ABN 83 126 741 259

KULA GOLD LIMITED
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Corporate Directory

Directors:	David Frecker	Chairman
	Lee Spencer	Managing director and chief executive officer
	John Watkins	Executive director and chief financial officer
	Louis Rozman	Non-executive director
	Mark Stowell	Non-executive director
Company secretary:	Leanne Ralph	
Registered office:	Suite 2, Level 15, 1 York Street Sydney, NSW 2000 T: + 61 2 9262 5651 F: + 61 2 9262 5680 Email: info@kulagold.com.au Website: www.kulagold.com.au	
Auditor:	PricewaterhouseCoopers Australia Darling Park Tower 2 201 Sussex Street Sydney, NSW 2000 T: +61 2 8266 0000	
Share registry:	Link Market Services Limited Level 12, 680 George Street Sydney, NSW 2000 T: 1300 554 474 or +61 2 8280 7111	
Stock exchange listing:	Australian Securities Exchange ASX code: KGD	

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Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Kula Gold Limited (referred to hereafter as Kula Gold or the Company) and the entities it controlled at the end of, or during, the year ended 31 December 2011.

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

David Frecker
Lee Spencer
John Watkins
Louis Rozman
Peter Bradford (resigned 30 June 2011)
Mark Stowell

Principal activities
The principal activity of the Group is the development of the Woodlark Island Gold Project located on Woodlark Island in Papua New Guinea.

Dividends
No dividends have been paid or declared during the year (2010: $nil).

Result of operations
The net loss from operations of the consolidated entity was $1,354,000 (2010: loss of $5,058,000).

Review of operations
During the year ending 31 December 2011 the Group has been undertaking an extensive drilling program on its core assets located on Woodlark Island, Milne Bay Province, Papua New Guinea. The objectives of the drilling program have been to:-

- Better define the extent of the known gold reserves.
- Investigate and define new resources.
- Carrying out engineering drilling as required for completion of mine planning.

All of the objectives have been met. The most significant outcome for the Group has been the identification of high grade intercepts of gold mineralisation to the east of the current deposit at Kulumadau. This discovery together with the results of our other drilling activities has enabled the Group to increase the current JORC Compliant Resource to 2.0 million ounces of gold (previous resource 1.75 million ounces).

Work on the Feasibility Study (FS) continued throughout 2011 and it is anticipated lodgement will occur with the Papua New Guinea Mineral Resource Authority (MRA) by the end of the first quarter of 2012. The Environmental Impact Study (EIS) has also been progressed at the same time and it is planned for lodgement with the Papua New Guinea Department of Environment and Conservation (DEC) by mid-year 2012.

Corporate:
Building of a corporate and technical team which will oversee the Company into the development phase.

Environment:
The Group is committed to developing the project in an environmentally responsible manner. Extensive baseline environmental studies continue during the year. This data is being used to prepare the EIS which is due for completion by the end of the 2nd quarter 2012.

Directors' report (continued)

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

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

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

Information on directors

David Frecker BA, LLM *Independent chairman and non-executive director.* Age 63.

Experience and expertise
David Frecker is a non-executive director of Kula Gold and has been elected chairman of the board.

David is a commercial lawyer with over 35 years' experience in practice in Australia and PNG. He is a partner of Ashurst Australia (formerly Blake Dawson), practising in the corporate and commercial area and specialising in mining, oil & gas and resources law, and all aspects of commercial law in PNG. Prior to joining Ashurst Australia in 1980, David worked for five years in the Mining and Major Projects section of the State Solicitor's Office in PNG. He subsequently spent four years as one of Ashurst Australia's resident partners in PNG.

David is a member of AMPLA (the Resources and Energy Law Association of Australia) and the Resources, Energy and Environmental Law Committee of the Law Council of Australia. He is admitted to practise in Australia and PNG and holds Bachelor of Arts, Bachelor of Laws and Masters of Laws degrees from the University of Sydney.

Other current directorships
The Kokoda Track Foundation Limited.

Former directorships in last 3 years
None.

Special responsibilities
Independent chairman.
Member of the audit committee.
Member of the remuneration and nomination committee.

Interests in shares and options
- 20,000 ordinary fully paid shares (balance up to the date of signing the directors' report);
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares.

Directors' report (continued)

Lee Spencer MSc App (Mineral exploration) *Managing director and chief executive officer.* Age 58.

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

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

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

Other current directorships
None.

Lee Spencer has been Kula Gold's chief executive officer and managing director since July 2007.

Former directorships in last 3 years
None

Special responsibilities
Managing director.
Member of the risk committee.

Interests in shares and options
- 542,370 ordinary fully paid shares;
- 1,126,155 KGDOPT1 class options to acquire ordinary fully paid shares;
- 1,500,000 KGDOPT5 class options to acquire ordinary fully paid shares.

John Watkins BA (Acct/Geo), Dip GeoSc (Min Ec), M App Fin *Executive director and chief financial officer*. Age 57.

Experience and expertise
John Watkins has been Kula Gold's chief financial officer since January 2008.

John is a mining industry executive with commercial and geoscience qualifications and over 30 years' experience working in the resources sector. He was previously the commercial manager at Barrick Gold Corporation's Porgera Gold Mine and has worked in PNG or on PNG projects for approximately 20 years. John has held the positions of chief financial officer, financial controller and company secretary for AMEX, ASX and TSX listed mining companies, including Endeavour Silver Corp and Nicron Resources Ltd.

John is a member of the Australian Society of CPAs, FCIS, FFin and a Fellow of the Australasian Institute of Mining and Metallurgy. He has a BA (Acct/Geo) degree and a Diploma in Geoscience (Min Ec) from Macquarie University and a Master of Applied Finance from Kaplin/Finsia.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Executive director.

Interests in shares and options
- 310,000 ordinary fully paid shares (balance up to the date of signing the directors' report);
- 563,078 KGDOPT1 class options to acquire ordinary fully paid shares;
- 1,500,000 KGDOPT5 class options to acquire ordinary fully paid shares.

Directors' report (continued)

Louis Rozman BEng (Mining), Masters in Geoscience (Min Ec) *Non-executive director.* Age 54.

Experience and expertise
Louis Rozman has been a non-executive director of Kula Gold since July 2007.

Louis is a mining engineer and executive with 30 years' experience operating and constructing projects in Africa and Australasia. Louis was chief operating officer of Aurion Gold Limited and was instrumental in the development of its predecessor, Delta Gold Limited.

Louis is currently investment director of Pacific Road Capital Management Pty Ltd.

Louis is a Fellow and Chartered Professional (Management) of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Company Directors. He has a BEng (Mining) degree from the University of Sydney and a Masters in Geoscience (Min Ec) from Macquarie University.

Other current directorships
Pacific Energy Ltd, Mawson West Ltd and Carbon Energy Ltd.

Former directorships in last 3 years
Timmins Gold Corp.

Special responsibilities
Non-executive director.
Chairman of the risk committee.
Chairman of the remuneration and nomination committee.

Interests in shares and options
- 359,023 ordinary fully paid shares;
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares.

Mark Stowell BBus, CA *Independent non-executive director.* Age 48.

Experience and expertise
Mark Stowell has been a non-executive director of Kula Gold since September 2010.

Mark is a chartered accountant with over 20 years of corporate finance and resource business management experience.

