the end of its current financial year. The Company has the ability to raise further equity via the share market. Refer to note 1(b) to the Financial Statements for further detail.

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
With the Project being fully licensed and permitted, the Company continues to seek capital to fund the Woodlark Island Gold Project to progress to the construction phase.

Directors' report (continued)

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, LLM *Independent Chairman and Non-executive director.* Age 67.

Experience and expertise
David Frecker has been a Non-executive director of Kula Gold and Chairman of the Board since September 2010.

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.
- 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

Lee Spencer MSc App (Mineral exploration) *Non-executive director.* Age 62.

Experience and expertise
Lee Spencer has been a Non-executive director of Kula Gold since July 2007.

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;
- 1,500,000 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

Directors' report (continued)

Information on directors (continued)

Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec) *Non-executive director.* Age 58.

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;
- 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

Mark Stowell BBus, CA *Independent Non-executive director.* Age 52.

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
- 3,600,001 ordinary fully paid shares
- 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

Directors' report (continued)

Information on directors (continued)

Arnold Vogel MSc (Mineral Economics) *Independent Non-executive director.* Age 61.

Experience and expertise
Arnold Vogel was appointed a Non-executive director of Kula Gold on 20 April 2015.

Arnold is a metallurgical engineer and economist and has been a merchant banker in the resource sector for the past 22 years.

Arnold has 35 years of experience in resources and has worked in Africa, US, PNG and Australia. His experience spans project permitting and host government relations, process plant operations, international commodity marketing and trading, and financing of resource projects in the feasibility and project development stages. Arnold is currently a director of various entities in the First Rand Limited group.

Arnold has a BSc Metallurgical Engineering from University of Witwatersrand and an MSc Mineral Economics from Pennsylvania State University.

Other current directorships
RMB Australia Holdings Limited, RMB Resources Limited

Former directorships in last 3 years
None

Special responsibilities
None

Interests in shares and options
None

Company secretary
Mr Garry Perotti was appointed to the position of Company secretary on 31 July 2015. Garry is the CFO and has been Company secretary for a number of unlisted and listed companies on the Johannesburg and London Stock Exchanges as well as ASX listed companies since immigrating to Australia in 2008.

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 2015, and the numbers of meetings attended by each director were:

	Board meetings		Meetings of committees					
			Audit		Risk		Remuneration and nomination	
Name	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
D Frecker	12	12	2	2	-	-	3	3
L Spencer	12	12	-	-	1	1	-	-
L Rozman	12	11	-	-	1	1	3	3
M Stowell	12	11	2	2	1	1	3	3
A Vogel	10	10	-	-	-	-	-	-

Directors' report (continued)

Remuneration report (audited)

The remuneration report (the 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

This Report forms part of the Directors' Report and has been audited by the auditors in accordance with section 300A of the *Corporations Act 2001* as required by section 308(C).

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 to 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 Board succession planning. 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.

At that time in 2010, the Board determined that the Chairman should be paid an annual fee of $70,000, other non-executive directors should be paid an annual base fee of $40,000 and each chairman of a Board committee should be paid an additional fee of $10,000 (but only for one committee), plus superannuation in each case. These annual fee rates have not been increased since 2010. Louis Rozman and Arnold Vogel waived their rights to receive directors' fees. With effect from April 2015, all the other directors agreed to a 50% reduction in their directors' fees and are receiving fees at this reduced rate

Directors' report (continued)

Remuneration report (continued)

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.

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
A Vogel	Non-executive director

Other key management personnel	
S Pether	Chief Executive Officer (resigned on 26 February 2016)
G Perotti	Chief Financial Officer and Company Secretary (appointed Company Secretary on 31 July 2015)

Key management personnel of the Group – 2015

	Short-term employee benefits			**Post-employment benefits**	**Long-term benefits**	**Share-based payments**		
Name	**Cash salary and fees**	**Cash bonus**	**Annual Leave**	**Superannuation**	**Long service leave**	**Options**	**Percentage of total package**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**%**	**$**
Directors								
D Frecker	43,750	-	-	4,156	-	-	-	47,906
L Rozman	-	-	-	-	-	-	-	-
L Spencer	25,000	-	-	2,375	-	-	-	27,375
M Stowell	31,250	-	-	2,969	-	-	-	34,219
A Vogel	-	-	-	-	-	-	-	-
Other key management personnel								
S Pether *	250,453	20,000	-	17,624	-	-	-	288,077
G Perotti	149,686	15,000	-	15,645	-	-	-	180,331
Total	**500,139**	**35,000**	**-**	**42,769**	**-**	**-**		**577,908**

* Mr Stuart Pether resigned on 26 February 2016 with a termination payment of $88,395.

