



**KULA GOLD LIMITED**

ABN 83 126 741 259

**2016 ANNUAL REPORT**

# **Kula Gold Limited** ABN 83 126 741 259 **2016 Annual Report**

## **Corporate Directory**

Directors:	David Frecker	Chairman
	Mark Stowell	Independent Non-executive director
	Garry Perotti	Executive Director

Company secretary: Garry Perotti

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11 Mounts Bay Road  
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Share registry: Link Market Services Limited  
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Stock exchange listing: Australian Securities Exchange  
ASX code: KGD

# **Kula Gold Limited** ABN 83 126 741 259 **2016 Annual Report**

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## **Directors' report**

Your directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Kula Gold Limited (referred to hereafter as "Kula Gold" or the "Company") and the entities it controlled at the end of, or during, the year ended 31 December 2016.

### **Directors**

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

David Frecker  
Mark Stowell  
Louis Rozman – resigned on 21 March 2017  
Lee Spencer – resigned on 18 July 2016  
Arnold Vogel – resigned on 25 October 2016  
Garry Perotti – appointed on 21 March 2017

### **Principal activities**

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

### **Dividends**

No dividends have been paid or declared during the year (2015: \$nil).

### **Result of operations**

The net loss from operations of the consolidated entity was \$6,561,719 (2015: loss of \$27,490,398).

### **Review of operations**

On 24 March 2016 the Company offered a share purchase plan (SPP) to eligible shareholders which was taken up by 70 shareholders and resulted in the issuing of 9,612,896 shares at 3.1 cents each. Following the shareholder approval at the Annual General Meeting a further 6,700,000 shares were issued to the Pacific Road Resources Funds (together, the Company's major shareholder) on a placement at the same price per share as the SPP of 3.1 cents. The SPP and placement raised additional equity of A\$505,710 for working capital.

On 7 July 2016 the Company executed a Binding Term Sheet for a farm-in and joint venture with Geopacific Resources Limited ("Geopacific") under which Geopacific can earn up to 75% of the Project for project expenditure of up to \$18.65 million, depending on amount of spend, metres of diamond drilling and achievement of targeted reserve ounces of gold over a three to four year period.

On 5 October 2016, Geopacific issued its election to proceed to the second period of the farm-in and will sole fund the Project by spending at least \$8 million or achieving the target of 1.2 million ounces of gold reserves in a period of two years. In accordance with the Binding Term Sheet, Geopacific were issued shares in Woodlark Mining Limited (WML), such that their shareholding is 5% of WML, on 25 January 2017. This was also the execution date of the formal agreements between the Company, Geopacific and WML, being a Farm-in Agreement and a Shareholders Agreement. This has resulted in WML ceasing to be a controlled entity of the Company on the execution date.

Drill rigs arrived on Woodlark Island on 30 November 2016 and development drilling commenced at the Busai deposit and followed shortly thereafter at the Kulumadau deposit. Drill results will be announced on a regular basis as they are received.

Most land in PNG is owned by the local people as customary land. This was not the case on Woodlark Island where large portions of land were acquired during colonial times, and continued as Government land after PNG's independence. During the year, the Hon. Benny Allan, Minister for Lands and Physical Planning, declared that three large portions of Government land representing approximately 75% of Woodlark Island (60,440 hectares) are once again customary land. This was gazetted on 1 August 2016. Kula Gold and WML have always recognized the indigenous people as the custodians of land on the Island and have supported their requests for conversion of the Government land to customary land (owned by the Woodlark Islanders under customary law).

The return of the land was celebrated with a land declaration ceremony at the village Guasopa, attended by Government officials and visiting dignitaries from Port Moresby and Alotau, the capital of the Milne Bay Province.

The Company continues to manage corporate costs closely and is relieved of the Project costs that are fully covered by Geopacific under the Farm-in Agreement during the earn-in period. Geopacific is the manager of the Project, driving the development drilling program and progression of the Project, and continuing with stakeholder and landowner engagement and community projects.

As at 31 December 2016, Geopacific had earned a 5% equity interest in WML, elected to proceed with the second farm-in period and spent a total of \$1.45million on the Woodlark Island Gold Project.

## **Directors' report (continued)**

### **Significant matters relating to the ongoing viability of operations**

At 31 December 2016, the Company had a cash and cash equivalents balance of \$400,633. The Group reported a net loss of \$6,561,719, including an impairment cost of A\$5,798,826, 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 project costs being covered by Geopacific during the earn-in period under the Farm-in Agreement and the reduced corporate costs of both WML and the Company; and with the anticipated proceeds of the rights issue of shares announced on 20 March 2017, which is due to close on 13 April 2017, the Directors are satisfied that the Company will be able to meet its debts as and when they fall due until the end of June next year. The Company is also expected to have the ability to raise further equity capital 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.

### **Events occurring after the reporting period**

The Renounceable Rights Issue (RRI), which was announced on 20 March 2017 and closes on 13 April 2017, offers shares to eligible shareholders on the basis of one share for every eight shares held on the Record Date (28 March 2017) at a price of 1.5 cents per share. The offer is partially underwritten to an amount of \$300,000 and the underwriter may place any shortfall. The RRI may raise up to \$626,100 (before associated costs of the issue), if fully subscribed, which will supplement working capital.

The formal agreements to implement the farm-in and joint venture with Geopacific – being the Farm-in Agreement and the Shareholders Agreement – were executed by the Company, Geopacific and WML on 25 January 2017. Under the farm-in and joint venture arrangements Geopacific was entitled to 5% equity in WML and shares in WML representing this percentage were issued to Geopacific when the formal agreements were executed. As a result WML ceased to be a controlled entity of the Company and will be deconsolidated effective 25 January 2017.

### **Likely developments and expected results of operations**

With the Project being fully licensed and permitted, the Company will continue to seek capital to fund the Project to progress it to the construction phase. If Geopacific completes its earn-in under the Farm-in Agreement to the point where it has a 75% shareholder interest in WML (and therefore a 75% interest in the Project) and the decision is made to proceed with mine development, the Company will have the right under the Shareholders Agreement to elect to have Geopacific fund its share of equity funding required for mine development (including any cost overruns) in return for an additional 5% shareholder interest in WML.

### **Environmental regulation**

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

### **Information on directors**

**David Frecker BA, LL.M** *Independent Chairman and Non-executive director. Age 68.*

#### ***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 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***

None.

#### ***Former directorships in last 3 years***

The Kokoda Track Foundation Limited.

#### ***Special responsibilities***

Independent Chairman.

Member of the audit committee.

Member of the remuneration and nomination committee.

## **Directors' report (continued)**

### **Information on directors (continued)**

#### ***Interests in shares and options as at the date of this report***

- 1,184,516 ordinary fully paid shares.
- 612,000 KGDOPT8 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018

**Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec)** *Non-executive director. Age 59.*

#### ***Experience and expertise***

Louis Rozman was a Non-executive director of Kula Gold from July 2007 until his resignation on 21 March 2017.

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 for the reported period.

Chairman of the remuneration and nomination committee for the reported period.

#### ***Interests in shares and options as at the date of this report***

- 1,137,204 ordinary fully paid shares;
- 291,000 KGDOPT8 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

**Mark Stowell BBus, CA** *Independent Non-executive director. Age 53.*

#### ***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. Mark is also Chairman of Incremental Oil and Gas Ltd, (ASX: IOG) a USA oil and gas producer.

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

#### ***Other current directorships***

Incremental Oil and Gas Ltd.

#### ***Former directorships in last 3 years***

Mawson West Limited, Orrex Resources Limited

#### ***Special responsibilities***

Chairman of the audit committee.

Member of the risk committee.

Member of remuneration and nomination committee.

#### ***Interests in shares and options as at the date of this report***

- 3,922,582 ordinary fully paid shares
- 291,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018

## **Directors' report (continued)**

### **Information on directors (continued)**

**Lee Spencer MSc App (Mineral exploration)** *Non-executive director. Age 63.*

#### ***Experience and expertise***

Lee Spencer was a Non-executive director of Kula Gold from July 2007 until his resignation on 18 July 2016.

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

Lee has held numerous senior executive positions in the mining industry including Chief Executive Officer of BDI Mining Corp and vice president of exploration for Indomin Resources Ltd. Lee has extensive developing country experience and has been credited with several Project discoveries and developments in the region, including the Cempaka diamond mine in Indonesia.

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

#### ***Other current directorships***

None.

Lee Spencer was previously Kula Gold's Chief Executive Officer and managing director for the period July 2007 to July 2013.

#### ***Former directorships in last 3 years***

None

#### ***Special responsibilities***

Member of the risk committee (until his resignation).

#### ***Interests in shares and options as at the date of this report***

- 579,870 ordinary fully paid shares;
- 233,000 KGDOPT7 class options to acquire ordinary fully paid shares. Exercise price \$0.17, expiry 20 Dec 2018

**Arnold Vogel MSc (Mineral Economics)** *Independent Non-executive director. Age 62.*

#### ***Experience and expertise***

Arnold Vogel was a Non-executive director of Kula Gold from April 2015 until his resignation on 25 October 2016.