He served as manager in the corporate division of Arthur Andersen and subsequently in the establishment and management of a number of successful ventures as principal, including resource companies operating in Australia and internationally. He was a founder of Anvil Mining Ltd (DRC) and on its board for seven years until 2000. He was also a founder and non-executive director of Incremental Petroleum Limited, an oil and gas producer with operations in Turkey and the USA. He is the chairman of Mawson West Ltd, an unlisted copper miner operating in Africa, and its associated group company, Orrex Resources Ltd. Mark is also a non-executive director of Incremental Oil and Gas Ltd, (ASX: IOG) a Californian oil and gas producer.

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

Other current directorships
Mawson West Ltd, Orrex Resources Ltd, Incremental Oil and Gas Ltd.

Former directorships in last 3 years
Incremental Petroleum Limited.

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

Interests in shares and options
- 25,000 ordinary fully paid shares;
- 100,000 KGDOPT2 class options to acquire ordinary fully paid shares.

Directors' report (continued)

Company secretary

Mrs Leanne Ralph was appointed to the position of company secretary on 1 June 2011. Leanne is a member of the Chartered Secretaries Australia, Australian Institute of Company Directors and of CPA Australia. Leanne is the principal of Boardworx Australia Pty Ltd which supplies bespoke outsourced company secretarial services to a number of listed and unlisted companies. Mr John Watkins resigned from the position of company secretary on 1 June 2011. John remains an executive director and chief financial officer of the Company.

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 2011, and the numbers of meetings attended by each director were:

	Board meetings		Meetings of committees					
			Audit		Risk		Remuneration and nomination	
Name	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
D Frecker	10	10	3	3	-	-	2	2
L Spencer	10	10	-	-	1	1	-	-
J Watkins	10	10	-	-	-	-	-	-
L Rozman	10	9	-	-	1	1	2	2
P Bradford *	3	1	1	1	1	1	-	-
M Stowell	10	8	3	3	-	-	2	2

* P Bradford: Resigned 30 June 2011.

Remuneration report

The remuneration report sets out remuneration information for Kula Gold Limited's executive directors, non-executive directors, other key management personnel and the five highest remunerated executives of the Group and Company.

a) Principles used to determine the nature and amount of remuneration:

b) Role of remuneration and nomination committee

c) Details of remuneration

d) Service agreements of key management personnel

e) Share-based compensation

f) Additional information

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

a) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Directors' report (continued)

Remuneration report (continued)

b) Role of remuneration and nomination committee

The board has established a remuneration committee which makes recommendations to the board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

The role of the remuneration and nomination committee is to attend to matters relating to Kula Gold's remuneration policy to enable Kula Gold to attract and retain executives who will create value for shareholders and to oversee remuneration packages for executive directors and senior management of Kula Gold.

The committee also attends to matters relating to succession planning and recommends candidates for election or re-election to the board at each annual shareholder's meeting. The committee will periodically assess the appropriate mix of skills, experience and expertise required on the board and assess the extent to which the required skills and experience are represented on the board.

The committee will comprise only non-executive directors, at least three members and a majority of independent directors. The committee will be chaired by a non-executive director who is not the Chair of the board.

The current members of the remuneration and nomination committee are Louis Rozman (Chairman), Mark Stowell and David Frecker.

Non-executive directors

Non-executive directors are remunerated by way of directors' fees within the limit approved by shareholders. The board determines fees paid to individual board members. The current maximum aggregate sum which shareholders have fixed to be paid as fees to non-executive directors is $300,000 per annum. This is unchanged from prior year. This amount was fixed by shareholders at the general meeting held on 20 September 2010.

The chairman is paid an annual fee of $70,000 plus superannuation. Other non-executive directors are paid annual base fees of $40,000 plus $10,000 for each chairman of a board committee, plus superannuation.

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

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

Executive compensation

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

The executive compensation and reward framework has three components:

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

Fixed compensation

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

Short-term incentives ("STI")

The remuneration committee is responsible for assessing whether the key performance indicators are met in light of the Company's corporate goals and objectives and arranges annually a performance evaluation of the Company's senior executives, including the chief executive officer and the chief financial officer. The evaluation is based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Long-term incentives ("LTI")

Long-term incentives are provided to certain employees via the Kula Gold Limited Option Plan (Plan). The role of the Plan is detailed under the heading 'share-based compensation' within the remuneration report.

Directors' report (continued)

Remuneration report (continued)

c) Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, other key management personnel (as defined in AASB 124 Related Party Disclosures) and the five highest remunerated executives of the Group and Company are set out in the following tables:

Executive directors	**Position**
L Spencer	Managing director and chief executive officer
J Watkins	Executive director and chief financial officer

Non-executive directors	**Position**
D Frecker	Non-executive chairman
L Rozman	Non-executive director
M Stowell	Non-executive director

Former non-executive directors	**Position**
P Bradford	Non-executive director (resigned 30 June 2011)

In addition, the following persons must be disclosed under the *Corporations Act 2001* as they are among the 5 highest remunerated Group and/or Company executives:

Other key management personnel	**Position**
T Mulroney	Project Manager (resigned 31 August 2011)

Executives	**Position**
G Clapp	Community affairs/environment manager
K Neate	Site manager (Woodlark Island)

Key management personnel and other executives of the Group and the Company – 2011

	Short-term employee benefits		**Post-employment benefits**	**Long-term benefits**	**Share-based payments**		
Name	**Cash salary and fees**	**Cash bonus**	**Superannuation**	**Long service leave**	**Option**	**Percentage of total package**	**Total**
	$	**$**	**$**	**$**	**$**	**%**	**$**
Directors							
D Frecker	70,000	-	6,300	-	13,279	14.8	89,579
L Spencer	312,500	34,375	22,875	27,361	224,856	36.2	621,967
J Watkins	257,500	53,750	18,675	22,525	135,997	27.8	488,447
L Rozman	50,000	-	-	-	13,279	21.0	63,279
M Stowell	50,000	-	4,500	-	13,279	19.6	67,779
P Bradford *	25,000	-	-	-	6,585	20.9	31,585
Other key management personnel							
T Mulroney**#	392,399	-	-	-	24,071	5.8	416,470
Executives							
G Clapp #	278,039	-	-	-	-	-	278,039
K Neate #	244,251	-	-	-	13,789	5.3	258,040
Total	**1,679,689**	**88,125**	**52,350**	**49,886**	**445,135**	**-**	**2,315,185**

* P Bradford resigned 30 June 2011.

** T Mulroney resigned 31 August 2011. All payments were made to PACT Mining Pty Ltd.

\# Employees/contractor of Woodlark Mining Limited.

Directors' report (continued)

Remuneration report (continued)

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

Key management personnel and other executives of the Group and the Company – 2011

Name	Fixed remuneration 2011 %	At risk short-term incentives 2011 %	At risk long-term incentives 2011 %
Directors			
D Frecker	85	-	15
L Spencer	58	6	36
J Watkins	61	11	28
L Rozman	79	-	21
M Stowell	80	-	20
P Bradford *	79	-	21
Other key management personnel			
T Mulroney**#	94	-	6
Executives			
G Clapp #	100	-	-
K Neate #	95	-	5

* P Bradford resigned 30 June 2011.

** T Mulroney resigned 31 August 2011. All payments were made to PACT Mining Pty Ltd.

\# Employees/contractor of Woodlark Mining Limited.