Directors' report (continued)

Remuneration report (continued)

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

Name	Fixed remuneration 2015 %	At risk short-term incentives 2015 %	At risk long-term incentives 2015 %
Directors			
D Frecker	100	-	-
L Rozman	100	-	-
L Spencer	100	-	-
M Stowell	100	-	-
A Vogel	100	-	-
Other key management personnel			
S Pether	93	7	-
G Perotti	92	8	-

Key management personnel of the Group – 2014

	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments		
Name	Cash salary and fees $	Cash bonus $	Annual Leave $	Superannuation $	Long service leave $	Options $	Percentage of total package %	Total $
Directors								
D Frecker	70,000	-	-	6,563	-	-	-	76,563
L Rozman	-	-	-	-	-	-	-	-
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

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.
- Mr Pether agreed to a 50% reduction in his salary effective 1 June 2015.
- 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.

Directors' report (continued)

Remuneration report (continued)

G Perotti, Chief Financial Officer

- Commencement date 21 October 2014 as contract Chief Financial Officer, engaged as full time permanent Chief Financial Officer from 1 November 2015;
- Terms of agreement: Contracted to 31 October 2015;
- Base salary: $150,000 per annum plus superannuation guarantee, inclusive of all benefits; increased to $153,000 per annum effective 1 July 2015;
- Terms of employment agreement: effective 1 November 2015;
- Base salary: $153,000 per annum plus superannuation guarantee, to be reviewed annually on 1 January each year with the first review in 2017.
- 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;
- Termination benefits, 90 days' notice is required on resignation.

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 or expired are set out below. When exercisable, each option is convertible into one ordinary share of Kula Gold Limited. Further information on the options is set out in note 27 to the financial statements.

The following options are held by directors and key management personnel of the Company as at 31 December 2015:

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	612,000	20 Dec 2013	612,000	-	20 Dec 2018	$0.17	$18,360	-
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	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	-
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	612,000	20 Dec 2018	$0.03	$0.17	$0.11	69%	3.25%
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	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%
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.

VI. Bonuses

For cash bonuses the percentage of the available bonus paid in the financial year and the percentage that was unearned 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	11	89
G Perotti	20	80

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 2015 (2014: 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
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	3,189,000
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
			87,720,178

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.
* Options expired between year end and the date of this report.

END OF REMUNERATION REPORT

Directors' report (continued)

Indemnification and insurance of officers
The Group has agreed to indemnify the directors and officers of the Group for any:
(i) liability for any act or omission in their performance as director or officer; and
(ii) costs incurred in settling or defending any claim or proceeding relating to any such liability, not being a criminal liability.

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

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

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 2015:

Position	Kula Gold Limited		Woodlark Mining Limited		Total	
	Male	Female	Male	Female	Male	Female
Directors (Executive)	-	-	-	-	-	-
Directors (Non-executive)	5	-	1	-	6	-
Senior executive	2	-	1	-	3	-
Other	-	-	7	-	7	-
	7	-	9	-	16	-

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.

Directors' report (continued)

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

	Consolidated	
	2015	2014
	$	$
Taxation services		
Ernst & Young Australian firm:		
Tax compliance service	**-**	6,750
Other tax advice	**-**	-
PricewaterhouseCoopers Australian firm:		
Tax compliance service	**4,551**	-
Other tax advice	**-**	-
Related practices of PricewaterhouseCoopers Australian firm	**-**	-
Total remuneration for taxation services	**4,551**	6,750
Total remuneration for non-audit services	**4,551**	6,750

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, 31 March 2016

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the audit of Kula Gold Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
31 March 2016

GB:EH:KGD:008

Kula Gold Limited ABN 83 126 741 259
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Financial Statements

These financial statements are the consolidated financial statements of the consolidated entity consisting of Kula Gold Limited and its subsidiary, Woodlark Mining Limited. 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, 20 Howard Street, Perth, WA 6000.

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 31 March 2016. The directors have the power to amend and reissue the financial statements.

