



KULA GOLD LIMITED

ABN 83 126 741 259

2019 ANNUAL REPORT

Corporate Directory

Directors:

| | |
|----------------|------------------------|
| Mark Stowell | Chairman |
| Mark Bojanjac | Non-executive Director |
| Michael Soucik | Non-executive Director |
| Simon Adams | Non-executive Director |

Company secretary: Simon Adams

Registered office:

20 Howard Street
Perth
W. Australia 6000

Telephone: +61 (0)8 6144 0592
Email: info@kulagold.com.au

Website: www.kulagold.com.au

Auditor:

Elderton Audit Pty Ltd
Level 2
267 St George's Terrace
Perth
W. Australia 6000

Share registry:

Link Market Services
Level 12, QV1 Building
250 St George's Terrace
Perth
W. Australia 6000

Telephone: 1300 554 474 or + 61 2 8280 7111

Stock exchange listing:

Australian Securities Exchange
Level 40, Central Park
152 St George's Terrace
Perth
W. Australia 6000

ASX code: KGD

Directors' Report

The Directors present their report, together with the financial statements of Kula Gold Limited (also referred to hereafter as the 'Company' or 'Kula') for the year ended 31 December 2019.

1. Review of operations

The company completed the sale of its woodlark Island Gold Project interests in July 2019, and continued its gold project generation activities..The initial concept which was taken to tenement acquisition was greenfield type gold opportunities in Western Australia using analogue examples of gold in granites as the exploration model. The decision was based on the increasing number of significant granite hosted gold deposits being discovered and or delineated in the Yilgarn Block of Western Australia.

- Golden Cities Gold Camp (Havana-Suva and Federal Deposits) - +1.5Mozs Au hosted in granite.
- Northern Star Resources (NST) – Ramone deposit hosted in granodiorite.
- Apollo Consolidated's (AOP) Lake Rebecca Gold Project 27.1Mt@1.2g/t Au for 1.035Mozs (ASX Release 10th Feb 2020)
- Red 5 (RED)– King of the Hills (Tarmoola) hosted in granodiorite which contains Indicated and Inferred resources of [66Mt@1.5g/t](#) Au for 3.1Mozs. (ASX Release 19th Feb 2020)
- Saracen Mineral (SAR) Bundarra Project [9.67Mt@2.1g/t](#) Au for 660,000ozs hosted in granodiorite. (ASX release 18th Feb 2020)
- Anglo Australian Resources (AAR) Mandilla Project where recent drilling has highlighted gold mineralization in syenite granite. (ASX release 12th Feb 2020)

The Company's geological studies led to the application for two ELA's one at Kurnalpi (Lake Rebecca Gold Project) and one at Southern Cross (Marvel Loch-Airfield Gold Project).

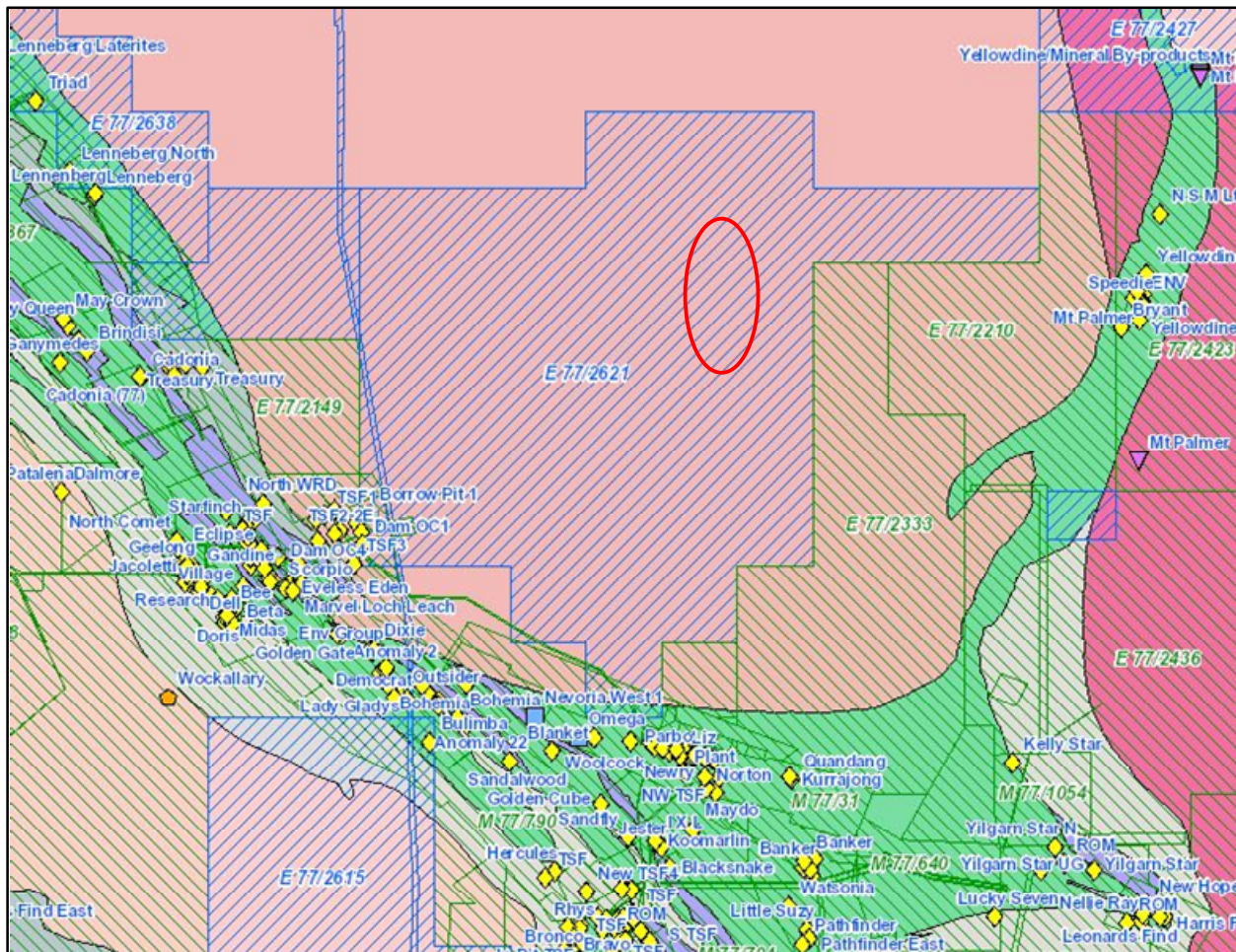
1. Marvel Loch, Airfield Gold project

Kula Gold Ltd ("Kula" or the "Company") applied for ELA77/2621 over the south-central part of the Ghooli Dome near Marvel Loch in Western Australia, which is known as the Airfield Gold Project. Prior exploration at the Airfield Project was completed by Sons of Gwalia Ltd ("SOG") in the late 1980's. The exploration reports at the time showed auger gold in soil anomalies in the Ghooli Dome which had not been followed up.

The Airfield Gold Project in Marvel Loch (under application) covers an area of 120km² and is located 5km east of the town of Marvel Loch, a major gold mining centre in Western Australia. This locality has a number of current and historical mining operations nearby which provides valuable infrastructure and services for potential future development. This region has seen over 15Moz of historical gold production (typically at grades above 4g/t) and the Marvel Loch mine and mill continue production under the ownership of Minjar Gold.






The Southern Cross Greenstone Belt is a strongly deformed, metamorphosed synformal remnant of a once larger greenstone assemblage. It has been shaped and attenuated by the emplacement of syn-tectonic granitoids (Gee, 1995). These granitoid domes include the Ghooli, Parker and Rankin Domes (Gee, 1982; Keats, 1991). On a regional scale, sheared lithological contacts are the primary control on the distribution of gold mineralisation. Most of the belt's production has been derived from shear-hosted deposits (Marvel Loch, Yilgarn Star and Frasers) and to a lesser extent fold hinge deposits, usually in Banded Iron Formation (Copperhead, Golden Pig and Bounty).

In November 2019, a reconnaissance site visit was undertaken to verify the locations of the SOG geochemistry work in the field and to check the access to and within the licence area. Existing tracks provide access within the license area and road infrastructure around the Marvel Loch area is good due to the existence of current mining operations adjacent to the lease.