Key management personnel and other executives of the Group and the Company – 2010

Name	Short-term employee benefits: Cash salary and fees $	Short-term employee benefits: Cash bonus $	Post-employment benefits: Superannuation $	Long-term benefits: Long service leave $	Share-based payments: Option $	Share-based payments: Percentage of total package %	Total $
Directors							
D Frecker	20,417	-	1,838	-	1,128	4.8	23,383
L Spencer	206,219	62,500	50,000	-	15,094	4.5	333,813
J Watkins	148,610	41,284	52,359	-	7,547	3.0	249,800
L Rozman	14,583	-	-	-	1,128	7.2	15,711
M Stowell	14,583	-	1,312	-	1,128	6.6	17,023
P Bradford	39,500	-	-	-	1,128	2.8	40,628
A Vogel*	-	-	-	-	-	-	-
R Perkes*	31,500	-	-	-	-	-	31,500
Executives							
G Clapp #	229,167	-	-	-	-	-	229,167
K Harland #	120,000	-	-	-	-	-	120,000
Total	**824,579**	**103,784**	**105,509**	**-**	**27,153**		**1,061,025**

* A Vogel & R Perkes resigned 16 September 2010.

\# Employees of Woodlark Mining Limited.

Directors' report (continued)

Remuneration report (continued)

d) Service agreements of key management personnel

Compensation and other terms of employment for the managing director and the chief financial officer are formalised in service agreements. All contracts with executives may be terminated early, subject to termination payments as detailed below.

L Spencer, Managing director and chief executive officer

- Term of agreement – ongoing under new terms and conditions which commenced 16 November 2010;
- Base salary: $350,000 plus superannuation guarantee, to be reviewed annually on 1 July each year;
- Eligible to be paid a performance – related bonus of up to 25% of the base salary which is assessed as detailed in short-term incentives;
- 90 day's notice is required on resignation;
- Termination by the Company, three months of base salary; and if terminated within 12 months after a change of control of the Company, 18 months of base salary grossed up to include any unpaid bonus and net of all deductions required by law.

J Watkins, Executive director and chief financial officer

- Term of agreement – ongoing under new terms and conditions which commenced 16 November 2010;
- Base salary: $300,000 plus superannuation guarantee, to be reviewed annually on 1 July each year;
- Eligible to be paid a performance – related bonus of up to 25% of the base salary which is assessed as detailed in short-term incentives;
- 90 day's notice is required on resignation;
- Termination by the Company, three months of base salary; and if terminated within 12 months after a change of control of the Company, 18 months of base salary grossed up to include any unpaid bonus and net of all deductions required by law.

e) Share-based compensation

Options

Options over shares in Kula Gold Limited are granted under the Kula Gold Limited Option Plan (Plan) to employees (including directors). The Plan is designed to provide long-term incentives for executives and senior employees to deliver long-term shareholder returns. Participation in the Plan is at the board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits. Options granted under the Plan carry no dividend or voting rights. Separately, at the time of the initial public offering of the Company's shares, each of the current non-executive directors was offered options. Details of options over ordinary shares in the Company provided as remuneration to each director of Kula Gold Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Kula Gold Limited. Further information on the options is set out in note 26 to the financial statements.

The following options are held by directors and key management personnel of the Company as at 31 December 2011:

Name	Granted Number	Grant Date	Vested Number	Forfeited In Year	Expiry Date	Exercise Price	Fair Value At Grant Date	Value at forfeiture date ^
D Frecker #	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000	-
L Spencer **	1,126,155	01 Dec 2010	-	-	01 Dec 2015	$1.80	$349,109	-
L Spencer *	750,000	16 Dec 2011	750,000	-	16 Dec 2016	$2.00	$45,000	-
L Spencer **	750,000	16 Dec 2011	-	-	16 Dec 2016	$2.00	$45,000	-
J Watkins **	563,078	01 Dec 2010	-	-	01 Dec 2015	$1.80	$174,555	-
J Watkins *	750,000	16 Dec 2011	750,000	-	16 Dec 2016	$2.00	$45,000	-
J Watkins **	750,000	16 Dec 2011	-	-	16 Dec 2016	$2.00	$45,000	-
L Rozman #	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000	-
P Bradford #	100,000	01 Dec 2010	-	100,000	01 Dec 2015	$1.80	$41,000	$33,287
M Stowell #	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000	-
T Mulroney **	300,000	13 Jan 2011	-	300,000	13 Jan 2016	$1.80	$96,000	$71,929
K Neate **	100,000	16 Mar 2011	-	-	16 Mar 2016	$1.80	$29,000	-

^ The value at forfeiture date of options that were granted as part of the remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Directors' report (continued)

Remuneration report (continued)

The following factors were used in determining the fair value of options on grant date:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate	Maximum total value of options yet to vest
D Frecker #	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%	$26,593
L Spencer **	1,126,155	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%	$156,296
L Spencer *	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%	-
L Spencer **	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%	$42,864
J Watkins **	563,078	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%	$78,148
J Watkins *	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%	-
J Watkins **	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%	$42,864
L Rozman #	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%	$26,593
P Bradford #	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%	-
M Stowell #	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%	$26,593
T Mulroney **	300,000	13 Jan 2016	$0.32	$1.80	$1.70	30%	5.28%	-
K Neate **	100,000	16 Mar 2016	$0.29	$1.80	$1.65	30%	5.10%	$15,211

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

* Options vest on 16 December 2011.
** Options vest on 16 November 2012.

Options granted to non-executive directors will only vest and become exercisable after either of the following events:
a) the Company's Woodlark Island gold project (Project) reaches commercial production as determined by the pour of the first gold from the Project or,
b) there is a change of control of the Company.

f) Bonuses
For cash bonuses the percentage of the available bonus paid in the financial year and the percentage that was forfeited because the person did not meet the performance criteria are set out below. No part of the bonus is payable in future years.

Name	Bonus paid %	Bonus forfeited %
L Spencer	50	50
J Watkins	100	-

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

Date options granted	Expiry date	Exercise price of shares	Number under option
01 Dec 2010	01 Dec 2015	$1.80	1,989,233
16 Mar 2011	16 Mar 2016	$1.80	100,000
14 Apr 2011	16 Mar 2016	$1.80	120,000
16 Dec 2011	16 Dec 2016	$2.00	3,000,000
			5,209,233

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

h) Additional information
There were no loans to directors or executives during the reporting period.
No options were exercised during the year ended 31 December 2011 (2010: Nil).

Directors' report (continued)

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

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

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

Employees

Kula Gold Group staff members as at 31 December 2011:

Position	**Kula Gold Limited**		**Woodlark Mining Limited**		**Total**	
	Male	Female	Male	Female	Male	Female
Directors (Executive)	2	-	-	-	2	-
Directors (Non-executive)	3	-	-	-	3	-
Senior executive	1	-	1	-	2	-
Other	1	2	278	29	279	31
	7	2	279	29	286	31

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

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

Non-audit services
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

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

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

Directors' report (continued)

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

	Consolidated	
	2011 **$**	2010 $
Non-audit services		
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Investigating accountants report and other services relating to initial public offering	-	491,080
Other services	-	9,496
Total remuneration for other assurance services	-	500,576
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance service	**12,450**	40,350
Other tax advice	**5,000**	-
Related practices of PricewaterhouseCoopers Australian firm	**5,512**	22,928
Total remuneration for taxation services	**22,962**	63,278
Total remuneration for non-audit services	**22,962**	563,854

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

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

Auditor
PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

David Frecker
Chairman

Lee Spencer
Director

Sydney, 27 March 2012

Auditor's Independence Declaration

As lead auditor for the audit of Kula Gold Limited for the year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
27 March 2012

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Corporate governance statement

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

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

A description of the Group's main corporate governance practices is set out below.