	Notes	2015 $'000	Consolidated 2014 $'000
Other income - interest	5	**33**	51
Expenses			
Employee benefits expense		**(658)**	(1,135)
Professional and consulting expenses		**(237)**	(285)
Rental expense	6	**(190)**	(243)
Insurance expense		**(53)**	(46)
Borrowing costs	6	**-**	(931)
Impairment of exploration & evaluation expenditure	6	**(26,190)**	(50,214)
Foreign exchange gain		**1**	1
Other expenses		**(196)**	(428)
Loss before income tax		**(27,490)**	(53,230)
Income tax benefit/(expense)	7	**-**	-
Loss for the year from continuing operations		**(27,490)**	(53,230)
Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations	17(a)	**(2,102)**	2,067
Total comprehensive (loss)/income for the year		**(29,592)**	(51,163)
		Cents	Cents
Loss per share for losses from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share	25	**(9.57)**	(35.02)
Diluted loss per share	25	**(9.57)**	(35.02)

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

	Notes	Consolidated 2015 $'000	2014 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**1,059**	2,617
Receivables and other assets	9	**89**	186
Inventories	10	**240**	291
Total current assets		**1,388**	3,094
Non-current assets			
Property, plant and equipment	11	**1,098**	1,571
Mineral exploration and evaluation expenditure	12	**40,000**	65,428
Other non-current assets	13	**-**	115
Total non-current assets		**41,098**	67,114
Total assets		**42,486**	70,208
LIABILITIES			
Current liabilities			
Trade and other payables	14	**189**	390
Total current liabilities		**189**	390
Non-current liabilities			
Provisions	15	**238**	303
Total non-current liabilities		**238**	303
Total liabilities		**426**	693
Net assets		**42,060**	69,515
EQUITY			
Contributed equity	16(a)	**150,505**	148,295
Reserves	17(a)	**12,975**	15,150
Accumulated losses	17(b)	**(121,420)**	(93,930)
Total equity		**42,060**	69,515

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

		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 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	17	-	-	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	16	8,349	-	-	-	-	8,349
Balance at 31 December 2014		148,295	1,254	13,896	15,150	(93,930)	69,515
Balance at 1 January 2015		**148,295**	**1,254**	**13,896**	**15,150**	**(93,930)**	**69,515**
Loss for the year		-	-	-	-	(27,490)	(27,490)
Exchange differences on translation of foreign operations	17	-	-	(2,102)	(2,102)	-	(2,102)
Total comprehensive income/(loss) for the year		**-**	**-**	**(2,102)**	**(2,102)**	**(27,490)**	**(29,592)**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transactions costs and tax	16	2,210	-	-	-	-	2,210
Cancellation of Options	17	-	(73)	-	(73)	-	(73)
Balance at 31 December 2015		**150,505**	**1,181**	**11,794**	**12,975**	**(121,420)**	**42,060**

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

	Notes	2015 $'000	Consolidated 2014 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,519)**	(1,785)
Interest and other costs of finance paid		**-**	(239)
Interest income		**33**	51
Net cash outflow from operating activities	24	**(1,486)**	(1,973)
Cash flows from investing activities			
Payments for property, plant and equipment	11	**(55)**	(15)
Payments for exploration activities		**(2,267)**	(3,814)
Net cash outflow from investing activities		**(2,322)**	(3,829)
Cash flows from financing activities			
Proceeds from issues of shares (net of transaction costs)	16	**2,210**	8,349
Proceeds from disposal of assets	11	**2**	(3,000)
Net cash inflow from financing activities		**2,212**	5,349
Net decrease in cash and cash equivalents		**(1,596)**	(353)
Cash and cash equivalents at the beginning of the financial year	8	**2,732**	3,184
Effects of exchange rate changes on cash and cash equivalents		**(77)**	(99)
Cash and cash equivalents at end of year	8	**1,059**	2,732

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

Notes to the consolidated financial statements

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1 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the Kula Gold Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Kula Gold Limited is a for-profit entity for the purposes of preparing the financial statements.

Historical cost convention

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

Critical accounting estimates

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

New and amended standards adopted by the group

The new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2015 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) Significant matters relating to the ongoing viability of operations

The consolidated entity recorded a loss of $27,490,398 for the year ended 31 December 2015 (2014: $53,229,829) and had a net cash outflow from operating and investing activities of $3,808,000 for the year ended 31 December 2015 (2014: $5,802,000). The consolidated entity had cash and cash equivalents at 31 December 2015 of $1,059,104 (2014: $2,616,658) and has working capital of $1,199,054 (2014: $2,704,000). Cash at 30 March 2016 was $547,907.

The Group's cashflow forecast for the period ending 31 December 2016 reflects that the Group will need to raise additional working capital to enable it to continue to fund its activities in connection with development of the Woodlark Island Gold Project in PNG.

The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following pertinent matters:

- The Share Purchase Plan (SPP), which closed on 24 March 2016, offered shares to existing shareholders, resident in Australia and New Zealand, at a price of 3.1 cents per share. The SPP raised $298,000 which will supplement working capital.

- The Company has the ability to raise further equity via the share market.

To the extent that the Group is unable to raise additional funds, when required, to meet the Group's ongoing working capital, there is a significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

1 Summary of significant accounting policies (continued)

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(c) 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 2015 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.

(d) 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.