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 as at the date of this report***

None

**Garry Perotti BCom** *Executive director. Age 53.*

#### ***Experience and expertise***

Garry Perotti has held the position of Chief Financial Officer since October 2014 and was appointed executive director of Kula Gold on 21 March 2017.

Garry has over 27 years in corporate finance, financial management, accounting and commercial roles and held the position of financial director of a gold mining company listed on the Zimbabwe and Johannesburg stock exchanges. Garry has been company secretary for a number of private companies and companies listed on the Johannesburg Stock Exchange and London Stock Exchanges as well as ASX listed companies since immigrating to Australia in 2008.

Garry has a BCom Accounting from University of Pietermaritzburg, South Africa.

## Directors' report (continued)

### Information on directors (continued)

#### **Other current directorships**

Woodlark Mining Limited – the PNG registered subsidiary of the Company

#### **Former directorships in last 3 years**

None

#### **Special responsibilities**

None

#### **Interests in shares and options as at the date of this report**

- 560,000 ordinary fully paid shares

#### **Company secretary**

Mr Garry Perotti is also the Company secretary.

#### **Meetings of directors**

The numbers of meetings of the Company's Board of directors and of each Board committee held during the year ended 31 December 2016, and the numbers of meetings attended by each director were:

Name	Board meetings		Meetings of committees					
	Number eligible to attend	Number attended	Audit		Risk		Remuneration and nomination	
			Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
D Frecker	15	15	2	2	-	-	3	3
L Rozman <sup>(iii)</sup>	15	15	-	-	-	-	3	3
M Stowell	15	13	2	2	-	-	3	3
L Spencer <sup>(i)</sup>	10	3	-	-	-	-	-	-
A Vogel <sup>(ii)</sup>	14	11	-	-	-	-	-	-

<sup>(i)</sup> Mr Spencer ceased to be a director of the Company on 18 July 2016

<sup>(ii)</sup> Mr Vogel ceased to be a director of the Company on 25 October 2016

<sup>(iii)</sup> Mr Louis Rozman ceased to be a director of the Company on 21 March 2017



## **Directors' report (continued)**

### **Remuneration report (audited)**

This remuneration report sets out remuneration information for Kula Gold'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 remuneration 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 following table shows the Company's performance over the reporting period and the previous four financial years against overall remuneration for these years:

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Basic EPS (\$)	(\$0.0201)	(\$0.0957)	(\$0.3502)	(\$0.0735)	\$0.0184
Year end share price (\$)	\$0.020	\$0.010	\$0.040	\$0.100	\$0.310
Market Capitalisation (\$ million)	\$6.678	\$3.162	\$10.428	\$12.625	\$39.138
Total KMP Remuneration (\$)	\$408,157	\$577,908	\$720,634	\$1,343,581	\$1,297,175

#### **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 (available on the Company website) 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 members of the remuneration and nomination committee during 2016 were Louis Rozman (Chairman), Mark Stowell and David Frecker.

## Directors' report (continued)

### Remuneration report (continued)

#### *Non-executive directors*

Non-executive directors are remunerated by way of directors' fees within the limit approved by shareholders. The Board determines fees paid to individual Board members. The current maximum aggregate sum which shareholders have fixed to be paid as fees to Non-executive directors is \$300,000 per annum. This is unchanged from 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.

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. 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:

<b>Executive director</b>	<b>Position</b>
G Perotti	Executive director – appointed on 21 March 2017
<b>Non-executive directors</b>	<b>Position</b>
D Frecker	Non-executive chairman
L Rozman	Non-executive director – resigned on 21 March 2017
M Stowell	Non-executive director
L Spencer	Non-executive director – resigned on 18 July 2016
A Vogel	Non-executive director – resigned on 25 October 2016
<b>Other key management personnel</b>	
S Pether	Chief Executive Officer - resigned on 26 February 2016
G Perotti	Chief Financial Officer and Company Secretary

## Directors' report (continued)

### *Remuneration report (continued)*

#### Key management personnel of the Group – 2016

Name	Short-term employee benefits		Post-employment benefits	Termination payment	Share-based payments	Total
	Cash salary and fees	Cash bonus				
<b>Directors</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
D Frecker	35,000	-	3,325	-	-	38,325
L Rozman (iv)	-	-	-	-	-	-
L Spencer (ii)	10,000	-	950	-	-	10,950
M Stowell	25,000	-	2,375	-	-	27,375
A Vogel (iii)	-	-	-	-	-	-
Other key management personnel						
S Pether (i)	46,070	-	4,377	88,395	-	138,842
G Perotti (v)	153,000	-	14,535	-	25,130	192,665
<b>Total</b>	<b>269,070</b>	<b>-</b>	<b>25,562</b>	<b>88,395</b>	<b>25,130</b>	<b>408,157</b>

(i) Mr Stuart Pether resigned on 26 February 2016.

(ii) Mr Lee Spencer resigned on 18 July 2016.

(iii) Mr Arnold Vogel resigned on 25 October 2016.

(iv) Mr Louis Rozman resigned on 21 March 2017.

(v) Mr Garry Perotti holds the positions of CFO and Company secretary and was appointed as executive director on 21 March 2017.

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

Name	Fixed remuneration 2016 %	At risk	At risk
		short-term incentives 2016 %	long-term incentives 2016 %
<b>Directors</b>			
D Frecker	100	-	-
L Rozman	-	-	-
L Spencer	100	-	-
M Stowell	100	-	-
A Vogel	-	-	-
Other key management personnel			
S Pether	100	-	-
G Perotti	87	13	-

#### Key management personnel of the Group – 2015

Name	Short-term employee benefits		Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus			
<b>Directors</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
D Frecker	43,750	-	4,156	-	47,906
L Rozman (iv)	-	-	-	-	-
L Spencer (ii)	25,000	-	2,375	-	27,375
M Stowell	31,250	-	2,969	-	34,219
A Vogel (iii)	-	-	-	-	-
Other key management personnel					
S Pether (i)	250,453	20,000	17,624	-	288,077
G Perotti (v)	149,686	15,000	15,645	-	180,331
<b>Total</b>	<b>269,070</b>	<b>35,000</b>	<b>42,769</b>	<b>-</b>	<b>577,908</b>

(i) Mr Arnold Vogel was appointed on 20 April 2015.

## Directors' report (continued)

### *Remuneration report (continued)*

#### **IV. Service agreements of key management personnel**

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

S Pether, Chief Executive Officer

- Commencement of employment date 4 February 2013, as Chief Operating Officer, resigned 26 February 2016;
- 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 1 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 to the date of his resignation.
- Performance bonus: Eligible to be paid a performance related bonus of up to 50% of the base salary which is assessed as detailed in short-term incentives;
- Termination benefits:
  - (i) 90 days' notice is required on resignation;
  - (ii) Termination by the Company after the transition period of 12 months and before the end of the first 24 months of employment, 12 months base salary plus any bonus as determined by the Board; if termination occurs after the first 24 months, then, 3 months base salary; and if termination occurs within 12 months after a change of control of the Company, 12 months of base salary grossed up to include any unpaid bonus. All payments will be net of all deductions required by law.

G Perotti, Chief Financial Officer

- Commencement 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 mutually agreed KPI's up to 15% of total fixed remuneration;
- 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 25 to the financial statements.

The following options are held by directors and key management personnel of the Company as at 31 December 2016:

Name	Granted		Vested Number	Forfeited In Year	Expiry Date	Exercise Price	Fair Value	Value at
	Number	Grant Date					At Grant Date	forfeiture date
D Frecker	612,000	20 Dec 2013	612,000	-	20 Dec 2018	\$0.17	\$18,360	-
L Spencer	233,000	20 Dec 2013	233,000	-	20 Dec 2018	\$0.17	\$6,990	-
L Rozman	291,000	20 Dec 2013	291,000	-	20 Dec 2018	\$0.17	\$8,730	-
M Stowell	291,000	20 Dec 2013	291,000	-	20 Dec 2018	\$0.17	\$8,730	-
S Pether	2,446,000	8 Nov 2013	2,446,000	-	8 Nov 2018	\$0.17	\$73,380	-

## 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	233,000	20 Dec 2018	\$0.03	\$0.17	\$0.11	69%	3.25%
L Rozman	291,000	20 Dec 2018	\$0.03	\$0.17	\$0.11	69%	3.25%
M Stowell	291,000	20 Dec 2018	\$0.03	\$0.17	\$0.11	69%	3.25%
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

The maximum annual bonus of 15% of total fixed remuneration was granted to Mr G Perotti on 21 September 2016 for the 2016 financial year, based on assessment of performance against mutually agreed operational and financial benchmarks (KPIs). This is the total bonus payable for 2016 and there was nil forfeited. Per the employment contract, the Company elected to pay the amount due (net of PAYG and superannuation) in shares to the recipient at the price of 2.5 cents per share as stipulated in the employment contract. No part of the bonus is payable in future years.