Airfield Project showing the area of SOG anomalous auger sampling is shown in red and Gold Deposits of the Southern Cross Belt (yellow diamond shapes)

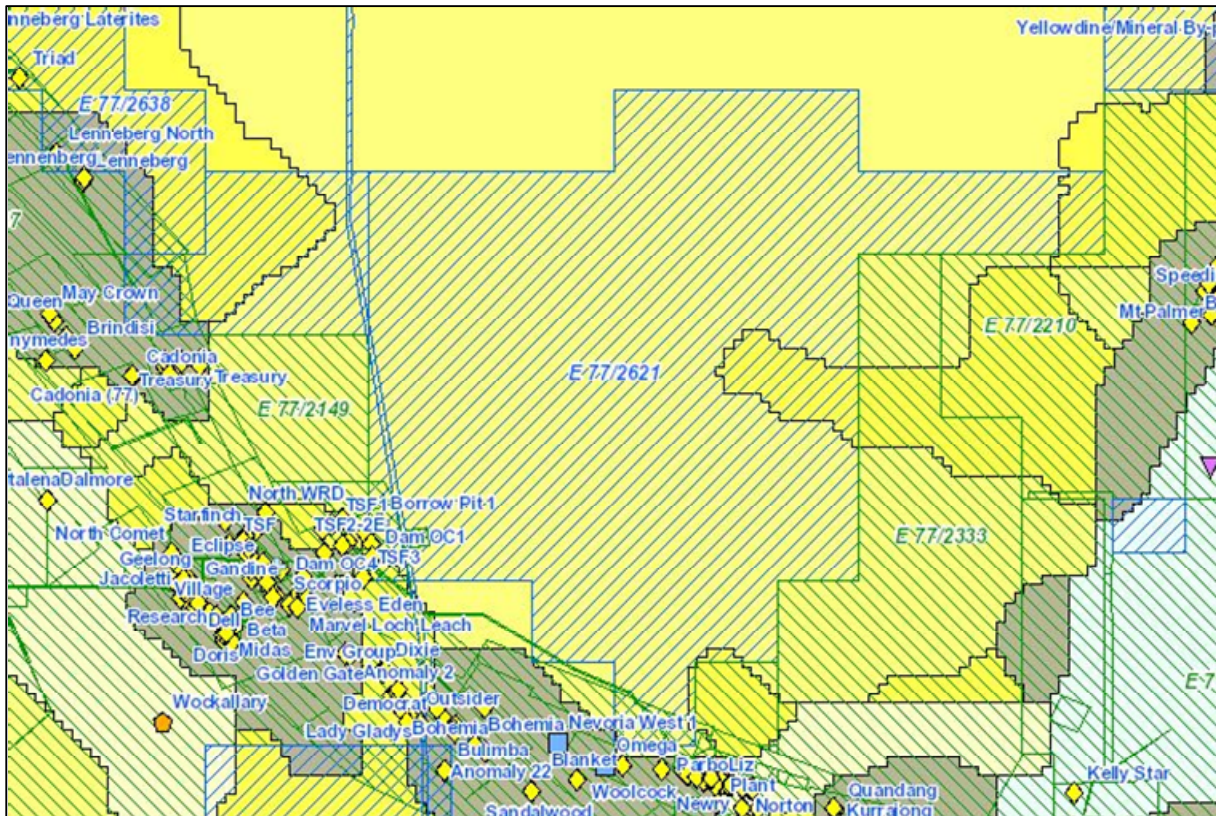
Key:

- | | | | | | |
|---|----------------------|---|----------------|--|------------------|
|  | Metasediments Undiff |  | Ultramafics |  | Metamonzogranite |
|  | Metabasalt Undiff |  | Granite Gneiss | | |

Along with the site visit in November 2019, detailed analysis of the historic open file exploration data and acquisition of more recent open file aero-magnetics has added to the knowledge base and understanding of the potential for this location. The data has been re-processed by the company's consulting geophysicist who has identified a number of structures with a series of extensional jogs which are co-incident with the historical auger gold in soil anomalies. The targets have strike lengths of over 2km, and some are open to the north and south.

One of the SOG geochemistry samples returned a value of 311ppb and the location of this sample was physically located in the field (see photo below) during the visit. The regolith in the vicinity of the sample contains a mixture of yellow sand and Tertiary in situ laterite.

The Company is currently moving the project as expeditiously as possible to granting status, expected in Q3-20. The next phase of the work program will include auger geochemistry sampling to verify and potentially extend the SOG anomalies and is ready to proceed once the Licence is granted. The planned program incorporates an initial 380 hole auger drill program followed by ~3,000m drill program. The area is overlain by recent colluvial yellow sand deposits and some residual laterite.

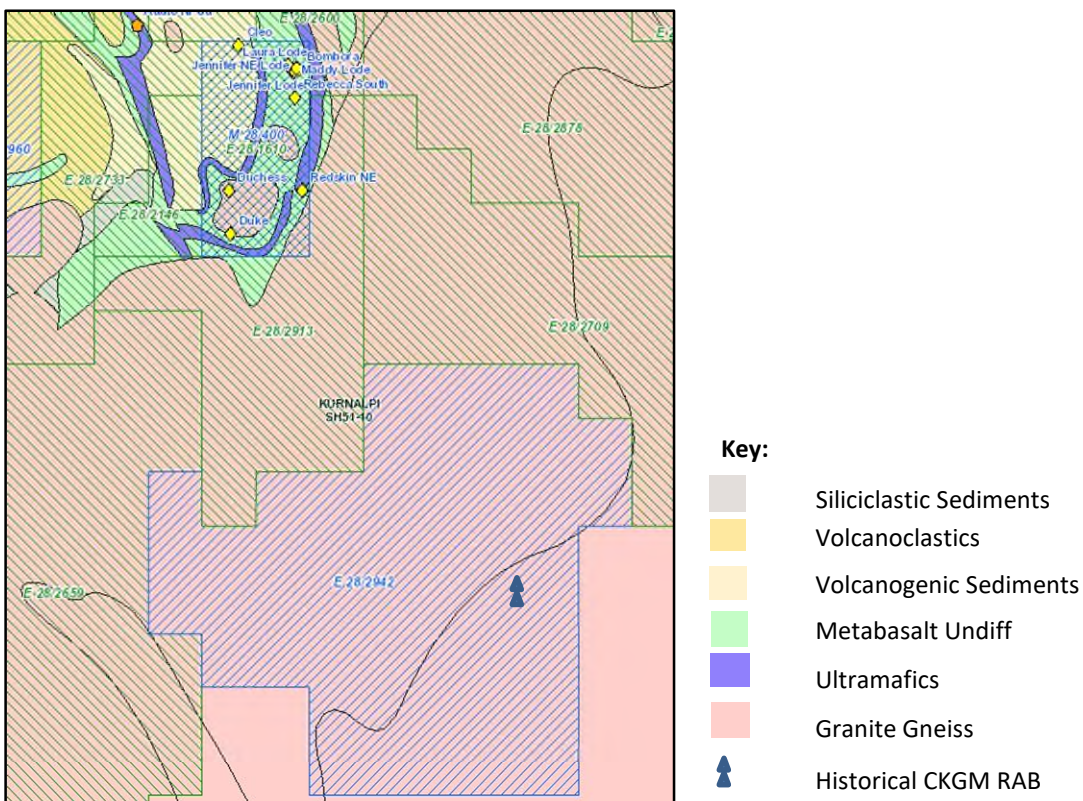


Airfield Project showing the GSWA Regolith map



2. Lake Rebecca Gold Project

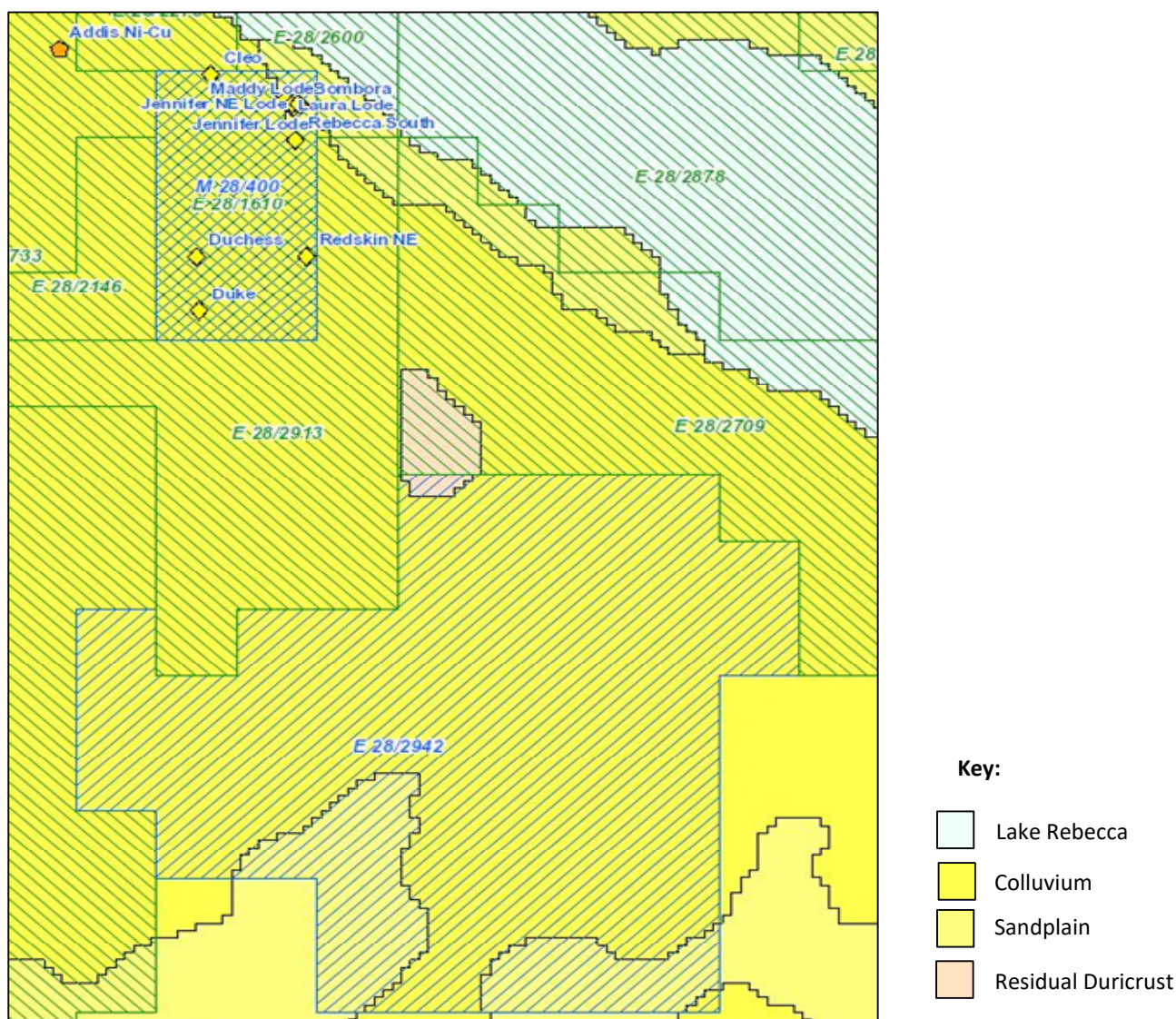
The Kurnalpi-Lake Rebecca Gold Project ELA28/2942 covers 150km² and is located 10km south of Apollo Consolidated's Lake Rebecca Gold Project 150km NE of Kalgoorlie, Western Australia.