(e) 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;

1 Summary of significant accounting policies (continued)

- 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.

(f) Revenue recognition

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

(g) Income tax

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

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

Deferred income tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax liability is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(h) 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.

(i) 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.

1 Summary of significant accounting policies (continued)

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.

(j) 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.

(k) 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.

(l) Investments and other financial assets

Classification
The group classifies its investments as loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables and other assets (note 9) in the consolidated statement of financial position.

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date, that is, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement
At initial recognition, the group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

1 Summary of significant accounting policies (continued)

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.

(m) Property, plant and equipment

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

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

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

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

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

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

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

(n) Exploration and evaluation expenditure

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

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

(ii) exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest is continuing.

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

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

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

(p) Borrowings

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

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

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

(q) Provisions

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

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

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

(r) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employee renders the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the Projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

(iii) Share-based payments

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

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

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

1 Summary of significant accounting policies (continued)

(s) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Goods and Services Tax (GST)

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

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

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

(u) Rounding of amounts

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

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share are calculated by dividing:

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

(ii) Diluted earnings per share

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

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

(w) Parent entity financial information

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

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods. The group's assessment of the relevant new standards and interpretations are set out below.

1 Summary of significant accounting policies (continued)

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 timelier 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

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.

1 Summary of significant accounting policies (continued)

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 2018)
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 and AASB 2015-10 (effective for reporting periods from 1 January 2018)
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.

2 Financial Risk Management (continued)

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

The Company's functional currency is Australian dollars (AUD). The Group's Papua New Guinea subsidiary has a functional currency of Papua New Guinea kina.

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

	Consolidated			
	2015 PGK A$'000	**2015 USD A$'000**	2014 PGK A$'000	2014 USD A$'000
Cash	**25**	**-**	154	24
Payables	**(76)**	**-**	(52)	-
Net exposure	**(51)**	**-**	102	24

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	**2015 $'000**	2014 $'000
AUD increase against foreign currencies	**(28)**	(11)
AUD decrease against foreign currencies	**23**	14

(ii) Interest rate risk

The Group is exposed to both interest rate risk arising from cash and cash equivalents and for 2014 on borrowings from an external counter party. Interest on borrowings was fixed on a quarterly basis by the external counter party.

Group sensitivity
At 31 December 2015, 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.

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-

2 Financial Risk Management (continued)

(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 2015	Less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount liabilities $'000
Trade and other payables	189	-	-	-	-	189	189
Total non-derivatives	**189**	**-**	**-**	**-**	**-**	**189**	**189**

At 31 December 2014	Less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying Amount liabilities $'000
Trade and other payables							
Borrowings	390	-	-	-	-	390	390
Total non-derivatives	**390**	**-**	**-**	**-**	**-**	**390**	**390**

(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.

(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 1,550% 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 has reviewed the carrying value of its exploration and evaluation expenditure using the "Market Transaction Valuation" or 'yardstick approach'. The valuation analysis is based on actual transactions for gold exploration projects over the twelve months preceding the year end and after deducting estimated transaction costs of 2.5% of the transaction value. A risk analysis was applied taking into consideration project permitting, securing of capital funds, location and stakeholder relationships and market conditions to determine the position of the project value in the valuation range.

The Company reviews the value of exploration and evaluation on a periodic basis in accordance with AASB6.

(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

	Consolidated	
	2015	2014
	$'000	$'000
Other income from continuing operations		
Interest income	**33**	51
	33	51

6 Expenses

	Consolidated	
	2015	2014
	$'000	$'000
Loss before income tax includes the following specific expenses		
Depreciation		
Buildings	**34**	33
Plant and equipment	**403**	376
Furniture and fittings	**13**	19
Motor vehicle and boats	**16**	97
Less: Capitalised to mineral exploration and evaluation expenditure	**(470)**	(519)
Total depreciation	**4**	6
Total depreciation and amortisation	**4**	6
Rental expense relating to operating leases		
Minimum lease payments	**190**	243
Debt borrowing costs	**-**	**931**
Impairment of exploration and evaluation expenditure	**26,190**	50,214

7 Income tax (benefit)/expense

	Consolidated	
	2015	2014
	$'000	$'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	**(27,490)**	(53,230)
Tax at the Australian tax rate of 30% (2014: 30%)	**(8,247)**	(15,969)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of capitalised exploration & evaluation expenditure	**7,857**	15,064
Management fees (elimination)	**299**	737
Unrealised foreign exchange variances	**(1)**	7
Sundry items	**(44)**	(6)
Allowable capital expenditure (Papua New Guinea)	**69**	7
Income tax benefit not recognised	**67**	159
Total income tax expense	**-**	-