Name	Bonus paid %	Potential Bonus unearned %
G Perotti	100	-

### 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 2016 (2015: Nil).

#### Shares under option

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

Name	Balance at start of the year	Granted	Expired	Others	Balance at end of the year	Vested and exercisable	Unvested
<b>2016</b>							
<b>Directors of Kula Gold Limited</b>							
D Frecker	1,112,000	-	500,000	-	612,000	612,000	-
L Spencer	1,733,000	-	1,500,000	-	233,000	233,000	-
L Rozman	428,500	-	116,556	(311,944)	-	311,944	-
M Stowell	1,091,000	-	800,000	-	291,000	291,000	-
<b>Other key management personnel</b>							
S Pether	4,446,000	-	2,000,000	-	2,134,056	2,446,000	-

All vested options are exercisable.

#### 2015

<b>Directors of Kula Gold Limited</b>							
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	-
<b>Other key management personnel</b>							
S Pether	4,446,000	-	-	-	4,446,000	4,446,000	-

All vested options are exercisable.

## Directors' report (continued)

### Remuneration report (continued)

#### 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.

#### 2016 – Ordinary shares

Name	Balance at the start of the year	Purchased during the year on share purchase plan	Received during the year as payment for annual bonus	Other changes during the year*	Balance at the end of the year
<b>Directors of Kula Gold Limited</b>					
D Frecker	1,120,000	64,516	-	-	1,184,516
L Spencer	579,870	-	-	-	579,870
L Rozman	813,605	323,599	-	-	1,137,204
M Stowell	5,515,001	322,581	-	(1,915,000)	3,922,582
<b>Other key management personnel</b>					
S Pether	2,600,000	-	-	(600,000)	2,000,000
G Perotti	-	-	560,000	-	560,000

\* Represents shares purchased/(sold) on market.

#### 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	Received during the year on rights issue	Balance at the end of the year
<b>Directors of Kula Gold Limited</b>					
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
<b>Other key management personnel</b>					
S Pether	2,600,000	-	-	-	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 (2015: \$nil).

Other transactions with key management personnel are disclosed in note 21, and as follows:

- 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 has 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

**END OF REMUNERATION REPORT**

## **Directors' report (continued)**

### **Shares under option**

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

<b>Date options granted</b>	<b>Expiry date</b>	<b>Exercise price of shares</b>	<b>Number under option</b>
08 Nov 2013	08 Nov 2018	\$0.170	3,189,000
20 Dec 2013	20 Dec 2018	\$0.170	1,427,000
20 Dec 2013	31 Aug 2018	\$0.125	24,000,000
			<u>28,616,000</u>

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

### **Indemnification and insurance of officers**

To the extent permitted by law, 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**

Group staff members as at 31 December 2016:

<b>Position</b>	<b>Kula Gold Limited</b>		<b>Woodlark Mining Limited</b>		<b>Total</b>	
	Male	Female	Male	Female	Male	Female
Directors (Executive)	-	-	-	-	-	-
Directors (Non-executive)	3	-	2	-	5	-
Senior executive	1	-	-	-	1	-
Other	-	-	7	-	7	-
	<u>4</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>13</u>	<u>-</u>

### **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.

## Directors' report (continued)

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

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

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

	<b>2016</b>	<b>Consolidated</b>
	\$	2015
		\$
<b>Taxation services</b>		
Ernst & Young Australian firm:		
Tax compliance service	-	-
Other tax advice	-	-
<b>Total remuneration for non-audit services</b>	<u>-</u>	<u>-</u>

### **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 52 and forms part of this report.

### **Rounding of amounts**

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (Rounding in Financial /Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

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



Mark Stowell  
 Director  
 Perth, 31 March 2017



**Kula Gold Limited** ABN 83 126 741 259  
**Annual report - 31 December 2016**

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

The financial statements were authorised for issue by the directors on 31 March 2017. The directors have the power to amend and reissue the financial statements.

**Kula Gold Limited**  
**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2016**

		<b>2016</b>	<b>Consolidated</b>
	Notes	<b>\$'000</b>	<b>2015</b>
			<b>\$'000</b>
<b>Other revenue</b>	5	<b>10</b>	33
<b>Expenses</b>			
Employee benefits expense		<b>(360)</b>	(658)
Professional and consulting expenses		<b>(192)</b>	(237)
Rental expense	6	<b>(17)</b>	(190)
Insurance expense		<b>(37)</b>	(53)
Impairment of exploration & evaluation expenditure	6	<b>(5,799)</b>	(26,190)
Foreign exchange gain		<b>15</b>	1
Other expenses		<b>(182)</b>	(196)
<b>Loss before income tax</b>		<b>(6,562)</b>	(27,490)
Income tax benefit/(expense)	7	-	-
<b>Loss for the year from continuing operations</b>		<b>(6,562)</b>	(27,490)
<b>Other comprehensive income</b>			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		<b>(1,943)</b>	(2,102)
<b>Total comprehensive (loss)/income for the year</b>		<b>(8,505)</b>	(29,592)
<b>Loss after tax</b>			
<b>Attributable to:</b>			
Equity holders of the parent		<b>(6,562)</b>	-
Non-controlling interest		-	-
		<b>(6,562)</b>	-
<b>Total comprehensive (loss)/income for the year</b>			
<b>Attributable to:</b>			
Equity holders of the parent		<b>(8,572)</b>	-
Non-controlling interest		<b>67</b>	-
		<b>(8,505)</b>	-
		<b>Cents</b>	<b>Cents</b>
<b>Loss per share for losses from continuing operations attributable to the ordinary equity holders of the Company:</b>			
Basic loss per share	24	<b>(2.01)</b>	(9.57)
Diluted loss per share	24	<b>(2.01)</b>	(9.57)

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

**Kula Gold Limited**  
**Consolidated statement of financial position**  
**As at 31 December 2016**

		2016 \$'000	Consolidated 2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	401	1,059
Receivables and other assets	9	104	89
Inventories	10	383	240
<b>Total current assets</b>		<u>888</u>	<u>1,388</u>
<b>Non-current assets</b>			
Property, plant and equipment	11	811	1,098
Mineral exploration and evaluation expenditure	12	34,515	40,000
<b>Total non-current assets</b>		<u>35,326</u>	<u>41,098</u>
<b>Total assets</b>		<u>36,214</u>	<u>42,486</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	185	189
<b>Total current liabilities</b>		<u>185</u>	<u>189</u>
<b>Non-current liabilities</b>			
Provisions	14	185	238
<b>Total non-current liabilities</b>		<u>185</u>	<u>238</u>
<b>Total liabilities</b>		<u>370</u>	<u>426</u>
<b>Net assets</b>		<u>35,844</u>	<u>42,060</u>
<b>EQUITY</b>			
Contributed equity	15(a)	151,026	150,505
Reserves	16(a)	11,343	12,975
Accumulated losses	16(b)	(127,982)	(121,420)
<b>Equity attributable to equity holders of parent</b>		<u>34,387</u>	<u>42,060</u>
Non-controlling interest	15(g)	1,457	-
<b>Total equity</b>		<u>35,844</u>	<u>42,060</u>

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

**Kula Gold Limited**  
**Consolidated statement of changes in equity**  
**For the year ended 31 December 2016**

**Attributable to owners of Kula Gold Limited**

	Notes	Contributed equity \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Consolidation reserve \$'000	Total reserves \$'000	Accumulated losses \$'000	Owners of the parent \$'000	Non-controlling interest \$'000	Total equity \$'000
<b>Balance at 1 January 2015</b>		148,295	1,254	13,896	-	15,150	(93,930)	69,515	-	69,515
Loss for the year		-	-	-	-	-	(27,490)	(27,490)	-	(27,490)
Exchange differences on translation of foreign operations	16	-	-	(2,102)	-	(2,102)	-	(2,102)	-	(2,102)
<b>Total comprehensive income/(loss) for the year</b>		-	-	(2,102)	-	(2,102)	(27,490)	(29,592)	-	(29,592)
<b>Transactions with owners in their capacity as owners:</b>										
Contributions of equity, net of transactions costs and tax	15	2,210	-	-	-	-	-	2,210	-	2,210
Cancellation of Options	16	-	(73)	-	-	(73)	-	(73)	-	(73)
<b>Balance at 31 December 2015</b>		150,505	1,181	11,794	-	12,975	(121,420)	42,060	-	42,060
<b>Balance at 1 January 2016</b>		150,505	1,181	11,794	-	12,975	(121,420)	42,060	-	42,060
Loss for the year		-	-	-	-	-	(6,562)	(6,562)	-	(6,562)
Exchange differences on translation of foreign operations	16	-	-	(2,010)	-	(2,010)	-	(2,010)	67	(1,943)
<b>Total comprehensive income/(loss) for the year</b>		-	-	(2,010)	-	(2,010)	(6,562)	(8,572)	67	(8,505)

		Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Consolidation reserve	Total reserves	Accumulated losses	Owners of the parent	Non-controlling interest	Total equity
Notes		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Transactions with owners in their capacity as owners:</b>										
Contributions of equity, net of transactions costs and tax	15	521	-	-	-	-	-	521	-	521
Cancellation of Options	16	-	(20)	-	-	(20)	-	(20)	-	(20)
Contributions by minority interest in WML	16	-	-	-	398	398	-	398	1,457	1,788
<b>Balance at 31 December 2016</b>		<b>151,026</b>	<b>1,161</b>	<b>9,784</b>	<b>398</b>	<b>11,343</b>	<b>(127,982)</b>	<b>34,387</b>	<b>1,457</b>	<b>35,844</b>

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

**Kula Gold Limited**  
**Consolidated statement of cash flows**  
**For the year ended 31 December 2016**

						<b>Consolidated</b>	
						2016	2015
						\$'000	\$'000
<b>Cash flows from operating activities</b>							
Payments to suppliers and employees (inclusive of goods and services tax)						(999)	(1,519)
Interest income						10	33
<b>Net cash outflow from operating activities</b>	23					<u>(989)</u>	<u>(1,486)</u>
<b>Cash flows from investing activities</b>							
Payments for property, plant and equipment	11					(30)	(55)
Payments for exploration activities						(803)	(2,267)
Proceeds from disposal of assets	11					-	2
<b>Net cash outflow from investing activities</b>						<u>(833)</u>	<u>(2,320)</u>
<b>Cash flows from financing activities</b>							
Advances from non-controlling interest						601	-
Proceeds from issues of shares (net of transaction costs)	15					521	2,210
<b>Net cash inflow from financing activities</b>						<u>1,122</u>	<u>2,210</u>
<b>Net decrease in cash and cash equivalents</b>						<b>(700)</b>	<b>(1,596)</b>
Cash and cash equivalents at the beginning of the financial year	8					1,059	2,732
Effects of exchange rate changes on cash and cash equivalents						42	(77)
<b>Cash and cash equivalents at end of year</b>	8					<u>401</u>	<u>1,059</u>

*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*. Kula Gold Limited is a for-profit entity for the purposes of preparing the financial statements.

#### ***Compliance with IFRS***

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

#### ***Historical cost convention***

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

#### ***Critical accounting estimates***

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

#### ***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 2016 are as follows:

- i) AASB 2015-3** Amendments to Australian Accounting Standards from the withdrawal of AASB 1031 – *Materiality*
- ii) AASB 2014-3** Amendments to Australian Accounting Standards – *Accounting for Acquisitions of interests in Joint Operations [AASB 1 and AASB 11]*
- iii) AASB 1057** Application of Australian Accounting Standards
- iv) AASB 2014-9** Amendments to Australian Accounting Standards – *Equity Method in Separate Financial Statements*
- v) AASB 2015-1** Amendments to Australian Accounting Standards – *Annual Improvements to Australian Accounting Standards 2012 – 2014 Cycle*
- vi) AASB 2015-9** Amendments to Australian Accounting Standards – *Scope and Application Paragraphs [AASB 8, AASB 133 and AASB 1057]*
- vii) AASB 2013-3** Amendments to AASB 136 – *Recoverable amounts disclosed for non-financial assets*

The adoption of the above has had no material effect on the financial position or performance of the Company or disclosures made by the Company.

### **(b) Significant matters relating to the ongoing viability of operations**

The consolidated entity recorded a loss of \$6,561,719 for the year ended 31 December 2016 (2015: \$27,490,398) and had a net cash outflow from operating and investing activities of \$1,822,000 for the year ended 31 December 2016 (2015: \$3,806,000). The consolidated entity had cash and cash equivalents at 31 December 2016 of \$400,633 (2015: \$1,059,104) and has working capital of \$703,388 (2015: \$1,199,054).

The Group's cashflow forecast for the period ending 30 June 2018 reflects that the Group will need to raise additional working capital to enable it to continue to fund its corporate activities and 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:

- On 25 January 2017, the Group finalized and signed the farm-in agreement with Geopacific Resources Limited ("GPR"). On the basis GPR do not withdraw from the farm-in agreement, Woodlark Mining Limited ("WML") will receive up to \$8 million in funding throughout the second period of the farm-in agreement to be invested directly in drilling and development work by GPR, at least for a period of 24 months.



## **1 Summary of significant accounting policies (continued)**

- On 20 March 2017, the Group announced a Renounceable Rights Issue (RRI), which offers shares to eligible shareholders on the basis of one share for every eight shares held on the Record Date (28 March 2017) at a price of 1.5 cents per share. The offer is partially underwritten to an amount of \$300,000 and the underwriter may place any shortfall. The RRI may raise up to \$626,100 (before associated costs of the issue), if fully subscribed, which will supplement working capital. This RRI will close on 13 April 2017.
- The Group will be able to raise further equity capital via the share market

Should GPR withdraw from the farm-in agreement and the Group is not able to successfully complete the RRI, there would be significant uncertainty as to whether the Group would be able to meet its debts as and when they fall due and thus continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be required should the Group not be able to achieve the matters set out above, and thus 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 2016 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. Throughout the reporting period, the Parent entity had only one subsidiary, Woodlark Mining Limited ("WML").

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(i)).

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.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### **(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 the Company's functional and presentation currency.

## **1 Summary of significant accounting policies (continued)**

### **(ii) Transactions and balances**

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

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

### **(iii) Group companies**

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

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

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

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

### **(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.

## **1 Summary of significant accounting policies (continued)**

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

### **(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.

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.

## **1 Summary of significant accounting policies (continued)**

### ***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

### ***Measurement***

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

### ***Impairment***

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

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

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

### **(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.

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 and leasehold improvements	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(j)).

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.

## **1 Summary of significant accounting policies (continued)**

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 (j)).

### **(o) Trade and other payables**

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

### **(p) Borrowings**

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

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

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

### **(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 other short term benefits 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.

#### **(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, or where appropriate, high quality corporate 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.

## **1 Summary of significant accounting policies (continued)**

### ***(iii) Share-based payments***

Share-based compensation benefits are provided to employees via the Kula Gold Limited Option Plan (Plan). Information relating to the Plan is set out in note 25.

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

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

### **(s) Contributed equity**

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

### **(t) Goods and Services Tax (GST)**

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

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

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

### **(u) Rounding of amounts**

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (Rounding in Financial /Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

### **(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 26 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.

## **1 Summary of significant accounting policies (continued)**

### **(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 2016 reporting periods. The relevant new standards and interpretations are set out below.

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

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

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

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

## **1 Summary of significant accounting policies (continued)**

### AASB 16: Leases

The key features are as follows:

#### **Lessee Accounting**

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities
- Assets and liabilities arising from a lease are initially measured on a present value basis
- AASB 16 contains disclosure requirements for lessees

#### **Lessor accounting**

- AASB 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently
- AASB 16 also required enhanced disclosures

The Group has not yet determined the impact of AASB 2016-6 and AASB 16 on its financial statements.

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

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

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

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

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



## **1 Summary of significant accounting policies (continued)**

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.

The Group has not yet determined the impact of these pronouncements of its financial statements.

## **2 Financial Risk Management**

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

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

### **(a) Market risk**

#### **(i) Foreign exchange risk**

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

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

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

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

The Group does not have significant foreign currency risk.

#### **(ii) Interest rate risk**

The Group is exposed to interest rate risk arising from cash and cash equivalents.

#### *Group sensitivity*

At 31 December 2016, 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. The Group's maximum exposure to credit risk is the carrying value of financial assets on the statement of financial position.

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

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

### **(c) Liquidity risk**

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

#### *Maturities of financial liabilities*

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

## **2 Financial Risk Management (continued)**

### Contractual maturities of financial liabilities

	Less than 6 months \$'000	6 - 12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount liabilities \$'000
<b>At 31 December 2016</b>							
Trade and other payables	185	-	-	-	-	185	185
<b>Total non-derivatives</b>	<b>185</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>185</b>	<b>185</b>
<b>At 31 December 2015</b>							
Trade and other payables	189	-	-	-	-	189	189
<b>Total non-derivatives</b>	<b>189</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>189</b>

#### **(d) Fair value measurements**

The carrying values of receivables and payables approximate their fair values due to their short-term nature.

## **3 Critical Accounting Estimates and Judgements**

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

The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial 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 Company has reviewed the carrying value of its exploration and evaluation expenditure using the "Market Transaction Valuation" or 'yardstick approach' (level 3 in the fair value hierarchy). 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. At 31 December 2016, total impairment charge for the reporting period is \$5,799,000, resulting in a carrying value of \$34,515,000.