Location of Kula EL in relation to Apollo Consolidated and the historical RAB drilling by CKGM in blue

The Company has acquired open file aero-magnetics and its consulting geophysicist has undertaken reprocessing of that data which has identified a number of target structures for initial auger drill testing. Little to no historic drilling/sampling work has been undertaken over the area with some previous RAB drilling by Central Kalgoorlie Gold Mines inside the ELA showing anomalous silver.

The exploration lease application is being expedited to granting. Following granting, Kula will be in a position to commence further exploration work which is expected to include an initial 300 auger drill hole program. The area is overlain by recent colluvial and sand deposits as shown in the GSWA regolith map below which is suitable for auger testing. Similar to the Marvel Loch, Airfields project, this exploration opportunity seeks to identify potential structurally controlled gold mineralization hosted in Gneiss similar to Apollo Consolidated's Lake Rebecca Project to the North.



GSWA regolith map of the area around E28/2942

Forward Looking Statements:

Any forward-looking information contained in this report is made as of the date of this news release. Except as required under applicable securities legislation, Kula Gold Ltd does not intend, and does not assume any obligation, to update this forward-looking information. Any forward-looking information contained in this report is based on numerous assumptions and is subject to all of the risks and uncertainties inherent in the Company's business, including risks inherent in resource exploration and development. As a result, actual results may vary materially from those described in the forward-looking information. Readers are cautioned not to place undue reliance on forward-looking information due to the inherent uncertainty thereof.

2. Corporate

Going into 2019, Kula was in a joint venture arrangement with Geopacific Resources Ltd ("Geopacific") to explore and develop the Woodlark Gold Project (the "Project") located on Woodlark Island, Papua New Guinea. A definitive feasibility study was completed on the project in November 2018. Under the farm-in arrangements that were in place at the time, Geopacific was funding all costs associated with the project.

An agreement was signed on 6 March 2019 ("Agreement") for Kula to sell all of the outstanding shares in Woodlark Mining Limited (the entity in which the Project was owned) not currently owned by Geopacific ("Sale Shares").

The purchase price payable under the Agreement comprised of:

1. the cancellation by way of selective buy back under section 257A of the *Corporations Act 2001* (Cth) of all of the shares in Kula held by Geopacific ("Kula Shares");
2. subject to the cancellation of the Kula Shares, the immediate issue to Kula of 150,000,000 fully paid ordinary shares in Geopacific at a deemed issue price of 1.7c each ("Geopacific Shares") proposed to be distributed to Kula shareholders (other than Geopacific) following regulatory approvals and procedures, in-specie or similar;
3. the payment by Geopacific to Kula of an amount (equal to the amount, as at completion, of the inter-company debt between Geopacific, as lender and Kula, as borrower ("Kula Debt Amount")) ("Cash Consideration") to be applied at completion against the Kula Debt Amount (\$0.725m) in accordance with the Agreement.;
4. payment by Geopacific to Kula of \$20,000; and
5. assignment by Kula to Geopacific of the inter-company loan owed by WML (being \$7.2 million as at the date of the Agreement).

On 25 June 2019 the transaction for the sale of Kula's remaining share of Woodlark Mining Limited ("WML") Geopacific was approved by both companies' shareholders and completed in July 2019.

Kula entered into a loan arrangement with Merchant Holdings Pty Ltd to provide working capital to continue the operation of the Company to identify new business opportunities.

Despite numerous submissions to ASX, over many months, and considerable expenditure on tenements, On 2 January 2020, ASX issued a notice of suspension from official quotation for Kula in accordance with LR 17.3 pending re-application on grant of the exploration license and exploration work has commenced. The Company proposes to re-apply for quotation once one or more tenements are granted. The result of this is totally at ASX discretion.

3. Directors

The names, qualifications and experience of the Directors in office during or since the end of the financial year are as follows (Directors were in office for the entire period unless otherwise stated):

| | |
|----------------------------|---|
| Mark Stowell | Chairman, Director of Kula Gold since September 2010 |
| <i>Qualifications/Age</i> | BBus, ICAA, Age 56 |
| <i>Experience</i> | Mr Stowell 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 was subsequently involved in the establishment and management of a number of successful ventures as principal, including resource companies operating in Australia and internationally. Mr Stowell was a founder of Anvil Mining Ltd (DRC) and on its Board for seven years until 2000. He was also a founder and non-executive director of Incremental Petroleum Limited, an oil and gas producer with operations in Turkey and the USA until its takeover in 2009. He was Chairman and founder of Mawson West Ltd, a copper producer and explorer which completed an IPO on the Toronto Stock Exchange in one of the largest base metal IPO's of 2011. |
| <i>Other directorships</i> | Current: Southern Hemisphere Mining Ltd (Chairman) Previous 3 years (no longer current): Eon NRG Ltd |

| | |
|---|--|
| <p>Mark Bojanjac <i>Qualifications/Age Experience</i></p> | <p>Non-executive Director since August 2017 BCom, ICAA, Age 57 Mr Bojanjac is a Chartered Accountant with over 25 years' experience in developing resource companies. Mr Bojanjac was a founding director of Gilt-Edged Mining Limited which discovered one of Australia's highest-grade gold mines and was managing director of a public company which successfully developed and financed a 2.4m oz gold resource in Mongolia. He also cofounded a 3 million oz gold project in China. Mr Bojanjac was most recently Chief Executive Officer of Adamus Resources Limited and oversaw its advancement from an early stage exploration project through its definitive feasibility studies and managed the debt and equity financing of its successful Ghanaian gold mine.</p> |
| <p><i>Other directorships</i></p> | <p>Current: Polar X Ltd Ltd (Executive Chairman) Previous 3 years (no longer current): Geopacific Resources Ltd (Non-executive Director)</p> |
| <p>Simon Adams <i>Qualifications/Age Experience</i></p> | <p>Non-executive Director since 4 October 2019 Company Secretary since 4 October 2019 BCom, ACIS, Age 55 Mr Adams has a wide range of experience in the area of corporate and financial management, corporate compliance and business development. Mr Adams has worked in a range of industries across the resource and industrial sectors including oil and gas production, pearl production and distribution, power generation systems, hard-rock exploration and production and finance.</p> |
| <p><i>Other directorships</i></p> | <p>Current: Eon NRG Ltd (Executive Director) Previous 3 years (no longer current): Nil</p> |
| <p>Michael Soucik <i>Qualifications/Age Experience</i></p> | <p>Non-executive Director since 10 March 2020 BCom, ACIS, Age 46 Mr Soucik has 25 years of experience in investment banking and corporate finance, covering mergers and acquisitions, public offerings, secondary debt and equity raisings and asset acquisitions and disposals. He has worked in the M&A division of Corporate Finance at Deutsche Bank in Sydney as well as ten years as Director, Corporate Finance with a national broker. Mr Soucik has experience across a range of industries including the resources sector.</p> |
| <p><i>Other directorships</i></p> | <p>Current: White Cliff Minerals Ltd (Chairman) Previous 3 years (no longer current): Nil</p> |
| <p>Garry Perotti</p> | <p>Executive Director (Appointed 21 March 2017, resigned 4 October 2019) <i>Refer 2018 annual report for details of experience and other directorships</i></p> |
| <p>Ian Clyne</p> | <p>Chairman (appointed 31 May 2019; resigned 2 July 2019) <i>Refer 2018 annual report for details of experience and other directorships</i></p> |
| <p>Ron Heeks</p> | <p>Director (Appointed 10 September 2018, resigned 2 July 2019) <i>Refer 2018 annual report for details of experience and other directorships</i></p> |
| <p>Matthew Smith</p> | <p>Director (Appointed 29 August 2017, resigned 2 July 2019) <i>Refer 2018 annual report for details of experience and other directorships</i></p> |
| <p>Glenn Zamudio</p> | <p>Director (appointed 31 May 2019; resigned 2 July 2019) <i>Refer 2018 annual report for details of experience and other directorships</i></p> |

4. Principal activities

The principal continuing activity of the Company up until 2 July 2019 was to hold a non-controlling interest in an entity that was engaged in the development of the Woodlark Island Gold Project (the "Project") located on Woodlark Island in PNG. Following the sale of the Project to Geopacific Resources Ltd (ASX: GPR), the Company's principal activity has been the identification and exploration of prospective metals, in particular gold, in Western Australia.

5. Dividends

No dividends have been paid or declared during the year (2018: nil). On 10 July 2019, an in-specie distribution of shares of GPR (that were consideration for the acquisition of the Project) was made in accordance with a resolution passed by shareholders at a meeting on 25 June 2019.

6. Result of operations

The net profit from operations of the Company was \$49,727 (2018: loss of \$422,008).

7. Dividends

No dividend was paid or declared by the Company in the year and up to the date of this report.