(b) Tax losses

Australian unused tax losses for which no deferred tax asset has been recognised	**963**	742
Potential tax benefit at the Australian tax rate of 30% (2014: 30%)	**289**	223

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	**46**	(12)
Capital raising costs	**(10)**	(105)
Accruals	**(2)**	18
Sundry items	**(69)**	(7)
	(35)	(106)

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

	Consolidated	
	2015	2014
	$'000	$'000
Exploration expenditure for which no deferred tax asset has been recognised	**40,993**	65,428
Potential tax benefit at the Papua New Guinea tax rate of 30% (2014: 30%)	**12,298**	19,628

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

	Consolidated	
	2015	2014
	$'000	$'000
Cash at bank and in hand	**497**	307
Short-term deposits*	**562**	2,310
	1,059	2,617

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	**497**	307
Short-term deposits*	**562**	2,310
Non-current assets – deposits (Note 13)	**-**	115
	1,059	2,732

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

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

9 Current assets – Receivables and other assets

	Consolidated	
	2015	2014
	$'000	$'000
Goods & services tax receivable	**5**	18
Prepayment and other receivables	**84**	168
	89	186

(a) Impaired receivables
There were no impaired receivables for the Group.

(b) Past due but not impaired
There were no receivables past due for the Group.

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

(d) Fair value and credit risk
Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

10 Current assets – Inventories

	Consolidated	
	2015	2014
	$'000	$'000
Inventory: Consumables	**478**	291
Less: provision for write-down	**(238)**	-
	240	291

(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 $238,000 (2014: $245,000).

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 2014					
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
Year ended 31 December 2015					
Opening net book amount	**662**	**846**	**47**	**16**	**1,571**
Additions	**2**	**51**	**2**	**-**	**55**
Disposals	**-**	**-**	**(17)**	**-**	**(17)**
Depreciation charge	**(34)**	**(411)**	**(13)**	**(16)**	**(474)**
Exchange differences	**(25)**	**(25)**	**13**	**-**	**(37)**
Closing net book amount	**605**	**461**	**32**	**-**	**1,098**
At 31 December 2015					
Cost	**868**	**3,349**	**164**	**1,519**	**5,900**
Accumulated depreciation	**(263)**	**(2,888)**	**(132)**	**(1,519)**	**(4,802)**
Net book amount	**605**	**461**	**32**	**-**	**1,098**

Total depreciation charge for the year is $474,000 (2014: $526,000) of which $466,000 (2014: $519,000) 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 2014			
Cost	9,527	109,654	145,768
Accumulated amortisation	(9,527)	-	(36,114)
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 net	-	2,674	2,674
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	151,756
Accumulated amortisation and impairment	(9,527)	-	(86,328)
Net book amount	-	65,428	65,428
Year ended 31 December 2015			
Opening net book amount	**-**	**65,428**	**65,428**
Exchange differences	**-**	**(1,912)**	**(1,912)**
Additions net	**-**	**2,674**	**2,674**
Impairment of exploration and evaluation expenditure	**-**	**(26,190)**	**(26,190)**
Closing net book amount	**-**	**40,000**	**40,000**
At 31 December 2015			
Cost	**9,527**	**143,988**	**153,515**
Accumulated amortisation and impairment	**(9,527)**	**(103,988)**	**(113,515)**
Net book amount	**-**	**40,000**	**40,000**

The Feasibility Study was completed in a 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 2015.

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 has reviewed the carrying value of its exploration and evaluation expenditure using the "Market Transaction Valuation" or 'yardstick approach'. The valuation analysis is based on actual transactions for gold exploration projects over the twelve months preceding the year end and after deducting estimated transaction costs of 2.5% of the transaction value. A risk analysis was applied taking into consideration project permitting, securing of capital funds, location and stakeholder relationships and market conditions to determine the position of the project value in the valuation range.

The evaluation of the carrying value and the recoverability of this asset has resulted in an impairment charge of $26,189,526 (2014: $50,213,829)

13 Non-current assets - Other non-current assets

	Consolidated	
	2015	2014
	$'000	$'000
Deposits	**-**	115
	-	115

14 Current liabilities - Trade and other payables

	Consolidated	
	2015	2014
	$'000	$'000
Trade payables	**55**	118
Other payables and accruals	**134**	272
	189	390

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

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

	Consolidated	
	2015	2014
	$'000	$'000
Annual leave obligation expected to be settled after 12 months	**62**	80
	62	80

(b) Risk exposure

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

15 Non-current liabilities – Provisions

	Consolidated	
	2015	2014
	$'000	$'000
Provision for long service leave	**44**	103
Provision for rehabilitation	**194**	200
	238	303