Details of Kula Gold's key policies and practices and charters for the board and each of its committees may be obtained from the company secretary.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The board is ultimately responsible for setting policies regarding the strategic direction and goals for the business and affairs of Kula Gold.

In discharging their duties, directors are provided direct access to and may rely upon senior management and outside advisers. The board collectively, the board committees and individual directors may seek independent professional advice at Kula Gold's expense for the purposes of the proper performance of their duties.

Role of the board

The responsibilities of the board include:

- overseeing the business and affairs of Kula Gold;
- appointing the managing director and other senior executives and determining their terms and conditions, including remuneration and termination;
- driving the strategic direction of Kula Gold, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- overseeing and reviewing the Company's occupational health and safety systems;
- approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
- approving the annual, half-yearly and quarterly accounts;
- approving significant changes to the organisational structure;
- approving the issue of any shares, options, equity instruments or other securities in Kula Gold;
- ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision-making;
- recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved; and
- meeting with external auditor, at their request, without management being present.

Role of senior executives

The board delegates day-to-day management of Kula Gold's resources to management, under the leadership of the chief executive officer, to deliver the strategic direction and goals determined by the board.

Corporate governance statement (continued)

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

Kula Gold aims to have a clear process for evaluating the performance of senior executives. The board has delegated to the remuneration and nomination committee the responsibility to arrange annually a performance evaluation of the Company's senior executives, including the chief executive officer and the chief financial officer. The evaluation will be based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Principle 2 – Structure the board to add value

It is a policy of Kula Gold that the board comprises individuals with a range of knowledge, skills and experience which are appropriate to its objectives. The composition of the board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

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

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

The board has adopted specific principles in relation to directors' independence. The board considers an independent director to be a non-executive director who is not a member of Kula Gold's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of their judgement. The board will consider the materiality of any given relationship on a case-by-case basis, having regard to both quantitative and qualitative principles.
The board currently comprises three non-executive directors and two executive directors. The chairman is a non-executive director. The current members of the board are D Frecker (Chairman), L Spencer (Executive director), J Watkins (Executive director), L Rozman and M Stowell.

D Frecker and M Stowell are considered by the board to be independent. The board considers that the existing board structure is appropriate for Kula Gold's current operations and stage of development despite the fact that it does not have a majority of independent non-executive directors.

Recommendation 2.2: The Chair should be an independent director.

Chairman

Mr D Frecker was appointed chairman of the Company for the full financial year and is considered an independent director in accordance with recommendation 2.1 of the ASX recommendations.

Recommendation 2.3: The roles of Chair and chief executive officer should not be exercised by the same individual.

The role of Chair and chief executive officer is not occupied by the same individual.

Recommendation 2.4: The board should establish a nomination committee.

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

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

It is intended that a review of the board's own performance will be conducted together with the reviews of the performance of its committees and individual directors. However, due to the size of the board and the nature of its business, it was not deemed necessary to institute a formal documented performance review program during the 2011 year.

Corporate governance statement (continued)

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a code of conduct.

The board acknowledges the need for high standards of corporate governance practice and ethical conduct by all directors and employees of Kula Gold.

The board has adopted a code of conduct which sets out Kula Gold's commitment to maintaining high levels of integrity and ethical standards in its business practices. The code of conduct sets out for all directors, management and employees the standards of behaviour expected of them.

The code of conduct sets out Kula Gold's policies on various matters, including, conflicts of interest, public and media comment, use of Kula Gold resources, security of information, intellectual property/copyright, discrimination and harassment, corrupt conduct, occupational health and safety and insider trading.

In addition to their obligations under the *Corporations Act* in relation to inside information, all directors, employees and consultants have a duty of confidentiality to Kula Gold in relation to confidential information they possess.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

The board has not yet established a formal diversity policy.

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

A formal diversity policy including measurable objectives for achieving gender diversity has not yet been adopted.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

Set out in the directors' report is the number of women employees in the whole organisation, senior positions and on the board.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1: The board should establish an audit committee.

The board has an established audit committee.

Recommendation 4.2: The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent director, who is not Chair of the board
- has at least three members

The audit committee consists of two non-executive directors both of whom are independent directors and is chaired by an independent director who is not Chair of the board. The chairman satisfies the test of independence. Due to the small composition of the board there are only 2 independent directors.

The current members of the audit committee are M Stowell (Chairman) and D Frecker.

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report.

Recommendation 4.3: The audit committee should have a formal charter.

The audit committee has a written charter defining the role and responsibility of the committee. The role of the audit committee is to assist the board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Corporate governance statement (continued)

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Kula Gold is committed to continuous disclosure of material information as a means of promoting transparency and investor confidence.

The company secretary has been nominated as the persons responsible for communications with the Australian Securities Exchange (ASX). This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to ASX.

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The board aims to ensure that shareholders are informed of all major developments affecting the Company. Shareholders are updated on the Company's operations via ASX announcements, "Quarterly Activities Reports", "Quarterly Cash Flow Reports" and other disclosure information. All ASX announcements are available on the Company's website at www.kulagold.com.au, or alternatively, by request via email, facsimile or post. In addition, a copy of the annual report will be distributed to all shareholders who elect to receive it.

Principle 7 – Recognise and manage risk

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

Kula Gold has a process for the identification, monitoring and management of risks associated with its business activities and the implementation of practical and effective control systems to manage them.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The board is responsible for ensuring that sound risk management strategy and polices are in place. The board has an established risk committee. The board has delegated to the risk committee responsibility for identifying and overseeing major risk areas and that systems are in place to manage them, and report to the board as and when appropriate.

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

The risk committee has developed and maintains a risk register which identifies the risks to the Company and its operation and assesses the likelihood of their occurrence. The risk register is updated periodically and presented to the board for its consideration at least once a year.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report back to the risk committee on whether those risks are being managed effectively.

The risk committee is comprised of three members and may include both executive and non-executive directors. The committee is chaired by a non-executive director who is not the Chair of the board.

The current members of the risk committee are L Rozman (Chairman), M Stowell and L Spencer.

Details of these directors' qualifications and attendance at risk committee meetings are set out in the directors' report.

Corporate governance statement (continued)

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (CEO or equivalent) and the chief financial officer (CFO or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Mr L Spencer (CEO) and Mr J Watkins (CFO) have made the following certifications to the board:

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

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee.

The board has an established remuneration and nomination committee. The remuneration and nomination committee has a written charter defining the role and responsibility of the committee.

Recommendation 8.2: The remuneration committee should be structured so that it:

• consists of a majority of independent directors
• is chaired by one of its members, who is not the Chair of the board
• has at least three members

The remuneration and nomination committee consists of the following non-executive directors (a majority of whom are independent): L Rozman (Chairman), M Stowell and D Frecker. Details of these directors' attendance at remuneration and nomination committee meetings are set out in the directors' report.

The role of the remuneration and nomination committee is to attend to matters relating to Kula Gold's remuneration policy to enable Kula Gold to attract and retain executives who will create value for shareholders and to oversee remuneration packages for executive directors and senior management of Kula Gold.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Each member of the senior executive team, including the two executive directors, have signed a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. Each contract sets out the remuneration of the executive, including his or her entitlements to any options under the Kula Gold Limited Option Plan.

Non-executive directors receive director's fees in agreed amounts. Each of the current non-executive directors hold options on terms approved by the ASX. These are set out in the directors' report.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "remuneration report".