8. Significant matters relating to the ongoing viability of operations

At 31 December 2019, the Company had a cash and cash equivalents balance of \$21,371. The Company reported a net profit of \$49,727 for the current financial year of which \$600,000 relates to an upwards revaluation of securities. The Company reported net outflows of \$426,348 in cash from operating activities for the current financial year.

9. Significant events occurring after the reporting date

There are no significant events to report subsequent to the reporting date but prior to the date of this report that would have a material impact on the financial statements, other than Covid-19 matters which may delay some of the company's financing and exploration activities.

10. Likely developments and expected results of operations

Likely development for the Company as it carries out its business plan are as follows:

- expedite the approval of exploration licenses on its West Australian tenements that were applied for in 2019;
- continuing with preparation of an exploration program for its West Australian Kurnalpi and Marvel Loch projects;
- continuing to meet its commitments relating to exploration tenements and carrying out further exploration, permitting and development activities; and
- prudently managing cash to be able to take advantage of any future opportunities that may arise to add value to the business.

11. Environmental regulation

The Company is subject to the state and federal environmental regulation of Western Australia and Australia respectively. Kula needs 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 Company are not aware of any breach of environmental legislation for the period under review.

12. Shares under option

There are no unissued ordinary shares of Kula under options at the date of this report.

13. Indemnification and insurance of officers

The Company has made agreements indemnifying all the Directors and Officers of the Company against all losses or liabilities incurred by each Director or Officer in their capacity as Directors or Officers of the Company to the extent permitted by the *Corporations Act 2001*. The indemnification specifically excludes wilful acts of negligence. The Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for current Officers of the Company, including Officers of the Company's controlled entities during the year. The liabilities insured are damages and 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 the Company. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

14. Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify the auditors, Elderton Audit, 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 Elderton Audit during or since the financial year.

15. Employees

The Company has no employees at 31 December 2019 (2018: 1).

16. Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

During the current and previous year, no fees were paid or payable for non-audit services provided by the auditor of the Company, its related practices and non-related audit firms:

17. Functional and presentation currency

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

18. 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 36 and forms part of this report.

19. 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 2019, and the numbers of meetings attended by each director were:

| Name | Board meetings | | Audit committee meetings | |
|----------------------------|---------------------------|-----------------|---------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| M Stowell | 5 | 5 | 2 | 2 |
| M Bojanjac | 5 | 4 | 2 | 2 |
| S Adams ⁽ⁱ⁾ | 1 | 1 | - | - |
| G Perotti ⁽ⁱⁱ⁾ | 4 | 3 | - | - |
| I Clyne ⁽ⁱⁱⁱ⁾ | 1 | - | - | - |
| R Heeks ^(iv) | 3 | 1 | - | - |
| M Smith ^(iv) | 3 | 2 | - | - |
| G Zamudio ⁽ⁱⁱⁱ⁾ | 1 | - | - | - |

1 Mr Simon Adams was appointed a director of the Company on 4 October 2019

2 Mr Garry Perotti ceased to be a director on 4 October 2019

3 Mr Ian Clyne and Mr Glenn Zamudio were appointed as directors on 31 May 2019 and ceased to be directors on 2 July 2019

4 Mr Ron Heeks and Mr Matthew Smith ceased to be a directors on 2 July 2019

20. Corporate governance

The Board of Directors is responsible for the overall strategy, governance and performance of the Company. The Board has adopted a corporate governance framework which it considers to be suitable given the size, nature of operations and strategy of the Company. To the extent that they are applicable, and given its circumstances, the Company adopts the eight essential Corporate Governance Principles and Best Practice Recommendations ('Recommendations') published by the Corporate Governance Council of the ASX. The Company's Corporate Governance Statement and Appendix 4G, both of which have been lodged with ASX, are available on the Company's website: www.kulagold.com.au.

Remuneration report (audited)

This report outlines the remuneration arrangements in place for Directors and other key management personnel of the Company in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purpose of this report, Key Management Personnel ("KMP") are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Parent entity.

Details of Directors and Key Management Personnel

The directors and other KMP of the Company during or since the end of the financial year were:

Directors

Mr. Mark Stowell (Chairman)
Mr. Mark Bojanjac (non-executive director)
Mr Simon Adams (non-executive)
Mr Ian Clyne resigned 2 July 2019
Mr Ron Heeks resigned 2 July 2019
Mr Matthew Smith resigned 2 July 2019
Mr Glenn Zamudio resigned 2 July 2019
Mr Garry Perotti resigned 4 October 2019

Executive Officers (KMP)

Mr. Garry Perotti (executive director, Company Secretary and Chief Financial Officer) (resigned 4 October 2019)

Remuneration Policy

In the absence of a remuneration committee, the Board is responsible for determining and reviewing compensation arrangements for the Directors and executives. The key principles which apply in determining remuneration structure and levels are:

- set competitive fixed remuneration packages to attract and retain high calibre directors and executives;
- structure variable remuneration rewards to reflect the stage of development of the Company's operations; and
- establish appropriate performance hurdles for variable executive remuneration.

The Board undertakes an annual review of remuneration arrangements and may seek Independent external advice if required but did not employ a remuneration consultant during the year ended 31 December 2019.

The structure of Non-Executive Director and Executive remuneration is separate and distinct.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of high calibre, whilst incurring costs that are acceptable to shareholders.

In accordance with the Company's Constitution and the ASX Listing Rule, the maximum aggregate remuneration that may be paid to Non-Executive Directors is currently set at \$300,000 per annum. The amount of aggregate remuneration and the manner in which it is apportioned is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies and external advice (if required), when undertaking the annual review process.

Executive Director and Senior Manager Remuneration

Remuneration consists of fixed and variable components (currently comprising a long-term incentive scheme).

Fixed remuneration of executive directors/managers currently consists of cash remuneration. Fixed remuneration levels are reviewed annually by the Board, taking into consideration past performance, time commitments, relevant market comparatives and the Company's stage of development. The Board has access to external advice if required.

The Board determines the appropriate form and levels of variable remuneration as and when they consider rewards are warranted. Variable remuneration currently consists of share option grants (long term incentives), which are currently considered to be the most effective and appropriate form of long-term incentives given the Company's financial resources and stage of development. The objective of the option grants is to link the variable remuneration to the achievement of key operational targets and shareholder value creation.

The following table shows the Company's performance over the reporting period and the previous four financial years against overall remuneration for these years:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Year-end share price | \$0.037 | \$0.020 | \$0.023 | \$0.020 | \$0.010 |
| Profit/(Loss) per share | \$0.00 | (\$0.001) | (\$0.004) | (\$0.002) | (\$0.096) |
| Total KMP Remuneration | \$372,695 | \$322,772 | \$321,215 | \$408,157 | \$577,908 |

Details of the remuneration of the directors and key management personnel of the Company are set out in the following tables:

Key management personnel –

| 2019 | Base Salary | Director Fee (ix) | Consulting | Annual Leave | Post-employment benefits | Termination | TOTAL |
|----------------------------------|---------------|-------------------|----------------|--------------|--------------------------|---------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Directors | | | | | | | |
| M Stowell | - | - | 53,500 | - | 1,900 | - | 55,400 |
| M Bojanjac (i) | - | - | 94,000 | - | 1,900 | - | 95,900 |
| S Adams (ii) | - | 9,000 | - | - | - | - | 9,000 |
| G Perotti (iii) | 82,750 | - | - | 2,635 | 7,268 | 65,292 | 157,945 |
| Total paid by the Company | 82,750 | 9,000 | 147,500 | 2,635 | 11,068 | 65,292 | 318,245 |
| I Clyne (iv) (viii) | - | 2,500 | - | - | 238 | - | 2,738 |
| R Heeks (v) (viii) | - | - | - | - | - | - | - |
| M Smith (vi) (viii) | - | 15,000 | - | - | 1,425 | - | 16,425 |
| G Zamudio (iv) (viii) | - | 2,500 | - | - | 238 | - | 2,738 |
| Total paid by Geopacific | - | 20,000 | - | - | 1,900 | - | 21,900 |
| Total remuneration | 82,750 | 29,000 | 147,500 | 2,635 | 12,968 | 65,292 | 340,145 |

| 2018 | Base Salary | Director Fee | Consulting | Annual Leave | Post-employment benefits | Termination | TOTAL |
|----------------------------------|----------------|---------------|---------------|---------------|--------------------------|-------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Directors | | | | | | | |
| M Stowell | - | - | 40,000 | - | 3,800 | - | 43,800 |
| M Bojanjac | - | - | 40,000 | - | 3,800 | - | 43,800 |
| G Perotti | 153,000 | - | - | 12,887 | 14,535 | - | 180,422 |
| Total paid by the Company | 153,000 | - | 80,000 | 12,887 | 22,135 | - | 268,022 |
| R Heeks (v) (viii) | - | - | - | - | - | - | - |
| M Smith (vi) (viii) | - | 30,000 | - | - | 2,850 | - | 32,850 |
| P Leggat (vii) (viii) | - | 20,000 | - | - | 1,900 | - | 21,900 |
| Total paid by Geopacific | - | 50,000 | - | - | 4,750 | - | 54,750 |
| Total remuneration | 153,000 | 50,000 | 80,000 | 12,887 | 26,885 | - | 322,772 |

- (i) M Bojanjac was paid an amount of \$65,000 in shares (2,500,000) in lieu of consulting fees in connection with the transaction of the sale of WML to Geopacific Resources Ltd (as approved by shareholders 25 June 2019)
- (ii) Mr Simon Adams was appointed on 4 October 2019
- (iii) Mr Garry Perotti resigned on 4 October 2019
- (iv) Mr Ian Clyne and Mr Glenn Zamudio were appointed on 31 May 2019 and resigned on 2 July 2019.
- (v) Mr Ron Heeks was appointed on 8 September 2018 and resigned on 2 July 2019
- (vi) Mr Matthew Smith resigned on 2 July 2019
- (vii) Ms Phillipa Leggat resigned on 8 September 2018
- (viii) The Geopacific appointed directors receive remuneration, in line with the Company remuneration to directors, directly from Geopacific for their role and duties performed as Company directors
- (ix) Directors fees from July to December 2019 (M Stowell - \$12,000, M Bojanjac - \$9,000, S Adams - \$9,000) have

been accrued and agreed that they will not be paid in cash at this time, and as at the date of this report.