15 Non-current liabilities – Provisions (continued)

(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 2015	200
- charge/(credited) to profit & loss	-
- payments from provision	-
- exchange differences	(6)
Carrying amount at the end of the year - 31 December 2015	194

16 Contributed equity

	Parent entity 2015 Shares	2014 Shares	Parent entity 2015 $'000	2014 $'000
(a) Share capital				
Ordinary shares	**316,212,018**	260,712,018	**150,505**	148,295

(b) Movements in share capital

Date	Details	Number of shares	Issue price $	Total $'000
1 January 2014	Opening 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**
10 June 2015	Share placement (tranche 1)	8,500,000	0.040	340
15 July 2015	Share placement (tranche 2)	47,000,000	0.040	1,880
15 July 2015	Transaction costs of share placement			(10)
31 December 2015	**Balance**	**316,212,018**		**150,505**

16 Contributed equity (continued)

Details of share placement in June and July 2015 are as follows:

Share placement:	
Share price of issue:	4.0 cents per share
Number of shares issued:	55,500,000 ordinary shares
Capital raised:	A$2,220,000
Associated costs of issue:	A$ 10,318
Date of issue:	10 June and 15 July 2015

A placement of 55,500,000 shares at an issue price of 4 cents per share was taken up by the major shareholders and significant investors.

Details of the rights issue in June 2014 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$2,146,306
Associated costs of issue:	A$ 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 $2,146,306 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 in October and November 2014 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 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
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.

16 Contributed equity (continued)

(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.

17 Reserves and accumulated losses

	Consolidated	
	2015	2014
	$'000	$'000
(a) Reserves		
Share-based payments reserve	**1,181**	1,254
Foreign currency translation reserve	**11,794**	13,896
	12,975	15,150
Movements:		
Share-based payments reserve		
Balance 1 January	**1,254**	1,254
Options cancelled	**(73)**	-
Balance 31 December	**1,181**	1,254
Foreign currency translation reserve		
Balance 1 January	**13,896**	11,829
Currency translation differences arising during the year	**(2,102)**	2,067
Balance 31 December	**11,794**	13,896
(b) Accumulated losses		
Balance 1 January	**(93,930)**	(40,700)
Net loss for the year	**(27,490)**	(53,230)
Balance 31 December	**(121,420)**	(93,930)

(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.

18 Key management personnel disclosures

(a) Key management personnel

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

(i) Chairman - Non-executive
D Frecker

(ii) Executive directors

(iii) Non-executive directors
L Rozman
L Spencer
M Stowell
A Vogel

(iv) Other key management personnel
S Pether - Chief Executive Officer
G Perotti - Chief Financial Officer

(b) Key management personnel compensation

	Consolidated	
	2015	2014
	$	$
Short-term employee benefits	**535,139**	677,610
Post-employment benefits	**42,769**	36,120
Long-term benefits	**-**	6,904
	577,908	720,634

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 17.

(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 2015 and 2014 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 2015 (2014: Nil).

(ii) Shares provided on exercise of remuneration options

No options were exercised during the period ended 31 December 2015 (2014: Nil).

(iii) 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.

18 Key management personnel disclosures (continued)

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

2015 - Options

Name	Balance at start of the year	Granted	Exercised/ Expired	Balance at end of the year	Vested and exercisable	Unvested
Directors of Kula Gold Limited						
D Frecker	1,212,000	-	100,000	1,112,000	1,112,000	-
L Spencer	2,859,155	-	1,126,155	1,733,000	1,733,000	-
L Rozman	528,500	-	100,000	428,500	428,500	-
M Stowell	1,191,000	-	100,000	1,091,000	1,091,000	-
Other key management personnel						
S Pether	4,446,000	-	-	4,446,000	4,446,000	-

All vested options are exercisable.

2014 - Options

Name	Balance at start of the year	Granted as compensation	Exercised/ Expired	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.

(iv) 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.

2015 – 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	Other changes during the year*	Balance at the end of the year
Directors of Kula Gold Limited					
D Frecker	1,120,000	-	-	-	1,120,000
L Spencer	579,870	-	-	-	579,870
L Rozman	813,605	-	-	-	813,605
M Stowell	5,515,001	-	-	-	5,515,001
Other key management personnel					
S Pether	2,600,000	-	-	-	2,600,000

* Represents shares purchased/sold on market.

18 Key management personnel disclosures (continued)

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

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

(d) Loans and other transactions with key management personnel

There were no loans made to key management personnel during the reporting period (2014: $nil).