Kula Gold Limited ABN 83 126 741 259
Annual report - 31 December 2011

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Financial Statements

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

Kula Gold Limited is a company limited by shares, incorporated and domiciled in Australia. The registered and principal place of business is Suite 2, Level 15, 1 York Street, Sydney, NSW 2000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 4 to 15, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 27 March 2012. The directors have the power to amend and reissue the financial statements.

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Revenue from continuing operations	5	**2,032**	370
Employee benefits expense		**(1,837)**	(811)
Professional and consulting expenses		**(1,048)**	(3,306)
Rental expense	6	**(185)**	(90)
Insurance expense		**(96)**	(46)
Foreign exchange gain/(losses)		**51**	(1,037)
Other expenses		**(271)**	(138)
Loss before income tax		**(1,354)**	(5,058)
Income tax benefit/(expense)	7	**-**	-
Loss for the year from continuing operations		**(1,354)**	(5,058)
Other comprehensive income			
Exchange differences on translation of foreign operations	17(a)	**20,251**	(7,330)
Total comprehensive income/(loss) for the year		**18,897**	(12,388)

		Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share	25	**(1.20)**	(6.40)
Diluted earnings per share	25	**(1.20)**	(6.40)

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

	Notes	Consolidated 2011 $'000	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**20,112**	48,158
Receivables and other assets	9	**863**	1,008
Inventories	10	**867**	1,101
Total current assets		**21,842**	50,267
Non-current assets			
Property, plant and equipment	11	**3,416**	2,158
Mineral exploration and evaluation expenditure	12	**115,077**	68,393
Other non-current assets	13	**107**	125
Total non-current assets		**118,600**	70,676
Total assets		**140,442**	120,943
LIABILITIES			
Current liabilities			
Trade and other payables	14	**3,715**	3,795
Total current liabilities		**3,715**	3,795
Non-current liabilities			
Provisions	15	**358**	147
Total non-current liabilities		**358**	147
Total liabilities		**4,073**	3,942
Net assets		**136,369**	117,001
EQUITY			
Contributed equity	16	**134,792**	134,792
Reserves	17(a)	**10,508**	(10,214)
Accumulated losses	17(b)	**(8,931)**	(7,577)
Total equity		**136,369**	117,001

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

		Attributable to owners of Kula Gold Limited					
	Notes	Contributed equity $'000	Share-based payments reserve $'000	Foreign currency translation reserve $'000	Total reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2010		**62,964**	**558**	**(2,025)**	**(1,467)**	**(2,519)**	**58,978**
Loss for the year		-	-	-	-	(5,058)	(5,058)
Exchange differences on translation of foreign operations	17	-	-	(7,330)	(7,330)	-	(7,330)
Total comprehensive loss for the year		**-**	**-**	**(7,330)**	**(7,330)**	**(5,058)**	**(12,388)**
Transactions with owners in their capacity as owners:							
Contributions of equity net of transaction costs	16	71,828	-	-	-	-	71,828
Share-based payments	17	-	29	-	29	-	29
Cancellation of options	17	-	(1,446)	-	(1,446)	-	(1,446)
		71,828	**(1,417)**	**-**	**(1,417)**	**-**	**70,411**
Balance at 31 December 2010		**134,792**	**(859)**	**(9,355)**	**(10,214)**	**(7,577)**	**117,001**
Balance at 1 January 2011		**134,792**	**(859)**	**(9,355)**	**(10,214)**	**(7,577)**	**117,001**
Loss for the year		-	-	-	-	(1,354)	(1,354)
Exchange differences on translation of foreign operations	17	-	-	20,251	20,251	-	20,251
Total comprehensive income for the year		**-**	**-**	**20,251**	**20,251**	**(1,354)**	**18,897**
Transactions with owners in their capacity as owners:							
Share-based payments	17	-	471	-	471	-	471
Cancellation of options	17	-	-	-	-	-	-
		-	471	-	471	-	471
Balance at 31 December 2011		**134,792**	**(388)**	**10,896**	**10,508**	**(8,931)**	**136,369**

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

	Notes	Consolidated 2011 $'000	2010 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,783)**	(4,614)
		(2,783)	(4,614)
Interest income		**1,936**	151
Net cash (outflow) inflow from operating activities	24	**(847)**	(4,463)
Cash flows from investing activities			
Payments for property, plant and equipment	11	**(1,510)**	(544)
Payments for exploration activities		**(26,082)**	(18,805)
Net cash (outflow) inflow from investing activities		**(27,592)**	(19,349)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	71,828
Payment for repurchase of share options		**-**	(1,446)
Net cash inflow (outflow) from financing activities		**-**	70,382
Net (decrease) increase in cash and cash equivalents		**(28,439)**	46,570
Cash and cash equivalents at the beginning of the financial year		**48,265**	2,614
Effects of exchange rate changes on cash and cash equivalents		**393**	(919)
Cash and cash equivalents at end of year	8	**20,219**	48,265

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

Notes to the consolidated financial statements

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1 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRS

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

Historical cost convention

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

Critical accounting estimates

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

Matters relating to the recovery of mineral exploration and evaluation expenditure

The Company believes that it has sufficient funds to settle its debts as and when they become due and payable. For future development and construction of the Woodlark Island Gold Project, located on Woodlark Island, Papua New Guinea, the Company will need to secure sufficient funding through borrowings, equity raising or other arrangements to enable sufficient cash to be available to further its development plans. The directors expect the Company will be able to secure the necessary funding through one, or a combination of, the aforementioned alternatives.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kula Gold Limited ("Company" or "Parent entity") as at 31 December 2011 and the results of all subsidiaries for the year then ended. Kula Gold Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

1 Summary of significant accounting policies (continued)

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

(e) Revenue recognition

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

(f) Income tax

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

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

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

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

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

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

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree’s net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the group’s share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

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

1 Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of six months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Investments and other financial assets

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

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

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

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

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

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

(m) Property, plant and equipment

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

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

1 Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(n) Exploration and evaluation expenditure

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

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

(ii) exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are 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 and disclosed in accordance with the group's impairment policy (note 1 (i)).

(o) Trade and other payables

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

(p) Provisions

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

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

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

1 Summary of significant accounting policies (continued)

(q) Provision for decommissioning costs

A provision is recognised for the future decommissioning and restoration of mining operations at the end of their economic lives. The timing of recognition requires the application of judgement to existing facts and circumstances, which will be subject to changes. Estimates of the amounts of provision are based on current legal and constructive requirements, technology and price levels. Because the actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of the provision is regularly reviewed and adjusted to take account of such changes.

(r) Employee benefits

(i) Short-term obligations

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

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

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

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

(s) Contributed equity

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

(t) Goods and Services Tax (GST)

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

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

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

1 Summary of significant accounting policies (continued)

(u) Rounding of amounts

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

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted earnings per share

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

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

(w) Parent entity financial information

The financial information for the parent entity, Kula Gold Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Kula Gold Limited.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(iii) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is charged to the subsidiary's loan account. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the balance sheet account, mineral and exploration expenditure (until the Company moves into the mining phase).

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The standard is not expected to have any impact on the group's accounting for financial assets when adopted as all financial assets are currently measured at amortised cost and will continue to be under AASB 9.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(ii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Kula Gold Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

(iii) AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. The new standard does however introduce a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. Given the group's composition there will be no impact on the group's financial statements on adoption of the new standard.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. As the group does not have any associates, this standard will not have any impact on its financial statements.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 31 December 2013.