Share-based compensation

Following shareholder approval at a meeting held on 25 June 2019, M Bojanjac was issued with 2,500,000 shares in lieu of payment of consulting fees (\$65,000) in connection with the management of the disposal of Kula's interest in the Woodlark Gold Project to Geopacific Resources Ltd. No share options were issued as part of the remuneration of any KMP.

Bonus

There were no bonuses paid or entitled to be paid in 2019 (2018: Nil).

Share holdings

The number of shares in the Company held during the financial year by Directors and Key Management Personnel of the Company, including their personally related parties, is set out below.

| 2019 | Balance at the start of the year | Granted as compensation | Other changes during the year | Balance at the end of the year |
|------------------------|----------------------------------|-------------------------|-------------------------------|--------------------------------|
| M Stowell | 7,629,193 | - | - | 7,629,193 |
| M Bojanjac | - | 2,500,000 | - | 2,500,000 |
| S Adams ⁽ⁱ⁾ | 49,999 | - | - | 49,999 |
| G Perotti | - | - | - | - |
| I Clyne | - | - | - | - |
| R Heeks | - | - | - | - |
| M Smith | - | - | - | - |
| G Zamudio | - | - | - | - |

i. S Adams opening balance represents amount held at date of appointment as a director

| 2018 | Balance at the start of the year | Granted as compensation | Other changes during the year | Balance at the end of the year |
|------------|----------------------------------|-------------------------|-------------------------------|--------------------------------|
| M Stowell | 7,429,193 | - | 200,000 | 7,629,193 |
| G Perotti | - | - | - | - |
| M Bojanjac | - | - | - | - |
| R Heeks | - | - | - | - |
| M Smith | - | - | - | - |
| G Zamudio | - | - | - | - |
| P Leggat | - | - | - | - |

Loans and other transactions with key management personnel

As at the date of this report, Mr Mark Stowell (through a company that he controls) has provided a loan to the Company on the following terms:

- Facility limit - \$150,000
- Loan amount drawn down as at 31 December 2019 - \$114,400
- Interest Rate – 12% per annum
- Term – 12 months
- Security - unsecured

Other transactions with key management personnel are disclosed in note 20, and as follows:

END OF REMUNERATION REPORT

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



Mark Stowell
 Chairman

Perth, 31 March 2020

Kula Gold Limited
Statement of profit and loss and other comprehensive income
For the year ended 31 December

| | Notes | 2019 | 2018 |
|---|--------------|---------------|--------------------|
| | | \$ | \$ |
| Other income | 6 | 601,420 | 4 |
| Expenses | | | |
| Administration expenses | 7 | (452,165) | (415,671) |
| Exploration expenses | | (88,082) | - |
| Finance Costs | | (3,997) | - |
| Los of disposal of asset | | (7,449) | - |
| Profit/(Loss) from continuing operations | | <u>49,727</u> | <u>(415,667)</u> |
| Income tax expense | 8 | - | - |
| Profit/(Loss) for the year from continuing operations after tax | | <u>49,727</u> | <u>(415,667)</u> |
| Discontinued operation | | | |
| Loss from discontinued operations after tax | 4 | - | (6,341) |
| Total profit/(loss) for the year after tax | | <u>49,727</u> | <u>(422,008)</u> |
| Other comprehensive expense | | | |
| Movement in fair value of financial assets | | - | (6,620,071) |
| Total other comprehensive income/(loss) for the year | | <u>-</u> | <u>(6,620,071)</u> |
| Total comprehensive income/(loss) for the year | | <u>-</u> | <u>(7,042,079)</u> |
| Profit/(Loss) for the year attributable to: | | | |
| Equity holders of the parent | | <u>49,727</u> | <u>(415,667)</u> |
| | | 49,727 | (415,667) |
| Total comprehensive profit/(loss) for the year | | | |
| Attributable to: | | | |
| Equity holders of the parent | | 49,727 | (7,035,738) |
| Non-controlling interest | | - | (6,341) |
| | | <u>49,727</u> | <u>(7,042,079)</u> |
| | | Cents | Cents |
| Loss per share attributable to the ordinary equity holders of the Company: | | | |
| Basic and diluted profit/(loss) per share in cents | | | |
| From continuing operations | 9 | 0.02 | (0.11) |

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

Kula Gold Limited
Statement of financial position
As at 31 December

| | Notes | 2019 \$ | 2018 \$ |
|--|-------|---------------|---------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 10 | 21,371 | 8,014 |
| Receivables and other assets | 11 | 8,516 | 10,976 |
| Marketable securities | 12 | 1,559 | - |
| Total current assets | | 31,446 | 18,990 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | - | 1,783 |
| Financial assets | 14 | - | 3,300,000 |
| Total non-current assets | | - | 3,301,783 |
| Total assets | | 31,446 | 3,320,773 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 75,500 | 2,403 |
| Borrowings | 16 | 114,400 | 416,000 |
| Provisions | 17 | - | 29,861 |
| Total current liabilities | | 189,900 | 448,264 |
| Non-current liabilities | | | |
| Provisions | 17 | - | - |
| Total non-current liabilities | | - | - |
| Total liabilities | | 189,900 | 448,264 |
| Net assets | | (158,454) | 2,872,509 |
| EQUITY | | | |
| Contributed equity | 18 | 148,431,253 | 151,576,943 |
| Reserves | 19(a) | 463,758 | (5,386,960) |
| Accumulated losses | 19(b) | (149,053,465) | (143,317,474) |
| Equity attributable to equity holders of parent | | (158,454) | 2,872,509 |
| Non-controlling interest | | - | - |
| Total equity | | (158,454) | 2,872,509 |

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

Kula Gold Limited
Statement of changes in equity
For the year ended 31 December

| | Notes | Contributed equity | Share-based payments reserve | Fair Value financial asset reserve | Consolidation reserve | Total reserves | Accumulated losses | Total equity |
|---|--------|--------------------|------------------------------|------------------------------------|-----------------------|--------------------|----------------------|------------------|
| Balance at 1 January 2019 | | 151,576,943 | 1,159,501 | (6,945,219) | 398,758 | (5,386,960) | (143,317,474) | 2,872,509 |
| Profit/(Loss) for the year | | - | - | - | - | - | 49,727 | 49,727 |
| Other Comprehensive Income | | - | - | - | - | - | - | - |
| Total comprehensive income/(loss) for the year | | - | - | - | - | - | 49,727 | 49,727 |
| In-specie distribution of consideration shares (Geopacific Resources Ltd) | | (3,145,690) | - | - | - | - | - | (3,145,690) |
| Contribution of equity, net of transaction costs | | | 65,000 | | | 65,000 | | 65,000 |
| Reclassification of reserves to retained earnings | | - | (1,159,501) | 6,945,219 | - | 5,785,718 | (5,785,718) | - |
| Balance at 31 December 2019 | 18, 19 | 148,431,253 | 65,000 | - | 398,758 | 463,758 | (149,053,465) | (158,454) |

| | | | | | | | | |
|---|-------|--------------------|------------------|--------------------|----------------|--------------------|----------------------|--------------------|
| Balance at 1 January 2018 | | 151,576,943 | 1,159,501 | (325,148) | 398,758 | 1,233,111 | (142,895,466) | 9,914,588 |
| Loss for the year | | - | - | - | - | - | (415,667) | (415,667) |
| Loss from non-controlling interest | | - | - | - | - | - | (6,341) | (6,341) |
| Other comprehensive loss | | - | - | (6,620,071) | - | (6,620,071) | - | (6,620,071) |
| Total comprehensive income/(loss) for the year | | - | - | - | - | (6,620,071) | (422,008) | (7,042,079) |
| Balance at 31 December 2018 | 18,19 | 151,576,943 | 1,159,501 | (6,945,219) | 398,758 | (5,386,960) | (143,317,474) | 2,872,509 |

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

Kula Gold Limited
Statement of cash flows
For the year ended 31 December

| | Notes | 2019 \$ | 2018 \$ |
|---|-------|-------------|------------|
| Cash flows from operating activities | | | |
| Payments to suppliers and employees – continuing operations | | (427,768) | (428,495) |
| Receipts for services | | 1,409 | - |
| Interest income | | 11 | 4 |
| Net cash outflow from operating activities | 26 | (426,348) | (428,491) |
| Cash flows from investing activities | | | |
| Proceeds from sale of investment | | | |
| | | 3,890,993 | - |
| Distribution of Proceeds from sale | | (3,145,690) | - |
| Net cash outflow from investing activities | | 745,303 | - |
| Cash flows from financing activities | | | |
| Loan advance from Geopacific and Merchant Holdings Pty Ltd | | | |
| | | 423,782 | 396,000 |
| Loan repayment to Geopacific | | (725,382) | - |
| Finance costs | | (3,997) | - |
| Net cash inflow from financing activities | | (305,597) | 396,000 |
| Net decrease in cash and cash equivalents | | 13,357 | (32,491) |
| Cash and cash equivalents at the beginning of the financial year | | 8,014 | 40,505 |
| Effects of exchange rate changes on cash and cash equivalents | | - | - |
| Cash and cash equivalents at end of year | 10 | 21,371 | 8,014 |

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

1 Summary of significant accounting policies

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

(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.