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

19 Remuneration of auditors

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

	Consolidated	
	2015	2014
	$	$
(a) Ernst & Young Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	**45,000**	60,000
Total remuneration for audit and other assurance services	**45,000**	60,000
Taxation services		
Tax compliance services	**-**	6,750
Other tax advice	**-**	-
Total remuneration for taxation services	**-**	6,750
Total remuneration of Ernst & Young Australia	**45,000**	66,750

20 Contingencies

The Group had no contingent assets or liabilities at 31 December 2015 (2014: $nil).

21 Commitments

	Consolidated	
	2015	2014
	$'000	$'000
(a) Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**-**	250
Later than one year but not later than five years	**-**	-
	-	250

The Group leases office space on a monthly basis from a related party as disclosed in Note 22.

22 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 ended 31 December 2015.

- Companies associated with Pacific Road group participated in the share placement during the year as follows:

  Share price of placement: 4 cents per share
  Number of shares issued: 37,750,000 (thirty seven million seven hundred and fifty thousand) ordinary shares
  Date of issue: 22 July 2015

This transaction was approved by the shareholders at an Extraordinary General Meeting held in Sydney at the offices of Ashurst Lawyers on Wednesday 15 July 2015.

- In September 2015 the Group entered into a lease agreement with Ascot Park Enterprises Pty Ltd, a company associated with Director, Mr Mark Stowell, to rent office space at 20 Howard Street, Perth. The rent and outgoings have been set at a rate which is at an arms-length commercial rate for comparable premises. The lease agreement terms are as follows:

  Lease term: Monthly
  Rental payment: $2,000 per month.

The following transactions occurred with related parties during the year ended 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

22 Related party transactions (continued)

(c) Transactions with other related parties (continued)

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.

23 Subsidiary

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2015 %	2014 %
Woodlark Mining Limited	Papua New Guinea	Ordinary	**100**	100

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

	Consolidated	
	2015 $'000	2014 $'000
Loss for the year	**(27,490)**	(53,230)
Depreciation and amortisation	**4**	6
Non-cash employee benefits expense – share-based payments	**-**	-
Non-cash benefit to financiers of debt facility agreement	**-**	931
Write-down in value of inventory	**-**	-
Impairment of exploration and evaluation expenditure	**26,190**	50,214
Change in operating assets and liabilities:		
(Increase) decrease in receivables	**94**	(3)
(increase) decrease in inventories	**43**	71
(Decrease) increase in trade and other payables	**(327)**	38
Net cash inflow (outflow) from operating activities	**(1,486)**	(1,973)

25 Earnings per share

(a) Basic loss per share

From continuing operations attributable to the ordinary equity holders of the Company	**(9.57)**	(35.02)

(b) Diluted loss per share*

From continuing operations attributable to the ordinary equity holders of the Company	**(9.57)**	(35.02)

25 Earnings per share (continued))

(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	**287,224,347**	151,989,903
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	**374,401,525**	193,024,952

(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 as they are anti-dilutive for the current period presented. 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.

26 Share-based payments

(a) (i) Employee option plan

The Kula Gold Limited Option Plan (Plan) is designed to provide long-term incentives for executives 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:

2015

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

2015

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

26 Share-based payments (continued)

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

2015

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired 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	-	-
16 Mar 2011	16 Mar 2016	$1.80	100,000	-	-	20,000	80,000	80,000
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 2018	$0.17	3,962,000	-	-	773,000	3,189,000	3,189,000
20 Dec 2013	20 Dec 2018	$0.17	1,427,000	-	-	-	1,427,000	1,427,000
Total			**12,098,233**	**-**	**-**	**2,782,233**	**9,316,000**	**9,316,000**
Weighted average exercise price			$0.95			$1.35	$0.83	

2014

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired 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 2018	$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	

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.8 years (2014: 3.6 years).

(c) Expenses arising from share-based payment transactions

	Consolidated	
	2015 **$'000**	2014 $'000
Options issued under Kula Gold Limited Option Plan	**-**	-

27 Parent entity financial information

(a) Summary financial information

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

Balance sheet	Parent entity **2015** **$'000**	 2014 $'000
Current assets	**1,093**	5,001
Total assets	**40,005**	94,057
Current liabilities	**83**	86
Total liabilities	**83**	102
Net Assets	**41,015**	93,955
Shareholders' equity		
Contributed equity	**150,505**	148,295
Share-based payment reserve	**1,181**	1,254
Accumulated losses	**(110,671)**	(55,594)
Total equity	**41,015**	93,955
(Loss)/Profit for the year	**(26,416)**	(50,742)
Total comprehensive (loss)/profit	**(26,416)**	(50,742)

(b) Guarantees entered into by the parent entity

The parent entity did not have any guarantees as at 31 December 2015 (2014: $114,652).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2015 (31 December 2014: $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 2015 (31 December 2014: $nil).