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. Management has applied its judgement in accordance with the Group accounting policy on foreign currency translation (note 1(e)) 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.

### **3 Critical Accounting Estimates and Judgements (continued)**

#### **(iii) Control of Subsidiary**

As at 31 December 2016 Geopacific Resources Limited (“GPR”) had exercised their option to proceed to the second period of the farm-in under the broad terms of the term sheet entered into on 7 July 2016 and the subsidiary Woodlark Mining Limited (“WML”) remained a controlled entity of the Company.

The formal agreements to implement the farm-in and joint venture with GPR – being the Farm-in Agreement and the Shareholders Agreement – were executed by the Company, GPR and WML on 25 January 2017. Under arrangements GPR was entitled to 5% equity in WML prior to 31 December 2016 and shares in WML representing this percentage were issued to GPR when the formal agreements were executed. The terms and conditions of the Farm-in Agreement collectively resulted in the Company losing control of WML from 25 January 2017 and, accordingly, WML will be deconsolidated from the Group accounts on 25 January 2017.

### **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 Chief Executive Officer (until 26 February 2017) and the Board of directors, and the financial information presented in this report.

	<b>2016</b>	<b>Consolidated</b>
Geographic information:	<b>\$'000</b>	2015 \$'000
<b>Non-current assets</b>		
Australia	-	-
Papua New Guinea	<b>34,515</b>	40,000
	<b>34,515</b>	40,000

### **5 Other revenue**

Interest income	10	33
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### **6 Expenses**

	<b>2016</b>	<b>Consolidated</b>
	<b>\$'000</b>	2015 \$'000
<b>Loss before income tax includes the following specific expenses</b>		
Depreciation		
Buildings	32	34
Plant and equipment	228	403
Furniture and fittings	7	13
Motor vehicle and boats	-	16
Less: Capitalised to mineral exploration and evaluation expenditure	<b>(259)</b>	<b>(470)</b>
Total depreciation	<b>8</b>	4
Total depreciation and amortisation	8	4
Rental expense relating to operating leases		
Minimum lease payments	17	190
Impairment of exploration and evaluation expenditure	<b>5,799</b>	26,190

## 7 Income tax (benefit)/expense

### (a) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(6,562)	(27,490)
Tax at the Australian tax rate of 30% (2015: 30%)	(1,969)	(8,247)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other non-deductible expenses	(41)	(44)
Allowable capital expenditure (Papua New Guinea)	33	69
Income tax benefit not recognised	1,977	8,222
Total income tax expense	-	-

### (b) Tax losses

Australian unused tax losses for which no deferred tax asset has been recognised	1,154	963
Potential tax benefit at the Australian tax rate of 30% (2015: 30%)	346	289

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

The following represents unrecognised deferred tax on timing differences:

Employee provision	28	46
Capital raising costs	(22)	(10)
Accruals	13	(2)
Sundry items	(33)	(69)
	(14)	(35)

	<b>Consolidated</b>
<b>2016</b>	2015
<b>\$'000</b>	\$'000

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

Exploration expenditure for which no deferred tax asset has been recognised	35,194	40,993
Potential tax benefit at the Papua New Guinea tax rate of 30% (2015: 30%)	10,558	12,298

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

Allowable exploration expenditure forms part of the allowable deductions of a mining operation. Exploration companies do not incur tax losses in Papua New Guinea. Rather, they accumulate their exploration expenditure until such time as 20 years has passed since the expenditure was incurred, the EL is abandoned, or a ML or SML is withdrawn from the area covered by the EL.

During the period of the exploration a Company does not claim deductions for depreciation, rather the cost of otherwise depreciable assets acquired forms part of the exploration expenditure. In this way, future deductions may be claimed for the cost of such assets by way of claiming deductions for the Allowable Exploration Expenditure.

No deferred tax asset has been recognised in relation to this expenditure on the basis that realisation of the tax benefit from the allowable exploration expenditure cannot be regarded as recoverable at this stage in the life of the Project.

## **8 Current assets - Cash and cash equivalents**

Cash at bank and in hand	188	497
Short-term deposits*	213	562
	401	1,059

### **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	188	497
Short-term deposits*	213	562
	401	1,059

\*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**

		<b>Consolidated</b>
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Goods & services tax receivable	17	5
Prepayment and other receivables	87	84
	104	89

#### **(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**

Inventory: Consumables	535	478
Less: provision for write-down	(152)	(238)
	383	240

#### **(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. The write-down amounted to \$151,746 (2015: \$238,000).

## **11 Non-current assets - Property, plant and equipment**

	Consolidated				Total
	Buildings and leasehold improvements	Plant and equipment	Furniture and fittings	Motor vehicles and boats	
	\$'000	\$'000	\$'000	\$'000	
<b>At 1 January 2015</b>					
Gross carrying amount at cost	868	3,349	235	1,519	5,971
Accumulated depreciation	(206)	(2,503)	(188)	(1,503)	(4,400)
Net carrying amount	<u>662</u>	<u>846</u>	<u>47</u>	<u>16</u>	<u>1,571</u>
<b>Year ended 31 December 2015</b>					
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	<u>605</u>	<u>461</u>	<u>32</u>	<u>-</u>	<u>1,098</u>
<b>At 31 December 2015</b>					
Gross carrying amount at cost	868	3,349	164	1,519	5,900
Accumulated depreciation	(263)	(2,888)	(132)	(1,519)	(4,802)
Net carrying amount	<u>605</u>	<u>461</u>	<u>32</u>	<u>-</u>	<u>1,098</u>
<b>Year ended 31 December 2016</b>					
Opening net book amount	605	461	32	-	1,098
Additions	-	28	2	-	30
Depreciation charge	(32)	(228)	(7)	-	(267)
Exchange differences	(27)	(21)	(2)	-	(50)
Closing net book amount	<u>546</u>	<u>240</u>	<u>25</u>	<u>-</u>	<u>811</u>
<b>At 31 December 2016</b>					
Cost	868	3,377	166	1,519	5,930
Accumulated depreciation	(322)	(3,137)	(141)	(1,519)	(5,119)
Net book amount	<u>546</u>	<u>240</u>	<u>25</u>	<u>-</u>	<u>811</u>

Total depreciation charge for the year is \$267,377 (2015: \$474,000) of which \$259,060 (2015: \$466,000) 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
<b>Year ended 31 December 2015</b>			
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
<b>At 31 December 2015</b>			
Gross carrying amount at cost	9,527	143,988	153,515
Accumulated amortisation and impairment	(9,527)	(103,988)	(113,515)
Net carrying amount	-	40,000	40,000
<b>Year ended 31 December 2016</b>			
Opening net carrying amount	-	40,000	40,000
Exchange differences	-	(1,935)	(1,935)
Additions net	-	2,249	2,249
Impairment of exploration and evaluation expenditure	-	(5,799)	(5,799)
Closing net book amount	-	34,515	34,515
<b>At 31 December 2016</b>			
Gross carrying amount at cost	9,527	144,913	154,440
Accumulated amortisation and impairment	(9,527)	(110,398)	(119,925)
Net carrying amount	-	34,515	34,515

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 Group's market capitalisation is higher than the Group's net assets as at 31 December 2016 an impairment indicator is triggered and a full review of the carrying value of exploration and evaluation expenditure has been conducted for the year ended 31 December 2016.

### **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' (level 3 in the fair value hierarchy). 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. The key inputs are that the Woodlark Island Gold Project has resources of 2.12 million ounces and comparable recent market transactions for similar gold projects.

The evaluation of the carrying value and the recoverability of this asset has resulted in an impairment charge of \$5,798,826 (2015: \$26,189,526)

### **13 Current liabilities - Trade and other payables**

	<b>2016</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2015</b>
		<b>\$'000</b>
Trade payables	112	55
Other payables and accruals	73	134
	<b>185</b>	<b>189</b>

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

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

Annual leave obligation expected to be settled after 12 months	12	62
	<b>12</b>	<b>62</b>

**(b) Risk exposure**

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

### **14 Non-current liabilities**

Provision for long service leave	-	44
Provision for rehabilitation	185	194
	<b>185</b>	<b>238</b>

**(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:

**Provision for rehabilitation**

Carrying amount at the start of the year - 1 January 2016	194	200
- exchange differences	(9)	(6)
Carrying amount at the end of the year - 31 December 2016	<b>185</b>	<b>194</b>



## 15 Contributed equity

	2016 Shares	Parent entity 2015 Shares	2016 \$'000	Parent entity 2015 \$'000
<b>(a) Share capital</b>				
Ordinary shares	<u>333,918,247</u>	316,212,018	<u>151,026</u>	150,505

### **(b) Movements in share capital**

Date	Details	Number of shares	Issue price \$	Total \$'000
1 January 2015	Opening 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)
<b>31 December 2015</b>	<b>Balance</b>	<u><b>316,212,018</b></u>		<u><b>150,505</b></u>
1 April 2016	Share purchase plan	9,612,896	0.031	298
27 June 2016	Share placement	6,700,000	0.031	208
17 October 2016	CPS Capital Group – break fee	833,333	0.027	23
17 October 2016	G Perotti – Annual Bonus	560,000	0.025	14
31 December 2016	Transaction costs of all share issues			(22)
<b>31 December 2016</b>	<b>Balance</b>	<u><b>333,918,247</b></u>		<u><b>151,026</b></u>

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 4.0 cents per share was taken up by the major shareholders and significant investors.