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

These financial statements have been prepared under the historical cost convention except for the Financial Asset which is carried at fair value.

(b) Going concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

For the year ended 31 December 2019, the Company incurred a profit from operations of \$49,727 (2018: loss of \$422,008) and recorded net cash inflows of \$13,358 (2018: \$8,014). At 31 December 2019, the Company had net current assets of (\$158,453) (2018: \$2,872,509). The loan from Merchant Holdings Pty Ltd is repayable in September 2020.

The Company's ability to continue as a going concern is dependent upon it maintaining sufficient funds for its operations and commitments. The Directors continue to be focused on meeting the Company's business objectives and is mindful of the funding requirements to meet these objectives. The Directors consider the basis of going concern to be appropriate for the following reasons:

- given the Company's market capitalisation and the underlying prospects for the Company to raise further funds from the capital markets;
- support from a major shareholder who has provided a line of credit loan to the Company and will consider extension of the current credit facility if required until equity can be raised; and
- the fact that future exploration and evaluation expenditure is generally discretionary in nature (i.e. at the discretion of the Directors having regard to an assessment of the Company's eligible expenditure to date and the timing and quantum of its remaining earn-in expenditure requirements). Subject to meeting certain minimum expenditure commitments, further exploration activities may be slowed or suspended as part of the management of the Company's working capital.

The Directors are confident that the Company can continue as a going concern and as such are of the opinion that the financial report has been appropriately prepared on a going concern basis. However, should the Company be unable to raise further required financing from its major lender or other sources, there is uncertainty which may cast doubt as to whether or not the Company will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

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

(c) 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 Company'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.

(d) New and amended standards and Interpretations adopted during the year

The Company has adopted all new and amended Accounting Standards and Interpretations that were applicable to the Company for the first time for the financial year beginning 1 January 2019, including:

AASB 16 Leases

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The depreciation of the lease assets and interest on the lease liabilities are recognised in the income statement. The Company did not incur any lease obligations that required the adjustment of its financial statements in 2018 and/or 2019 as a result of the provisions of this new standard.

A number of new standards, amendment of standards and interpretations have recently been issued but are not yet effective and have not been adopted by the Company as at the financial reporting date. The Company has reviewed these standards and interpretations and has determined that none of the new or amended standards will significantly affect the Company's accounting policies, financial position or performance.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

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 attributable to part of the net investment in a foreign operation.

(f) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(g) Income tax

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

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

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

(h) Financial assets at fair value through other comprehensive income ("Financial Assets")

Investments in equity instruments of other entities (other than subsidiaries) are Financial Assets and are initially recognised at their fair value. After initial recognition investments in equity investments have been designated as fair value through other comprehensive income. When the equity investment is derecognised, fair value movements within other comprehensive income are not recycled through profit or loss.

(i) Leases (new policy applied from 1 January 2019 due to adoption of AASB 16)

The accounting policy for leases under AASB 16 is as follows:

For any new contracts entered into as a lessee, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. Lease liabilities are shown directly on the statement of financial position (current and non-current).

(j) 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 Company. 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 Company 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.

(k) Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;
or
- is a subsidiary acquired exclusively with a view to resale

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of profit or loss and other comprehensive income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

(l) Impairment of non-financial assets

Non-financial 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 of disposal 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.

(m) Cash and cash equivalents

For the purpose of presentation in the 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.

(n) Trade and other receivables

Initial recognition

Trade receivables are initially recognised at their transaction price and other receivables at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company always recognises the lifetime expected credit loss for trade receivables carried at amortised cost. The expected credit losses on these financial assets are estimated based on the Company's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

In relation to all other receivables measured at amortised cost, the Company applies the credit loss model. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, the Company measures the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

The Company considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Company. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Company writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery

(o) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They carried at amortised cost using the effective interest rate method and, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets, are classified as current assets.

(p) Impairment of financial assets

The Company 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 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 Company 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 statement of comprehensive income.

(q) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. 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 Company 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 | 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.

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

(r) 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 statement of financial position where the rights of tenure of an area are current and one of the following conditions is met:

- (i) the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- (ii) exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest is continuing.

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

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

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company 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.

(t) 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharge, cancelled or expired.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(v) Provisions

Provisions are recognised when the Company 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.

(w) Employee benefits

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.

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 the 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 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 statement of financial position 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.

Share-based payments

Share-based compensation benefits are provided to employees via the Kula Gold Limited Option Plan ("Plan"). Information relating to the Plan is set out in note 27.

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

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

(x) 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.

(y) 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 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.

2 Financial Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, equity price risk and interest rate risk), credit risk and liquidity risk. The Company'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 Company. The Company 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

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 Company's present policy to hedge foreign exchange risk.

The Company's functional currency is Australian dollars (AUD).

The Company does not have significant foreign currency risk at the statement of financial position date.

ii. Interest rate risk

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

Company sensitivity

At 31 December 2018, the Company'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 Company. Reasonably possible movements in interest rates would not have a material impact on the results of the Company or the fair value of any borrowings.

iii. Credit risk

Cash deposits are held with a major Australian Bank, Westpac Banking Corporation (Westpac). All counterparties with whom the Company holds cash on deposit have a credit rating with Standard and Poors of A or above (long term)

(b) Liquidity risk

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

Maturities of financial liabilities

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

| | Contractual maturities of financial liabilities | | | | | | Carrying Amount liabilities |
|-------------------------------------|--|----------------------|------------------------------|------------------------------|---------------------|-------------------------------------|------------------------------------|
| | Less than 6 months | 6 - 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | |
| At 31 December 2019 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade and other payables/Borrowings | 189,900 | - | - | - | - | 189,900 | 189,900 |
| Total non-derivatives | 189,900 | - | - | - | - | 189,900 | 189,900 |

| | Contractual maturities of financial liabilities | | | | | | Carrying Amount liabilities |
|-------------------------------------|--|----------------------|------------------------------|------------------------------|---------------------|-------------------------------------|------------------------------------|
| | Less than 6 months | 6 - 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | |
| At 31 December 2018 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade and other payables/Borrowings | 418,403 | - | - | - | - | 418,403 | 418,403 |
| Total non-derivatives | 418,403 | - | - | - | - | 418,403 | 418,403 |

(c) Fair value measurements

The methods for estimating fair value are outlined in the relevant notes to the financial statements. The carrying amounts of financial assets and liabilities of the Company approximates their fair values. The fair value of the unlisted investment has been determined using comparable transactions.

Under AASB 13 the fair value measurements used for the equity investment is level 3 on the fair value hierarchy. Level 3 is defined as the valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

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 Company 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.

4 Control of Subsidiary and discontinued operations

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 was deconsolidated from the Company accounts on 25 January 2017. Post deconsolidation, the Company retained no control or significant influence over the operations of WML. All the financial and operating policy decisions relating to WML were unilaterally taken by GPR.

On 23 August 2018 GPR served notice of achievement of the incentive target of reserve ounces of gold, the completion of the second earn-in period of the FIA and extended its option to proceed to the third earn-in period of the FIA. As such Geopacific has a direct interest of 51% in Woodlark Mining Limited and a further interest of 42% by virtue of its 85% holding of Kula shares.

On 6th March 2019 the Company entered into an agreement to sell all of its rights and interests in the Project to GPR (refer ASX announcement on 8 March 2019). Under the agreement signed on 6 March 2019 ("Agreement") Kula agreed to sell, free from all encumbrances and third party claims, and GPR agreed to purchase, all of the outstanding shares in Woodlark Mining Limited ("WML") not currently owned by GPR ("Sale Shares") subject to approval by its shareholders. Consideration for the transaction was 150,000,000 shares in GPR plus a cash amount (\$745,382) from GPR. Simultaneously on closing of the agreement, Kula would cancel (following a buyback) GPR's shares in Kula which represented approximately 85% of the equity on issue (319,363,449 shares). Kula was required to apply the cash to repay the interest free loan from GPR which at close date was \$.725,382.

Operating profit of Kula Gold until the date at which it became a discontinued operation in 2018 is summarised as follows:

| | 2019 | 2018 |
|---|-------------|-------------|
| | \$ | \$ |
| Expenses: | | |
| Administration expenses | - | (6,341) |
| Profit/(loss) from discontinued operations | - | (6,341) |
| Income tax expense relating to discontinued operations | - | - |
| Profit/(loss) from discontinued operations after tax | - | (6,341) |

5 Segment information

The Company has determined that it operates in one operating segment, being exploration in Western Australia and this is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources in the Company. Accordingly, the financial results of the segment are equivalent to the financial statements of the Company as a whole.