28 Events occurring after the reporting period

Mr Stuart Pether stepped down as the CEO of the Company effective 26 February 2016 and the CEO duties will be performed by management and the Board. Mr Pether will retain his position as a Director of Woodlark Mining Limited, the subsidiary of the Company.

The Share Purchase Plan (SPP), which closed on 24 March 2016, offered shares to existing shareholders, resident in Australia and New Zealand, at a price of 3.1 cents per share. The SPP raised $298,000 which will supplement working capital.

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 2015 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 2015 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) subject to achieving the matters set out in note 1(b) to the annual report, there are reasonable grounds to believe that Kula Gold Limited 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 Financial Officer and a Company Director in accordance with section 295A of the *Corporations Act 2001* for financial year ended 31 December 2015.

On behalf of the Board

David Frecker
Chairman

Sydney
31 March 2016

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

To the members of Kula Gold Limited

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 2015, 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, a copy of which is included in the directors' report.

GB:EH:KGD:007

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 2015 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(a).

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1(b) in the financial report. The matters as set forth in Note 1(b) 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 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
31 March 2016

GB:EH:KGD:007

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 16 March 2016.

Ordinary share capital

As at 16 March 2016, the issued capital comprised of 316,212,018 ordinary fully paid quoted shares.

Distribution of equity securities

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

	Ordinary shares		Options	
Holding	**Number of Holders**	**Number of Shares**	**Number of Holders**	**Number of options**
1 to 1,000	63	31,093	-	-
1,001 to 5,000	104	301,631	-	-
5,001 to 10,000	81	634,591	-	-
10,001 to 100,000	477	19,169,548	5	366,668
100,001 and over	165	296,075,155	43	87,353,510
	890	316,212,018	48	87,720,178

There were 347 holders of less than a marketable parcel of ordinary shares.

Unquoted options

The Company had the following unquoted options on issue:

a) Employee option plan – there are 6,189,000 unquoted options on issue, held by 3 employees or contractors.

b) Other unlisted options

Option holder	**Number of Options**	**Percentage**
DC Frecker & JM Frecker ATF The GEO Superannuation Fund	612,000	20.91%
Pacific Road Capital Management Holdings Pty Ltd	291,000	9.94%
Merchant Holdings Pty Ltd ATF The Zulu Family Trust	291,000	9.94%
Lee Keith Spencer & Ani Susilo Spencer	1,733,000	59.21%
	2,927,000	100.00%

c) 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%
	25,000,000	100.00%

e) Share placement option plan – there are 29,604,178 unquoted options on issue, held by 37 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	60,239,412	19.05%
2	National Nominees Limited	50,871,219	16.09%
3	Pacific Road Capital Management G.P. Ltd	43,574,379	13.78%
4	RMB Australia Holdings Limited	25,000,000	7.91%
5	RMB Resources Limited	18,651,496	5.90%
6	Pacific Road Capital B Pty Ltd	12,862,482	4.07%
6	Pacific Road Capital A Pty Ltd	12,862,482	4.07%
8	JP Morgan Nominees Australia Limited	6,905,952	2.18%
9	Washington H Soul Pattinson and Company Ltd	3,333,333	1.05%
10	Merchant Holdings Pty Ltd	2,959,282	0.94%
11	Comsec Nominees Pty Ltd	2,730,000	0.86%
12	Zero Nominees Pty Ltd	2,722,516	0.86%
13	Mr Stuart James Pether & Mrs Fiona Maree Pether	2,600,000	0.82%
14	Kenneth Joseph Hall	1,753,869	0.55%
15	KTAP Pty Ltd	1,666,667	0.53%
16	Citicorp Nominees Pty Ltd	1,566,133	0.50%
17	Haydos Corporation Pty Ltd	1,500,000	0.47%
17	Dr James Vinh Trung NGO	1,500,000	0.47%
19	Calama Holdings Pty Ltd	1,350,000	0.43%
20	Mr David Crichton Frecker & Mrs Joanne Margaret Frecker	1,120,000	0.35%
		255,769,222	**80.89%**

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	129,538,755	40.97%
National Nominees Limited	50,871,219	16.09%
RMB Resource Limited	43,651,496	13.80%
	224,061,470	**70.86%**

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 31 March 2016 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)
Kulumadau	Measured	5.0	1.8	285,000
Kulumadau	Indicated	4.4	1.8	245,000
Kulumadau	Inferred	8.6	1.4	375,000
Kulumadau	Totals	18.0	1.6	905,000
Busai	Measured	3.9	1.5	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	1.7	480,000
All	Indicated	17.8	1.5	840,000
All	Inferred	18.5	1.4	800,000
Totals*		**45.2**	**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.