(iv) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(v) AASB 1054 *Australian Additional Disclosures,* AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements* (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the group's current disclosures. The group intends to adopt the standards from 1 January 2012.

(vi) Revised AASB 119 *Employee Benefits,* AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Since Kula Gold Limited does not have any defined benefit obligations, the amendments will not have any impact on the group's financial statements.

(vii) AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 January 2013.

(viii) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

2 Financial Risk Management

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

		Consolidated		
	2011	**2011**	2010	201
	PGK	**USD**	PGK	USD
	A$'000	**A$'000**	A$'000	A$'000
Cash	**525**	**283**	1,162	426
Payables	**(640)**	**-**	(849)	(110)
Net exposure	**(115)**	**283**	313	316

Foreign currency sensitivity analysis
The Group is exposed to movements in United States dollars and Papua New Guinea Kina. The following table details the Group's sensitivity to a 10% increase and a 10% decrease in the Australian dollar against the relevant currencies:

	Consolidated	
	2011	2010
	$'000	$'000
Impact on post-tax loss		
AUD increase against foreign currencies	**(53)**	(228)
AUD decrease against foreign currencies	**53**	276

(ii) Interest rate risk

The Group's main interest rate risk arises from cash and cash equivalents. The Group does not have any borrowings from external counterparties.

Group sensitivity
At 31 December 2011, the Group's exposure to interest rates is not deemed to be material to its primary activities and the interest is generally fixed.

2 Financial Risk Management (continued)

b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures in respect of outstanding receivables. The Group has no significant concentrations of credit risk.

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

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

(c) Liquidity risk

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

The Group does not have any borrowing facilities in place at the reporting date.

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

Contractual maturities of financial liabilities

At 31 December 2011	**Less than 6 months $'000**	**6 - 12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying Amount liabilities $'000**
Trade and other payables	3,715	-	-	-	-	3,715	3,715
Total non-derivatives	**3,715**	**-**	**-**	**-**	**-**	**3,715**	**3,715**

At 31 December 2010	**Less than 6 months $'000**	**6 - 12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying Amount liabilities $'000**
Trade and other payables	3,795	-	-	-	-	3,795	3,795
Total non-derivatives	**3,795**	**-**	**-**	**-**	**-**	**3,795**	**3,795**

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature.

3 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.
The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Area of interest

The Group currently holds three exploration licences and the sites under the three licences are in close proximity to each other. The current assessment is that should the Group decide to commercially develop and mine the reserves in these three exploration areas it will set up a central processing plant to process ore mined from these three sites. Accordingly, all three exploration licensed areas are considered as one area of interest for the purpose of applying the policy on exploration and evaluation expenditures.

ii) *Mineral Exploration and evaluation expenditure*

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether economically viable extraction operations can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to profit or loss.

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

iii) Functional currency

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

4 Segment information

During the year the Group operated predominantly in one business segment, being gold mining exploration. Geographically, the Group operates exclusively in two geographical segments being Papua New Guinea and an office maintained in Australia. Segment accounting policies are the same as the Group's policies described in Note 1. Segment results are classified in accordance with the location of the business activity within geographic segments:

2011	**Australia $'000**	**Papua New Guinea $'000**	**Eliminations $'000**	**Total $'000**
Revenue				
Interest income	2,015	17	-	2,032
Management fees	2,120	-	(2,120)	-
Total segment revenue	**4,135**	**17**	**(2,120)**	**2,032**
Results				
Operating profit/(loss) before income tax	806	1,090	(3,250)	(1,354)
Income tax expense	-	-	-	-
Net profit/(loss) after tax	**806**	**1,090**	**(3,250)**	**(1,354)**
Included within segment results	**806**	**1,090**	**(3,250)**	**(1,354)**
Depreciation and amortisation of segment assets	**34**	**-**	**-**	**34**
Segment assets	**134,280**	**127,957**	**(121,795)**	**140,442**
Segment liabilities	**3,829**	**3,665**	**(3,421)**	**4,073**

2010	**Australia $'000**	**Papua New Guinea $'000**	**Eliminations $'000**	**Total $'000**
Revenue				
Interest income	362	8	-	370
Management Fees	899	-	(899)	-
Total segment revenue	**1,261**	**8**	**(899)**	**370**
Results				
Operating profit/(loss) before income tax	(3,773)	(276)	(1,009)	(5,058)
Income tax expense	-	-	-	-
Net profit/(loss) after tax	**(3,773)**	**(276)**	**(1,009)**	**(5,058)**
Included within segment results	**(3,773)**	**(276)**	**(1,009)**	**(5,058)**
Depreciation and amortisation of segment assets	**11**	**-**	**-**	**11**
Segment assets	**129,680**	**75,684**	**(84,422)**	**120,943**
Segment liabilities	**506**	**13,549**	**(10,113)**	**3,942**

The total of non-current assets located in Australia is $114,257,195 (2010: $72,132,031) and Papua New Guinea $122,716,469 (2010: $72,661,688). Segment assets are allocated to countries where the assets are located.

5 Revenue

	Consolidated	
	2011	2010
	$'000	$'000
Revenue from continuing operations		
Interest income	**2,032**	370
	2,032	370

6 Expenses

	Consolidated	
	2011	2010
	$'000	$'000
Loss before income tax includes the following specific expenses		
Depreciation		
Buildings	**29**	18
Plant and equipment	**361**	183
Furniture and fittings	**43**	23
Motor vehicle and boats	**279**	191
Less: Capitalised to mineral exploration and evaluation expenditure	**(678)**	(404)
Total depreciation	**34**	11
Amortisation		
Exploration licence	**-**	13
Less: Capitalised to mineral exploration and evaluation expenditure	**-**	(13)
Total amortisation	**-**	-
Total depreciation and amortisation	**34**	11
Rental expense relating to operating leases		
Minimum lease payments	**185**	90
Options issued under Kula Gold Limited Option Plan	**471**	29
Less: Capitalised to mineral exploration and evaluation expenditure	**(60)**	-
Employee option expense	**411**	29

7 Income tax (benefit)/expense

	Consolidated	
	2011	2010
	$'000	$'000
(a) Income tax expense		
Current tax	**-**	-
Deferred tax	**-**	-
	-	-
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase) in deferred tax assets	**-**	-
	-	-

	2011	2010
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	**(1,354)**	(5,058)
Tax at the Australian tax rate of 30% (2010: 30%)	**(406)**	(1,517)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**123**	9
ASX listing costs	**-**	745
Management fees (elimination)	**636**	270
Unrealised foreign exchange variances	**1**	65
Sundry items	**49**	68
Prior year losses utilised	**(403)**	-
Income tax benefit not recognised	**-**	360
Total income tax expense	**-**	-

	2011	2010
(c) Tax losses		
Australian unused tax losses for which no deferred tax asset has been recognised	**38**	1,381
Potential tax benefit at the Australian tax rate of 30% (2010: 30%)	**11**	414

Benefits for tax losses will only be obtained if:
(i) the consolidated entity derives future Australian assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

	2011	2010
(d) Unrecognised temporary differences		
Temporary differences for which deferred tax asset has not been recognised due to there being no virtual certainty of the Group being profitable:		
Employee provision	**36**	17
Share-based payment	**123**	9
Sundry items	**8**	74
	167	100

	2011	2010
(e) Tax on exploration expenditure in Woodlark Mining Limited (Papua New Guinea)		
Exploration expenditure for which no deferred tax asset has been recognised	**115,077**	68,393
Potential tax benefit at the Papua New Guinea tax rate of 30% (2010: 30%)	**34,523**	20,518