Kula Gold Limited
Notes to the financial statements
31 December 2019

| | 2019 \$ | 2018 \$ |
|---|------------|------------|
| 6 Other income – Continuing operations | | |
| Interest income | 11 | 4 |
| Management fee | 1,409 | - |
| | 1,420 | 4 |
| Other income – Discontinued operations | | |
| Revaluation of investment | 600,000 | - |
| | | |
| 7 Administration expenses from continuing operations | | |
| Depreciation | | |
| Furniture and Fittings | 1,783 | 547 |
| Employee benefit expense | 181,846 | 282,098 |
| Professional and consulting expenses | 151,237 | 63,165 |
| Insurance expenses | 13,732 | 32,392 |
| Other expenses | 103,890 | 37,469 |
| | 452,165 | 415,671 |
| | | |
| 8 Income tax | | |
| Current income tax expense | - | - |
| (Decrease)/increase in deferred income tax | - | - |
| Total income tax (benefit)/expense | - | - |
| | | |
| (a) Numerical reconciliation of income tax expenses to prima facie tax payable | | |
| Profit/(Loss) from operations before income tax expense | 49,727 | (422,008) |
| Tax expense/(benefit) at the Australian tax rate of 30% (2018: 30%) | 14,918 | (126,002) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Loss from discontinued operations | - | 1,902 |
| Income tax benefit not recognised | (14,918) | 124,700 |
| Carried forward losses utilised | - | - |
| Total income tax expense | - | - |
| | | |
| (b) Tax losses | | |
| Australian unused tax losses for which no deferred tax asset has been recognised | 1,566,424 | 1,616,151 |
| Potential tax benefit at the Australian tax rate of 30% (2018: 30%) | 469,927 | 484,845 |
| Benefits for tax losses will only be obtained if: | | |
| (i) the 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 entity continues to comply with the conditions for utilisation imposed by tax legislation; and | | |
| (iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses. | | |
| Unrecognised temporary differences | | |
| The following represents unrecognised deferred tax on timing differences: | | |
| Employee provision | - | (2,214) |
| Capital raising costs | - | - |
| | - | (2,214) |
| | | |

9 Earnings per share

Basic earnings / (loss) per share amounts are calculated by dividing profit / (loss) for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings / (loss) per share amounts are calculated by dividing the profit / (loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all diluted potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic earnings per share computations:

| | 2019 | 2018 |
|---|------------------------|------------------------|
| | \$ | \$ |
| Profit/(loss) attributable to ordinary equity holders of the parent for basic and diluted earnings per share (Continuing operations) | 49,727 | (422,008) |
| | No. | No. |
| The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings per share | 217,667,212 | 375,658,028 |
| Effect of dilution: | | |
| Share options | - | - |
| The weighted average number of ordinary shares on issue during the financial year used in the calculation of diluted earnings per share | 217,667,212 | 375,658,028 |
| | Cents per share | Cents per share |
| Basic earnings/(loss) per share | 0.02 | (0.11) |
| Diluted earnings per share | 0.02 | (0.11) |
| 10 Cash and cash equivalents | | |
| Cash at bank and in hand | 21,371 | 8,041 |
| | 21,371 | 8,041 |
| 11 Receivables and other assets | | |
| Goods and services tax receivable | 8,516 | 11 |
| Prepayment and other receivables | - | 10,965 |
| | 8,516 | 10,976 |
| (a) Impaired receivables - There were no impaired receivables for the Company. | | |
| (b) Past due but not impaired - There were no receivables past due for the Company. | | |
| (c) 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. | | |
| | 2019 | 2018 |
| | \$ | \$ |
| 12 Marketable securities | | |
| Shares held in ASX listed company | 1,559 | - |
| | 1,559 | - |

Kula Gold Limited
Notes to the financial statements
31 December 2019

| | 2019 \$ | 2018 \$ |
|---|-------------|------------------|
| 13 Property, plant and equipment | | |
| Gross carrying amount - at cost | 78,912 | 78,912 |
| Accumulated depreciation | (78,912) | (77,129) |
| Net carrying amount | <u>-</u> | <u>1,783</u> |
| Opening book value (net of depreciation) | 1,783 | 2,329 |
| Depreciation charge | (1,783) | (546) |
| Disposal | - | - |
| Closing book amount (net of depreciation) | <u>-</u> | <u>1,783</u> |
| 14 Financial assets | | |
| Unlisted investment at fair value at 1 January | 3,300,000 | 9,920,071 |
| Increase in fair market value of investment | 600,000 | - |
| Less: value of cash received at settlement from GPR | (750,000) | - |
| Total loss for the period recognised in other comprehensive income | - | (6,620,071) |
| In-specie distribution of GPR shares to Shareholders | (3,148,441) | - |
| Transfer of remaining GPR shares value to marketable securities (Note 12) | (1,559) | - |
| Investment at fair value at 31 December | <u>-</u> | <u>3,300,000</u> |

The financial asset investment relates to the Company's share in Woodlark Mining Ltd (WML) as at 31 December 2017. During the financial year ended 31 December 2017, the Company lost control over WML, and as a result WML was deconsolidated effective 25 January 2017. Post deconsolidation, the Company did not have control, joint control or significant influence over the operations of WML and accounts for its investment in WML as a financial asset. All decisions (financial and operating policy related) about the relevant activities of WML now rest solely with Geopacific Resources Limited (GPR).

The Company entered into an agreement to sell all of its rights and interests in the Project to GPR. Kula agreed to sell and GPR agreed to purchase, all of the outstanding shares in Woodlark Mining Limited ("WML") not currently owned by GPR ("Sale Shares") subject to approval by its shareholders. Consideration for the transaction was 150,000,000 shares in GPR at a price of 1.7 cents per share which equates to A\$2,550,000, plus cash up to \$750,000 to pay all Kula liabilities. This is the basis on which the investment was valued at \$3.3 million as at 31st December 2018. At 30th June 2019, the value of the 150,000,000 GPR shares had increased to 2.1 cents per share resulting in a revaluation increase of \$600,000.

Following completion of the sales transaction in 2019, an in-specie distribution of GPR shares to Kula shareholders on the basis of 2.55 GPR shares for every 1 Kula share held was completed. This resulted in the distribution of 149,926,108 GPR shares. The remaining 73,892 GPR shares are held by Kula Gold Ltd and shown in the balance sheet as Marketable securities (Refer Note 12).

| | 2019 \$ | 2018 \$ |
|---|----------------|----------------|
| 15 Trade and other payables | | |
| Trade payables | 46,500 | 2,403 |
| Short term loan – Geopacific Resources Limited ^(a) | - | 416,000 |
| Other payables and accruals | 29,000 | - |
| | <u>75,500</u> | <u>418,403</u> |
| 16 Borrowings | | |
| Short term loan – Geopacific Resources Limited ^(a) | - | 416,000 |
| Short term loan – Merchant Holdings Pty Ltd ^(b) | 114,400 | - |
| | <u>114,400</u> | <u>416,000</u> |

(a) The terms of the short term loan facility to Geopacific Resources Limited was that it was for an amount of up to \$750,000, interest free and unsecured.

16 Borrowings (Cont.)

(b) The terms of the short term loan facility from Merchant Holdings Pty Ltd are:

| | |
|------------------------|------------------------------|
| Loan facility amount - | \$150,000 |
| Interest rate - | 12% |
| Term - | 12 months (from 3 Sept 2019) |
| Security - | Unsecured |

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| 17 Provisions | | |
| Current provisions – | | |
| Employee entitlements - annual leave | - | 29,861 |
| Non-current provisions | - | - |
| 18 Equity | | |
| Share Capital | | |
| 58,794,579 fully paid ordinary shares (2018: 375,658,028) | 148,431,253 | 151,576,943 |

| | Year ended | | Year ended | |
|---|-------------------------|---------------|-------------------------|-------------|
| | 31 December 2019 | | 31 December 2018 | |
| | \$ | No. | \$ | No. |
| Movement in share capital | | | | |
| Equity at start of the year | 151,576,943 | 375,658,028 | 151,576,943 | 375,658,028 |
| Cancellation of Kula shares held by Geopacific | - | (319,363,449) | - | - |
| Allotment of shares in lieu of consulting fees | | 2,500,000 | | |
| In-specie distribution (GPR shares) | (3,145,690) | - | - | - |
| Equity at end of period | 148,431,253 | 58,794,579 | 151,576,943 | 375,658,028 |

Share buy-back

There has not been any on-market buy-back in 2019 (2018: none).

| | 2019 | 2018 |
|---|-------------|-------------|
| | \$ | \$ |
| 19 Reserves and accumulated losses | | |
| Share-based payments reserve | 65,000 | 1,159,501 |
| Consolidation reserve | 398,758 | 398,758 |
| Fair value financial asset reserve | - | (6,945,219) |
| | 463,758 | (5,386,960) |

(a) Movement in reserves

Share-based payments reserve

| | | |
|---|-------------|-----------|
| Balance at start of the year | 1,159,501 | 1,159,501 |
| Reclassification to retained earnings | (1,159,501) | - |
| Allotment of shares in lieu of consulting fees (2,500,000 shares) | 65,000 | - |
| Balance at end of the year | 65,000 | 1,159,501 |

Consolidation reserve

| | | |
|------------------------------|---------|---------|
| Balance at start of the year | 398,758 | 398,758 |
| Balance at end of the year | 398,758 | 398,758 |

Fair value of assets reserve

| | | |
|---------------------------------------|-------------|-------------|
| Balance at start of the year | (6,945,219) | (325,148) |
| Reclassification to retained earnings | 6,945,219 | - |
| Movement in fair value of investment | - | (6,620,071) |
| Balance at end of the year | - | (6,945,219) |

Kula Gold Limited
Notes to the financial statements
31 December 2019

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$ | \$ |
| 19 Reserves and accumulated losses (Cont.) | | |
| (b) Accumulated losses | | |
| Opening balance | (143,317,474) | (142,895,466) |
| Net profit/(loss) for the year – controlled interest | 49,727 | (415,667) |
| Net profit/(loss) for the year – non-controlled interest | - | (6,341) |
| Reclassification of reserves to accumulated losses | (5,785,718) | - |
| Closing balance | (149,053,465) | (143,317,474) |

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of options issued.