Details of share purchase plan and placement in April and June 2016 are as follows:

**Share purchase plan and placement:**

Share price of issue:	3.1 cents per share
Number of shares issued:	16,312,896 ordinary shares
Capital raised:	A\$505,710
Associated costs of issue:	A\$ 21,525
Date of issue:	1 April and 27 June 2016

A share purchase plan offer of 1 share for every 5 shares held at an issue price of 3.1 cents per share was taken up by 70 eligible shareholders and the subsequent share placement to the major shareholder, following shareholder approval at the Annual General Meeting, of 6,700,000 shares at the same price of 3.1 cents per shares.

Details of share issues in October 2016 are as follows:

**Break fee payment:**

Share price of issue:	2.7 cents per share
Number of shares issued:	833,333 ordinary shares
Capital raised:	A\$22,500
Date of issue:	17 October 2016

## **15 Contributed equity (continued)**

The company paid a break fee of 50% of the lead manager fee to CPS Capital Group in shares at the agreed 10 day VWAP issue price of 2.7 cents per share.

<b>CFO Bonus payment:</b>	
Share price of issue:	2.5 cents per share
Number of shares issued:	560,000 ordinary shares
Capital raised:	A\$14,000
Date of issue:	17 October 2016

The company opted to pay the CFO net bonus payment in shares at the issue price of 2.5 cents per share as stated in the employment contract.

### **(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 25.

### **(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.

### **(g) Non-controlling interest**

The non-controlling interest relates to the equity interest of 5% in WML earned by Geopacific Resources Limited ("GPR") as at 31 December 2016 following GPR having completed the first farm-in period, even though the shares in WML were not issued until 25 January 2017 upon the execution of the Farm-in Agreement and the Shareholder Agreement ("the agreements").

As a result, the Company has recognised a minority interest for GPR's 5% equity holding in WML at 31 December 2016.

Geopacific has elected to proceed to the second farm-in period and continue to advance funds for the development activities in WML. The non-refundable portion of the funds advanced during the period is recognised as contribution and equity.

Financial information of subsidiary that has non-controlling interests ("NCI") are provided below:

	<b>Country of incorporation</b>	<b>% Equity interests of NCI 2016</b>	2015
Woodlark Mining Limited	Papua New Guinea	<b>5%</b>	-

The summarised financial information of this subsidiary is provided below. This information is based on the amounts before inter-company eliminations. The acquisition of the 5% minority interest in WML by GPR occurred on 6 October 2016, and therefore no comparative financial information is presented. Furthermore, the financial information in the summarised statement of profit or loss only includes transactions from 6 October 2016 to 31 December 2016.

## **15 Contributed equity (continued)**

	WML 6 October 2016 To 31 December 2016 \$'000
<b>Summarised Statement of Profit or Loss</b>	
Other expense (foreign exchange gain)	1,335
Profit/(loss) before income tax	1,335
Income tax expense	-
Net profit for the year	1,335
Total comprehensive income	1,335
 <b>Summarised Statement of Financial Position</b>	
Current assets	599
Non-current assets	35,933
Current liabilities	(7,201)
Non-current liabilities	(185)
Total equity	29,146
Total equity attributable to:	
- Equity holders of the parent	27,689
- Non-controlling interest	1,457
Contributed equity	(140,919)
Reserves	(9,395)
Retained earnings	121,168
<b>Non-controlling interest' total equity</b>	<b>29,146</b>
 <b>Summarised Cash Flows Information</b>	
Operating	-
Investing	1,648
Financing	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,648</b>

## **16 Reserves and accumulated losses**

	<b>2016</b>	<b>Consolidated</b>
<b>(a) Reserves</b>	<b>\$'000</b>	<b>2015</b>
		<b>\$'000</b>
Share-based payments reserve	1,161	1,181
Foreign currency translation reserve	9,784	11,794
Consolidation reserve	398	-
	<b>11,343</b>	<b>12,975</b>
<b>Movements:</b>		
<b><i>Share-based payments reserve</i></b>		
Balance 1 January	1,181	1,254
Options cancelled	(20)	(73)
Balance 31 December	<b>1,161</b>	<b>1,181</b>
<b><i>Foreign currency translation reserve</i></b>		
Balance 1 January	11,794	13,896
Currency translation differences arising during the year	(2,010)	(2,102)
Balance 31 December	<b>9,784</b>	<b>11,794</b>
<b><i>Consolidation reserve</i></b>		
Balance at 1 January	-	-
Movement	398	-
Balance 31 December	<b>398</b>	<b>-</b>
<b>(b) Accumulated losses</b>		
Balance 1 January	(121,420)	(93,930)
Net loss for the year	(6,562)	(27,490)
Balance 31 December	<b>(127,982)</b>	<b>(121,420)</b>

### **(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(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

#### **(iii) *Consolidation reserve***

This reserve represents the difference between minority interest recognised and the equity contributions received from Geopacific.

## **17 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**  
None
- (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**

	<b>2016</b>	<b>Consolidated</b>
	\$	2015 \$
Short-term employee benefits	<b>382,595</b>	535,139
Post-employment benefits	<b>25,562</b>	42,769
	<b>408,157</b>	<b>577,908</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 8 to 14.

### **(c) Equity instrument disclosures relating to key management personnel**

#### **(i) Options provided as remuneration**

Details of options over ordinary shares in the Company provided as remuneration to key management personnel of Kula Gold Limited group during the period ended 31 December 2016 and 2015 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 25.

No options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2016 (2015: Nil).

#### **(ii) Shares provided on exercise of remuneration options**

No options were exercised during the period ended 31 December 2016 (2015: Nil).

## **18 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:

	<b>2016</b>	<b>Consolidated</b>
	\$	2015 \$
<b>(a) Ernst &amp; Young Australia</b>		
<i>Audit and other assurance services</i>		
Statutory audit and review of financial statements	<b>45,000</b>	45,000
Total remuneration for audit and other assurance services	<b>45,000</b>	45,000
<i>Taxation services</i>		
Tax compliance services	-	-
Other tax advice	-	-
Total remuneration for taxation services	-	-
Total remuneration of Ernst & Young Australia	<b>45,000</b>	45,000

## **19 Contingencies**

The Group had no contingent assets or liabilities at 31 December 2016 (2015: \$nil).

## **20 Commitments**

### **(a) Lease commitments**

There are no lease commitments. The Group leases office space on a monthly basis from a related party as disclosed in Note 21.

## **21 Related party transactions**

### **(a) Subsidiaries**

Details of the interest in the subsidiary are set out in note 22.

### **(b) Key management personnel compensation**

Details of key management personnel remuneration are disclosed in note 17 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 2016:

- Companies associated with Pacific Road group of entities, who are the majority shareholder of the Company participated in a share placement during the year.

#### **Shares:**

Share price of placement: 3.1 cents per share (equal to the share purchase plan issue price)  
Number of shares issued: 6,700,000 (six million seven hundred thousand) ordinary shares  
Date of issue: 27 June 2016

This share placement was approved by the shareholders at the Annual General Meeting held in Sydney at the offices of Ashurst Lawyers on Tuesday 31 May 2016.

## **21 Related party transactions (continued)**

- There was an existing lease agreement for the entire year 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 has 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: \$1,300 per month.

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 has 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.

## **22 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(c):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2016 %	2015 %
Woodlark Mining Limited ("WML")	Papua New Guinea	Ordinary	95	100

Subsequent to year end on 25 January 2017, the formal agreements to implement the farm-in and joint venture with Geopacific Resources Limited ("GPR") – being the Farm-in Agreement and the Shareholders Agreement – were executed by the Company, GPR and WML. Under the joint venture arrangements GPR was entitled to 5% equity in WML prior to 31 December 2016 and shares in WML representing this percentage were issued to GPR when the formal agreements were executed. The terms and conditions of the Farm-in Agreement collectively resulted in the Company losing control of WML from 25 January 2017 and, accordingly, WML will be deconsolidated from the Group accounts on 25 January 2017.