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

7 Income tax (benefit)/expense (continued)

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

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

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

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

8 Current assets - Cash and cash equivalents

	Consolidated	
	2011	2010
	$'000	$'000
Cash at bank and in hand	**1,813**	8,158
Short-term deposits*	**18,299**	40,000
	20,112	48,158

Reconciliation to consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:		
Cash at bank and in hand	**1,813**	8,158
Short-term deposits*	**18,299**	40,000
Non-current assets – deposits (Note 13)	**107**	107
	20,219	48,265

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

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

9 Current assets – Receivables

	Consolidated	
	2011	2010
	$'000	$'000
Goods & services tax receivable	**38**	369
Prepayment and other receivables	**825**	639
	863	1,008

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

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

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

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

10 Current assets – Inventories

	Consolidated	
	2011	2010
	$'000	$'000
Inventory: Consumables	**867**	1,101
	867	1,101

11 Non-current assets - Property, plant and equipment

	Consolidated				
	Buildings	**Plant and equipment**	**Furniture and fittings**	**Motor vehicles and boats**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
At 1 January 2010					
Cost	571	1,786	95	780	3,232
Accumulated depreciation	(43)	(298)	(23)	(468)	(832)
Net book amount	528	1,488	72	312	2,400
Year ended 31 December 2010					
Opening net book amount	528	1,488	72	312	2,400
Additions	82	217	68	177	544
Depreciation charge	(18)	(183)	(23)	(191)	(415)
Exchange differences	(60)	(223)	(5)	(83)	(371)
Closing net book amount	532	1,299	112	215	2,158
At 31 December 2010					
Cost	593	1,780	158	874	3,405
Accumulated depreciation	(61)	(481)	(46)	(659)	(1,247)
Net book amount	**532**	**1,299**	**112**	**215**	**2,158**
Year ended 31 December 2011					
Opening net book amount	532	1,299	112	215	2,158
Additions	90	921	40	459	1,510
Depreciation charge	(29)	(361)	(43)	(279)	(712)
Exchange differences	127	251	7	75	460
Closing net book amount	720	2,110	116	470	3,416
At 31 December 2011					
Cost	820	3,171	209	1,459	5,659
Accumulated depreciation	(100)	(1,061)	(93)	(989)	(2,243)
Net book amount	**720**	**2,110**	**116**	**470**	**3,416**

Total depreciation charge for the year is $711,537 (2010: $415,112) of which $677,634 (2010: $404,254) has been capitalised under exploration and evaluation expenditure (note 12) in accordance with the Group's accounting policy.

12 Non-current assets – Mineral exploration and evaluation expenditure

	Consolidated		
	Exploration licences	**Deferred exploration expenditure**	**Total**
	$'000	**$'000**	**$'000**
At 1 January 2010			
Cost	9,535	54,852	64,387
Accumulated amortisation	(9,506)	-	(9,506)
Net book amount	29	54,852	54,881
Year ended 31 December 2010			
Opening net book amount	29	54,852	54,881
Exchange differences	(9)	(6,922)	(6,931)
Additions	-	20,456	20,456
Amortisation charge	(13)	-	(13)
Closing net book amount	7	68,386	68,393
At 31 December 2010			
Cost	9,526	68,386	77,912
Accumulated amortisation	(9,519)	-	(9,519)
Net book amount	7	68,386	68,393
Year ended 31 December 2011			
Opening net book amount	7	68,386	68,393
Exchange differences	1	18,057	18,058
Additions	-	28,626	28,626
Amortisation charge	-	-	-
Closing net book amount	8	115,069	115,077
At 31 December 2011			
Cost	8	115,069	115,077
Accumulated amortisation	-	-	-
Net book amount	**8**	**115,069**	**115,077**

The recoverability of the carrying amount of the mineral exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

13 Non-current assets - Other non-current assets

	Consolidated	
	2011	2010
	$'000	$'000
Deposits	**107**	107
Other	**-**	18
	107	125

14 Current liabilities - Trade and other payables

	Consolidated	
	2011	2010
	$'000	$'000
Trade payables	**3,160**	3,514
Other payables and accruals	**555**	281
	3,715	3,795

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

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

	Consolidated	
	2011	2010
	$'000	$'000
Annual leave obligation expected to be settled after 12 months	**119**	41
	119	41

(b) Risk exposure

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

15 Non-current liabilities - Provisions

	Consolidated	
	2011	2010
	$'000	$'000
Provision for long service leave	**162**	-
Provision for rehabilitation	**196**	147
	358	147

(a) Movements in provisions

Movements in the provision for rehabilitation during the financial year are set out below:

	Consolidated	
	2011	2010
Provision for rehabilitation	**$'000**	$'000
Carrying amount at the start of the period	**147**	116
- additional provisions recognised	**14**	42
- exchange differences	**35**	(11)
Carrying amount at the end of the period	**196**	147

16 Contributed equity

	Parent entity		Parent entity	
	2011 Shares	2010 Shares	**2011 $'000**	2010 $'000
(a) Share capital				
Ordinary shares	**112,615,523**	112,615,523	**134,792**	141,552
Ordinary shares Class A	**-**	-	**-**	-
Ordinary shares Class B	**-**	-	**-**	-
Class Z shares - US$1 each	**-**	-	**-**	-
Special shares Class Z - US$1 each	**-**	-	**-**	-
Less: Transaction costs	**-**	-	**-**	(6,760)
	112,615,523	112,615,523	**134,792**	134,792

(b) Movements in share capital:

Date	**Details**	**Number of shares**	**Issue price US$**	**Issue price $**	**Total $'000**
01 January 2010	Opening balance	53,080	-	-	62,964
26 February 2010	Issue of class A shares	1,252	1,700	1,888	2,364
26 February 2010	Issue of class B shares	1,690	1,700	1,861	3,144
30 June 2010	Issue of class A shares	1,063	2,000	2,355	2,503
30 June 2010	Issue of class B shares	1,437	2,000	2,287	3,286
31 August 2010	Issue of class A shares	1,170	2,000	2,231	2,610
31 August 2010	Issue of class B shares	1,580	2,000	2,231	3,524
20 September 2010	Issue of class A shares	288	2,000	2,315	667
20 September 2010	Issue of class B shares	390	2,000	2,315	903
04 November 2010	Transfer from ordinary shares- Class A following consolidation/reclassification	(61,950)	-	-	-
04 November 2010	Share split (refer to note c)	80,393,300	-	-	-
18 November 2010	Issue of new shares	32,222,223	-	1.80	58,000
	Less: Transaction costs arising on share issue	-	-	-	(5,173)
31 December 2010	**Balance**	**112,615,523**	**-**	**-**	**134,792**
No movement for the financial year ending 31 December 2011		-	-	-	-
31 December 2011	**Balance**	**112,615,523**	**-**	**-**	**134,792**

(c) Ordinary shares

On 4 November 2010:

- all of the issued B Ordinary Shares were reclassified as A Ordinary Shares on the basis of one A Ordinary Share for one B Ordinary Share;
- all of the issued Z Class Special Shares were reclassified as Z Class Shares on the basis of one Z Class Share for one Z Class Special Share;
- all of the issued Z Class Shares in the Company were consolidated into one Z Class Share;
- the one Z Class Share were reclassified as an A Ordinary Share on the basis of one Z Class Share for one A Ordinary Share;
- all of the issued A Ordinary Shares were reclassified as Ordinary Shares on the basis of one A Ordinary Share for one Ordinary Share;
- and the 61,841 Ordinary Shares on issue following the above reclassifications were subdivided on a 1 to 1300 basis into 80,393,300 Ordinary Shares.