(ii) Consolidation reserve

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

(iii) Fair value financial assets reserve

The fair value financial assets reserve represents the cumulative gains and losses including foreign currency gains or losses, arising on the re-measurement of financial assets to fair value that have been recognised in other comprehensive income.

| | 2019 | 2018 |
|---|-------------|-------------|
| | \$ | \$ |
| 20 Key management personnel disclosures | | |
| The names of persons who were key management personnel of Kula at any time during the financial year are as follows: | | |
| <ul style="list-style-type: none"> • Mark Stowell • Simon Adams • Matthew Smith • Glenn Zamudio • Mark Bojanjac • Garry Perotti • Ian Clyne • Ron Heeks | | |
| (a) Key management personnel compensation | | |
| Short-term employee benefits | 239,250 | 295,887 |
| Post-employment benefits | 11,068 | 26,885 |
| Termination benefits | 67,927 | - |
| | 318,245 | 322,772 |

Detailed remuneration disclosures are provided in the remuneration report on pages 11 to 13

(b) Equity instrument disclosures relating to key management personnel

(i) Shares provided as remuneration

M Bojanjac was paid an amount of \$100,000 in shares (2,500,000) in lieu of consulting fees in connection with the transaction of the sale of WML to Geopacific Resources Ltd (as approved by shareholders at a meeting held on 25 June 2019).

(ii) Options provided as remuneration

No options were granted as remuneration to key management personnel of the Company during the year ended 31 December 2019 (2018: Nil).

(iii) Shares provided on exercise of remuneration options

No options were exercised during the period ended 31 December 2019 (2018: Nil)

Kula Gold Limited
Notes to the financial statements
31 December 2019

| | 2019 \$ | 2018 \$ |
|---|------------|------------|
| 21 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: | | |
| Audit and other assurance services | | |
| Ernst and Young | 25,000 | 30,000 |
| Elderton | 15,000 | - |
| | 35,000 | 30,000 |
| 22 Contingencies | | |
| The Company had no contingent assets or liabilities at 31 December 2019 (2018: nil). | | |
| 23 Commitments | | |
| The Company had no lease or other commitments at 31 December 2019 (2018: nil). | | |
| 24 Related party transactions | | |
| In September 2019, Mr Mark Stowell (through a company that he controls) provided a loan to the Company on the following terms: | | |
| • Facility limit - \$150,000 | | |
| • Loan amount drawn down as at 31 December 2019 - \$114,400 | | |
| • Interest Rate – 12% per annum | | |
| • Term – 12 months | | |
| • Security - unsecured | | |
| Other than above, the Company had no related party transactions for the year ended 31 December 2019 (2018: nil). | | |
| 25 Subsidiaries | | |
| The Company has no subsidiaries. | | |
| 26 Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities and reconciliation of net cash inflow from loan advance activities | | |
| Operating activities: | | |
| Profit/(loss) for the year – continuing operations | (223,519) | (415,667) |
| Depreciation and amortisation | 1,592 | 547 |
| (Profit)/Loss from discontinued operations | (238,246) | 6,341 |
| Decrease/(increase) in net current assets | 33,824 | (19,712) |
| Net cash outflow from operating activities | (426,349) | (428,491) |
| 27 Events occurring after the reporting date | | |
| Management is not aware of any other significant events that have occurred from the balance date to the date in which this report is authorised for issue. | | |

End of Financial Report

Kula Gold Limited
Directors' declaration
31 December 2018

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 2019 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2019 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 the matters set out in note 1(b), 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 2019.

On behalf of the Board



Mark Stowell
Chairman

Perth
31 March 2020

Auditor's Independence Declaration

As auditor for the audit of Kula Gold Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

- I) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- II) no contraventions of any applicable code of professional conduct in relation to the audit.

Elderton Audit Pty Ltd

Elderton Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens
Managing Director

31 March 2020
Perth

Independent Audit Report to the members 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), which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and 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 Company is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year then ended; and
- (ii) 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 as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 modifying our opinion, we draw attention to Note 1 to the financial statements which outlines that the ability of the Company to continue as a going concern is dependent on the ability of the Company to secure additional funding through either the issue of further shares and/or support from the major shareholder in the form of a loan.

As a result there is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be a key audit matter to be communicated in our report.

Total Expenditure

Refer to Note 7 and accounting policy Note 1

| Key Audit Matter | How our audit addressed the matter |
|--|--|
| Kula Gold Limited has recently disposed off its major project and is currently pursuing for new ventures. Due to status of the Company, total expenditures will be more relevant for the user of the financial statements. | <p>Our audit work included, but was not restricted to, the following:</p> <ul style="list-style-type: none">• Enquired management, reviewed board minutes and ASX announcements made, to identify new projects or ventures being persuaded by the Company.• Performed substantive test on a sample of expenses incurred during the year• Performed analytical review and substantiated significant variance from expected amounts <p>Based on our testing, no issues were noted.</p> |

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is included in the annual report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 on the work we have performed on the other information obtained prior to the date of this auditor's report, 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 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company 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 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 the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement 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 Company'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 Company'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 Company 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.

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 with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 Remuneration Report

We have audited the Remuneration Report included in pages 11 to 13 of the directors' report for the year ended 31 December 2019. The directors of the Kula Gold Limited 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 in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Kula Gold Limited for the year ended 31 December 2019 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads "Elderton Audit Pty Ltd". The signature is written in a cursive, slightly slanted style.

Elderton Audit Pty Ltd

A handwritten signature in black ink that reads "Nicholas Hollens". The signature is written in a cursive, slightly slanted style.

Nicholas Hollens
Managing Director

Perth
31 March 2020

Additional ASX information

The following additional information required by the Australian Securities Exchange Limited and not shown elsewhere in the report. The information is current as at 25 March 2020.

Distribution of equity securities

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

| Holding | Ordinary shares | |
|-------------------|-------------------|-------------------|
| | Number of Holders | Number of Shares |
| 1 to 1,000 | 50 | 14,673 |
| 1,001 to 5,000 | 44 | 124,573 |
| 5,001 to 10,000 | 37 | 275,912 |
| 10,001 to 100,000 | 125 | 4,919,616 |
| 100,001 and over | 71 | 53,459,805 |
| | <u>142</u> | <u>58,794,579</u> |

Unquoted options

The Company has no unquoted securities (shares or options) on issue:

Twenty largest holders of quoted equity securities

| No. | Shareholder | Ordinary shares | |
|-----|---|-------------------|-----------------------------|
| | | Number held | Percentage of quoted shares |
| 1 | MR MICHAEL SOUCIK & MRS HEATHER SOUCIK | 6,000,000 | 10.21 |
| 2 | MAHE INVESTMENTS PTY LTD | 4,701,425 | 8.00 |
| 3 | MERCHANT HOLDINGS PTY LTD | 3,800,000 | 6.46 |
| 4 | MERCHANT HOLDINGS PTY LTD | 3,329,193 | 5.66 |
| 5 | ARIS NOMINEES PTY LTD | 3,000,000 | 5.10 |
| 6 | KALARRA HOLDINGS PTY LTD | 2,500,000 | 4.25 |
| 7 | MR THEOFANIS PERDIKIS & MRS DIMITRA PERDIKIS | 2,136,573 | 3.63 |
| 8 | SAILORS OF SAMUI PTY LTD | 1,886,564 | 3.21 |
| 9 | SUGARLOAF VENTURES PTY LTD | 1,650,000 | 2.81 |
| 10 | MR DAVID CRICHTON FRECKER & MRS JOANNE MARGARET FRECKER | 1,332,581 | 2.27 |
| 11 | ZENTAC PTY LTD | 1,066,010 | 1.81 |
| 12 | MR PATRICK KEDEMOS | 1,010,666 | 1.72 |
| 13 | ACRONYM PTY LTD | 1,000,000 | 1.70 |
| 14 | MR MATTHEW NUNN | 940,676 | 1.60 |
| 15 | MR GERASIMOS VASSILOPOULOS & MRS ANNA MARIE VASSILOPOULOS | 824,995 | 1.40 |
| 16 | MR STANISLAW ANTONI ZYCHEWICZ | 805,000 | 1.37 |
| 17 | DJ & DA NEATE PTY LTD | 738,236 | 1.26 |
| 18 | FUTURE LIFE PTY LTD | 700,000 | 1.19 |
| 19 | JDW INVESTMENTS AUSTRALIA PTY LTD | 640,000 | 1.09 |
| 20 | GRAHAM BROWN PTY LTD | 603,000 | 1.03 |
| | | <u>38,664,919</u> | <u>65.77</u> |

Substantial holders

Substantial holders in the Company are set out below:

| Name of substantial shareholder | Number of shares held | Percentage of issued shares |
|---------------------------------|-----------------------|-----------------------------|
| The HMS Superannuation Fund | 10,701,425 | 18.20 |
| Merchant Holdings | 7,629,193 | 12.97 |
| ARIS Nominees Pty Ltd | 3,000,000 | 5.10 |
| | <u>21,330,618</u> | <u>36.27</u> |

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

| Country / Location | Tenement No | Interest |
|--|--------------------|-----------------|
| Australia, WA Goldfields, Southern Cross | ELA 77-2621 | 100% |
| Australia, WA Goldfields, Kurnalpi | ELA 28-2942 | 100% |