## **23 Reconciliation of loss after income tax to net cash outflow from operating activities**

	2016 \$'000	Consolidated 2015 \$'000
Loss for the year	(6,562)	(27,490)
Depreciation and amortisation	8	4
Non-cash employee benefits expense – share-based payments	(20)	-
Non-cash benefit to financiers of debt facility agreement	-	-
Write-down in value of inventory	-	-
Impairment of exploration and evaluation expenditure	5,799	26,190
Change in operating assets and liabilities:		
(Increase)/decrease in receivables	(15)	94
(increase)/decrease in inventories	(143)	43
(Decrease)/increase in trade and other payables	56	(327)
Net cash inflow (outflow) from operating activities	<u>(989)</u>	<u>(1,486)</u>

## **23 Reconciliation of loss after income tax to net cash outflow from operating activities (continued)**

During the year, GPR contributed \$1,788,000 worth of exploration and evaluation expenditure to fulfil its commitments under the first and second farm-in periods (refer to note 15(g) for more information) of which, \$601k was in cash and the remainder was in the form of exploration services (valued based on costs of services rendered).

## **24 Earnings per share**

(a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the Company	<b>(2.01)</b>	(9.57)
(b) Diluted loss per share*		
From continuing operations attributable to the ordinary equity holders of the Company	<b>(2.01)</b>	(9.57)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	<u>327,147,178</u>	<u>287,224,347</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	<u>327,147,178</u>	<u>287,224,347</u>
(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 25.

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

## **25 Share-based payments**

### **(a) 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:

#### **2016**

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

#### **2016**

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



## 25 Share-based payments (continued)

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

#### 2016

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
16 Mar 2011	16 Mar 2016	\$1.80	80,000	-	-	80,000	-	-
14 Apr 2011	16 Mar 2016	\$1.80	120,000	-	-	120,000	-	-
16 Dec 2011	16 Dec 2016	\$2.00	3,000,000	-	-	3,000,000	-	-
25 Jan 2013	25 Jan 2016	\$0.48	1,000,000	-	-	1,000,000	-	-
29 May 2013	29 May 2016	\$0.16	500,000	-	-	500,000	-	-
8 Nov 2013	8 Nov 2018	\$0.17	3,189,000	-	-	-	3,189,000	3,189,000
20 Dec 2013	20 Dec 2018	\$0.17	1,427,000	-	-	-	1,427,000	1,427,000
<b>Total</b>			<b>9,316,000</b>	<b>-</b>	<b>-</b>	<b>4,700,000</b>	<b>4,616,000</b>	<b>4,616,000</b>
Weighted average exercise price			\$0.83			\$1.47	\$0.17	

#### 2015

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
<b>Total</b>			<b>12,098,233</b>	<b>-</b>	<b>-</b>	<b>2,782,233</b>	<b>9,316,000</b>	<b>9,316,000</b>
Weighted average exercise price			\$0.95			\$1.35	\$0.83	

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.9 years (2015: 1.8 years).

### (c) CFO shares

The maximum annual bonus of 15% of total fixed remuneration was granted to Mr G Perotti on 21 September 2016 for the 2016 financial year as discretionary bonus with no on-going performance conditions because the bonus is rewarding the key management personnel for past performance. This is the total bonus payable for 2016 and there was nil forfeited. Per the employment contract, the Company elected to pay the amount due (net of PAYG and superannuation) in shares to the recipient at the price of 2.5 cents per share as stipulated in the employment contract. No part of the bonus is payable in future years.

### (d) Geopacific Resources Limited transaction

This relates to a 5% equity interest which is recognised as at 31 December 2016 as a minority interest earned by GPR. Refer to Note 15 (g).

## **26 Parent entity financial information**

### **(a) Summary financial information**

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

<b>Balance sheet</b>	<b>2016</b>	<b>Parent entity</b>
	<b>\$'000</b>	<b>2015</b>
		<b>\$'000</b>
Current assets	<u>289</u>	1,093
<b>Total assets</b>	<u>34,519</u>	40,005
Current liabilities	<u>105</u>	83
<b>Total liabilities</b>	<u>105</u>	83
<b>Net Assets</b>	<u>34,703</u>	41,015
<b>Shareholders' equity</b>		
Contributed equity	151,026	150,505
Share-based payment reserve	1,160	1,181
Accumulated losses	<u>(117,482)</u>	<u>(110,671)</u>
<b>Total equity</b>	<u>34,703</u>	41,015
<b>(Loss)/Profit for the year</b>	<u>(5,938)</u>	<u>(26,416)</u>
<b>Total comprehensive (loss)/profit</b>	<u>(5,938)</u>	<u>(26,416)</u>

### **(b) Guarantees entered into by the parent entity**

The parent entity did not have any guarantees as at 31 December 2016 (2015: Nil).

### **(c) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 31 December 2016 (31 December 2015: \$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 2016 (31 December 2015: \$nil).

## **27 Events occurring after the reporting period**

The Renounceable Rights Issue (RRI), which was announced on 20 March 2017 and closes on 13 April 2017, offers shares to eligible shareholders on the basis of one share for every eight shares held on the Record Date (28 March 2017) at a price of 1.5 cents per share. The offer is partially underwritten to an amount of \$300,000 and the underwriter may place any shortfall. The RRI may raise up to \$626,100 (before associated costs of the issue), if fully subscribed, which will supplement working capital.

On 25 January 2017, the formal agreements to implement the farm-in and joint venture with Geopacific Resources Limited ("GPR") – being the Farm-in Agreement and the Shareholders Agreement – were executed by the Company, GPR and WML. Under the joint venture arrangements GPR was entitled to 5% equity in WML prior to 31 December 2016 and shares in WML representing this percentage were issued to GPR when the formal agreements were executed. The terms and conditions of the Farm-in Agreement collectively resulted in the Company losing control of WML from 25 January 2017 and, accordingly, WML will be deconsolidated from the Group accounts on 25 January 2017.

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 2016 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 2016 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 2016.

On behalf of the Board



Mark Stowell  
Director

Perth  
31 March 2017

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

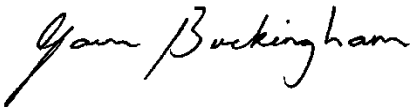
As lead auditor for the audit of Kula Gold Limited for the financial year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- 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



Gavin Buckingham  
Partner  
Perth  
31 March 2017

## Independent auditor's report to the Shareholders of Kula Gold Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Kula Gold Limited ("the Company") and its subsidiaries (collectively "the Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Group's consolidated financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material uncertainty related to going concern

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.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* above, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Impairment Assessment of Prospects, Rights and Exploration Assets

### Why significant

The carrying value of capitalised mineral exploration and evaluation expenditure as at 31 December 2016 comprises the Group's Woodlark Island Gold Project. This is considered to be a key audit matter as the recoverability of the carrying value of capitalised mineral exploration and evaluation expenditure is subjective, being based on the Group's ability, and intention, to continue to explore the asset and maintain tenure. The carrying value may also be impacted by the results of exploration work indicating that the mineral reserves may not be commercially viable for extraction.

At the half year ended 30 June 2016, the Board determined the recoverable amount of the Woodlark Island Gold Project and an impairment loss of PGK 15,963,086 (\$5,799,000) was recognised.

The Group has performed an impairment assessment to determine the recoverable amount of the Woodlark Island Gold Project as at 31 December 2016 and concluded that other than the impairment of \$5,799,000 recognised at the half year ended 30 June 2016 no further impairment is required to be recognised for the year ended 31 December 2016. Refer to Note 12 to the financial report for disclosure relating to the Group's impairment assessment.

### How our audit addressed the key audit matter

We evaluated the impairment calculations performed by the Group, and involved our Valuation specialists to:

- Assess the methodology and valuation method adopted.
- Assess the assumptions used by the Group including the resource multiple and the resource estimate.
- Perform external benchmarking analysis to comparable market transactions.

We also considered the adequacy of the Group's disclosures with respect to the degree of estimation involved in the determination of the recoverable amount.

## 2. Farm-in agreement

### Why significant

On 11 July 2016, the Group entered into a term sheet with Geopacific Resources Limited (“GPR”) regarding an Earn-in and Joint Venture arrangement (“farm-in agreement”), whereby GPR has the option of acquiring an interest of up to 75% in Woodlark Mining Limited (“WML”), a wholly owned subsidiary of the Group. GPR has the option to acquire the interest in WML in three tranches by incurring costs related to the advancement of the Project along with achieving agreed upon milestones. This is considered to be a key audit matter as it will result in a reduction to the Group’s ownership interest in WML in tranches and a loss of control and deconsolidation of WML.

As at 31 December 2016, GPR earned a 5% equity interest in WML and elected to proceed with the second tranche of the farm-in as disclosed in Note 15 (g) to the financial report.

Further, the farm-in agreement was formally executed on 25 January 2017 which upon execution resulted in the Group losing control of WML and deconsolidating WML with effect from this date. Disclosure of this has been included in Note 27 to the financial report as a subsequent event.

### How our audit addressed the key audit matter

We enquired with the Group and reviewed the farm-in agreement and its relevant underlying documents to assess whether the accounting treatment complies with the requirements of Australian Accounting Standards.

We considered the adequacy of the Group’s disclosures with respect to the minority interest of GPR as at 31 December 2016 and the subsequent event disclosure relating to the loss of control of WML after year end.

## Information other than the financial statements and auditor’s report

The Directors are responsible for the other information. The other information comprises the information in the Group’s Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 14 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Kula Gold Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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.



Ernst & Young



Gavin Buckingham  
Partner  
Perth  
31 March 2017

## **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 29 March 2017.

### **Ordinary share capital**

As at 29 March 2017, the issued capital comprised of 333,918,247 ordinary fully paid quoted shares.

### **Distribution of equity securities**

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

<b>Holding</b>	<b>Ordinary shares</b>		<b>Options</b>	
	<b>Number of Holders</b>	<b>Number of Shares</b>	<b>Number of Holders</b>	<b>Number of options</b>
1 to 1,000	64	28,864	-	-
1,001 to 5,000	95	275,331	-	-
5,001 to 10,000	67	512,426	-	-
10,001 to 100,000	389	16,748,529	-	-
100,001 and over	199	316,353,097	10	28,616,000
	<b>814</b>	<b>333,918,247</b>	<b>10</b>	<b>28,616,000</b>

There were 352 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 3,189,000 unquoted options on issue, held by 2 former employees.
- b) Other unlisted options

<b>Option holder</b>	<b>Number of Options</b>	<b>Percentage</b>
DC Frecker & JM Frecker ATF The GEO Superannuation Fund	612,000	42.89%
Pacific Road Capital Management Holdings Pty Ltd	291,000	20.39%
Merchant Holdings Pty Ltd ATF The Zulu Family Trust	291,000	20.39%
Lee Keith Spencer & Ani Susilo Spencer	233,000	16.33%
	<b>1,427,000</b>	<b>100.00%</b>

- 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%
	<b>24,000,000</b>	<b>100.00%</b>

## Shareholder Information (continued)

### Twenty largest holders of quoted equity securities

No.	Shareholder	Ordinary shares	
		Number held	Percentage of quoted shares
1	Pacific Road Holdings NV	65,608,866	19.65%
2	HSBC Custody Nominees (Australia) Limited	51,102,125	15.30%
3	Pacific Road Capital Management G.P. Ltd	43,574,379	13.05%
4	RMB Australia Holdings Limited	25,000,000	7.49%
5	RMB Resources Limited	18,651,496	5.59%
6	Pacific Road Capital B Pty Ltd	15,527,755	4.05%
6	Pacific Road Capital A Pty Ltd	15,527,755	4.05%
8	JP Morgan Nominees Australia Limited	6,948,651	2.08%
9	Kenneth Joseph Hall	4,237,740	1.27%
10	Washington H Soul Pattinson and Company Ltd	3,333,333	1.00%
11	Merchant Holdings Pty Ltd	2,959,282	0.89%
12	Whiteman Investments Pty Ltd	1,650,000	0.49%
13	Fairytales Pty Ltd	1,637,938	0.49%
14	Mr Stuart James Pether & Mrs Fiona Maree Pether	1,600,000	0.48%
15	Gecko Resources Pty Ltd	1,500,000	0.45%
16	J & D Peos Super Pty Ltd	1,483,871	0.44%
17	Mr Manohar Narla & Mrs Sailaja Kalala	1,331,234	0.40%
18	Mr Theofanis Perdikis & Mrs Dimitra Perdikis	1,250,000	0.37%
19	Mr David Crichton Frecker & Mrs Joanne Margaret Frecker	1,184,516	0.35%
20	L & S Rozman Holdings Pty Ltd	1,137,204	0.34%
		<b>261,246,145</b>	<b>78.23%</b>

### 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 (and associates)	136,238,755	40.80%
Franklin Templeton	56,450,792	16.91%
RMB Resources Limited (and associates)	43,651,496	13.07%
	<b>236,341,043</b>	<b>70.78%</b>

### 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 2017 are listed below:

Country / Location	Tenement	Interest
Papua New Guinea / Woodlark Island	EL 1172	95%
Papua New Guinea / Woodlark Island	EL 1279	95%
Papua New Guinea / Woodlark Island	EL 1465	95%
Papua New Guinea / Woodlark Island	ML 508	95%
Papua New Guinea / Woodlark Island	LMP 89	95%
Papua New Guinea / Woodlark Island	LMP 90	95%
Papua New Guinea / Woodlark Island	LMP 91	95%
Papua New Guinea / Woodlark Island	LMP 92	95%
Papua New Guinea / Woodlark Island	LMP 93	95%
Papua New Guinea / Woodlark Island	ME 85	95%
Papua New Guinea / Woodlark Island	ME 86	95%

## Interest in Mining Leases

Current interest in mining leases held by Kula Gold Limited and its subsidiary, as at 31 March 2017 are listed below:

Country / Location	Mining Lease	Interest
Papua New Guinea / Woodlark Island	ML 508	95%

Mining Lease 508 ("ML508") is subject to condition 7 which requires completion of a mine and production by 3 July 2017. Woodlark Mining Limited has submitted an application to extend condition 7 of ML508. Should this application be unsuccessful, the land will revert back to the underlying Exploration Licence and Woodlark Mining Limited will be required to apply for a new Mining Lease at the appropriate time.

## Mineral Resources and Ore Reserves Statement

Reported as per JORC 2012

As at July 2012 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	250,000
Kulumadau	Inferred	8.6	1.4	380,000
Kulumadau	<b>Totals</b>	<b>18.0</b>	<b>1.6</b>	<b>915,000</b>
Busai	Measured	3.9	1.5	190,000
Busai	Indicated	10.4	1.4	470,000
Busai	Inferred	8.8	1.6	250,000
Busai	<b>Total</b>	<b>23.1</b>	<b>1.5</b>	<b>910,000</b>
All	Measured	8.9	1.7	475,000
All	Indicated	14.8	1.5	720,000
All	Inferred	13.5	1.5	630,000
<b>Totals*</b>		<b>37.2</b>	<b>1.5</b>	<b>1,825,000</b>

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.

## Mineral Resources and Ore Reserves (continued)

**Reported as per JORC 2004**  
**As of July 2012 Mineral Resources for the Woodlark Island Gold Project at 0.5g/t gold cut-off grade**

<b>Deposit</b>	<b>Category</b>	<b>Resource (Mt)</b>	<b>Grade (Cut) (g/t Gold)</b>	<b>Gold (Cut) (Oz)</b>
Munasi	Inferred	3.9	0.9	110,000
Munasi	<b>Total</b>	<b>3.9</b>	<b>0.9</b>	<b>110,000</b>
Woodlark King	Indicated	3.0	1.2	115,000
Woodlark King	Inferred <sup>2</sup>	1.0	1.8	60,000
Woodlark King	<b>Total</b>	<b>4.0</b>	<b>1.4</b>	<b>175,000</b>
<b>Total</b>	<b>All</b>	<b>7.9</b>	<b>1.1</b>	<b>285,000</b>

Note 1: Totals may appear incorrect due to rounding.

Note 2: The Woodlark King Inferred Resource includes 0.3Mt @ 3.0g/t for 30,000oz Au from Watou (1.5km south of Woodlark King).

Note 3: These Resources are reported under JORC 2004 and have not been updated.

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

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

\* as at July 2012 at a 1g/t Au lower cut.

Note 1: Totals may appear incorrect due to rounding

**Reported as per JORC 2004**  
**Woodlark Island Gold Project Ore Reserves at a 1.0g/t gold cutoff grade**

<b>Deposit</b>	<b>Proved Gold</b>			<b>Probable Gold</b>			<b>Total Gold</b>		
	<b>Tonnes</b>	<b>Grade</b>	<b>Ounces</b>	<b>Tonnes</b>	<b>Grade</b>	<b>Ounces</b>	<b>Tonnes</b>	<b>Grade</b>	<b>Ounces</b>
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
<b>Total</b>	<b>6,427,000</b>	<b>2.2</b>	<b>456,000</b>	<b>4,596,000</b>	<b>2.1</b>	<b>310,000</b>	<b>10,991,000</b>	<b>2.2</b>	<b>766,000</b>

\*as at July 2012 at a 1g/t Au lower cut.

Note 1: Totals may appear incorrect due to rounding

Note 2: 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 geology and exploration is based on information compiled by Mr Paul Dunbar, a Competent Person who is a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr. Dunbar is employed by Dunbar Resource Management, a Geology and Exploration Management consultancy, who has been engaged by Kula Gold. Mr. Dunbar has sufficient experience, which is relevant to the style of mineralisation, geology and type of deposit under consideration and to the activity being undertaken to qualify as a competent person under the 2012 edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the 2012 JORC Code). Mr. Dunbar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information relating to the 2012 JORC Resource estimates was initially released in the 31 January 2017 ASX release and it is available on the company's website. The company confirms that it is not aware of any new information or data that materially affects the information included in that announcement and that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed. The company confirms that the form and context of the resource estimates have not been materially modified from the original ASX release.

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.