16 Contributed equity (continued)

(c) Ordinary shares (continued)

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to, one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 26.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the directors may decide to restrict dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to provide additional cash resources.

17 Reserves and accumulated losses

	Consolidated	
	2011	2010
(a) Reserves	**$'000**	$'000
Share-based payments reserve	**(388)**	(859)
Foreign currency translation reserve	**10,896**	(9,355)
	10,508	(10,214)
Movements:		
Share-based payments reserve		
Balance 1 January	**(859)**	558
Option expense	**471**	29
Cancellation of options	**-**	(1,446)
Balance 31 December	**(388)**	(859)
Foreign currency translation reserve		
Balance 1 January	**(9,355)**	(2,025)
Currency translation differences arising during the year	**20,251**	(7,330)
Balance 31 December	**10,896**	(9,355)

	Consolidated	
	2011	2010
(b) Accumulated losses	**$'000**	$'000
Balance 1 January	**(7,577)**	(2,519)
Net loss for the year	**(1,354)**	(5,058)
Balance 31 December	**(8,931)**	(7,577)

17 Reserves and accumulated losses (continued)

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 to employees but not exercised.

(ii) Foreign currency translation reserve

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

18 Key management personnel disclosures

(a) Directors and other key management personnel

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

(i) Chairman - non-executive
D Frecker

(ii) Executive directors
L Spencer, Managing director and chief executive officer
J Watkins, Executive director and chief financial officer

(iii) Non-executive directors
L Rozman
P Bradford (resigned 30 June 2011)
M Stowell

iv) Other key management personnel
T Mulroney (resigned 31 August 2011)

(b) Key management personnel compensation

	Consolidated	
	2011	2010
	$	$
Short-term employee benefits	**1,245,524**	579,196
Post-employment benefits	**52,350**	105,509
Long-term benefits	**49,886**	-
Share-based payments	**431,346**	27,153
	1,779,106	711,858

Detailed remuneration disclosures are provided in the remuneration report on pages 8 to 13.

18 Key management personnel disclosures (continued)

(c) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options over ordinary shares in the Company provided as remuneration to each director of Kula Gold Limited and other key management personnel during the period ended 31 December 2011 and 2010 are set out below. When exercisable, each option is convertible into one ordinary share of Kula Gold Limited. Further information on the options is set out in note 26.

The following options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2011:

Name	Granted Number	Grant Date	Vested Number	Forfeited In Year	Expiry Date	Exercise Price	Fair Value At Grant Date
L Spencer *	750,000	16 Dec 2011	750,000	-	16 Dec 2016	$2.00	$45,000
L Spencer **	750,000	16 Dec 2011	-	-	16 Dec 2016	$2.00	$45,000
J Watkins *	750,000	16 Dec 2011	750,000	-	16 Dec 2016	$2.00	$45,000
J Watkins **	750,000	16 Dec 2011	-	-	16 Dec 2016	$2.00	$45,000
T Mulroney	300,000	13 Jan 2011	-	(300,000)	13 Jan 2016	$1.80	$96,000

* Options vest on 16 December 2011.
** Options vest on 16 November 2012.

The following factors were used in determining the fair value of options on grant date:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
L Spencer *	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
L Spencer **	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
J Watkins *	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
J Watkins **	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
T Mulroney	300,000	13 Jan 2016	$0.32	$1.80	$1.70	30%	5.28%

* Options vest on 16 December 2011.
** Options vest on 16 November 2012.

Expected life in valuing options was two years.

18 Key management personnel disclosures (continued)

(i) Options provided as remuneration (continued)

The following options were granted as remuneration to key management personnel of the Group during the year ended 31 December 2010:

Name	Granted Number	Grant Date	Vested Number	Forfeited In Year	Expiry Date	Exercise Price	Fair Value At Grant Date
D Frecker	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000
L Spencer	1,126,155	01 Dec 2010	-	-	01 Dec 2015	$1.80	$349,109
J Watkins	563,078	01 Dec 2010	-	-	01 Dec 2015	$1.80	$174,555
L Rozman	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000
P Bradford	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000
M Stowell	100,000	01 Dec 2010	-	-	01 Dec 2015	$1.80	$41,000

The following factors were used in determining the fair value of options on grant date:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
D Frecker	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
L Spencer	1,126,155	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
J Watkins	563,078	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
L Rozman	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
P Bradford	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%
M Stowell	100,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%

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

The assessed fair value at grant date of options granted to key management personnel is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the expected life of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the expected life of the option. The expected volatility reflects the assumption that the current volatility during the time of issue is indicative of further trends, which may not necessarily be the actual outcome. The expected life of the options has been determined as two years based upon the expected date of the Papua New Guinea Mineral Resource Authority issuing a mining licence for the Woodlark mining project.

(ii) Shares provided on exercise of remuneration options

No options were exercised during the period ended 31 December 2011 (2010: Nil).

18 Key management personnel disclosures (continued)

(iii) Option holdings

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

2011 - Options

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes *	Balance at end of the year	Vested and exercisable	Unvested
Directors of Kula Gold Limited							
D Frecker	100,000	-	-	-	100,000	-	100,000
L Spencer	1,126,155	1,500,000	-	-	2,626,155	750,000	1,876,155
J Watkins	563,078	1,500,000	-	-	2,063,078	750,000	1,313,078
L Rozman	100,000	-	-	-	100,000	-	100,000
M Stowell	100,000	-	-	-	100,000	-	100,000
Former director							
P Bradford (resigned 30 June 2011)	100,000	-	-	(100,000)	-	-	-
Other key management personnel							
T Mulroney (resigned 31 August 2011)	-	300,000	-	(300,000)	-	-	-

* Other changes represent options forfeited during the period.

All vested options are exercisable.

2010 - Options

Name	Balance at start of the year #	Granted as compensation	Exercised	Other changes *	Balance at end of the year	Vested and exercisable	Unvested
Directors of Kula Gold Limited							
D Frecker	-	100,000	-	-	100,000	-	100,000
L Spencer	740	1,126,155	-	(740)	1,126,155	-	1,126,155
J Watkins	370	563,078	-	(370)	563,078	-	563,078
L Rozman	-	100,000	-	-	100,000	-	100,000
P Bradford	-	100,000	-	-	100,000	-	100,000
M Stowell	-	100,000	-	-	100,000	-	100,000
Former director							
R Perkes	95	-	-	(95)	-	-	-

These options were issued prior to the capital re-organisation – refer Note 16(c).

* Other changes represent options cancelled during the period.

18 Key management personnel disclosures (continued)

(iv) Share holdings

The numbers of shares in the Company held during the financial year by each director of Kula Gold Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011 – Ordinary shares

Name	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year*	Balance at the end of the year
Directors of Kula Gold Limited					
D Frecker	10,000	-	-	-	10,000
L Spencer	542,370	-	-	-	542,370
L Rozman	359,023	-	-	-	359,023
J Watkins	275,600	-	-	14,400	290,000
M Stowell	25,000	-	-	-	25,000
Former directors					
P Bradford (resigned 30 June 2011)	432,900	-	-	-	432,900

* Other changes for J Watkins represent shares purchased on market.

2010 – Ordinary shares

Name	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year*	Balance at the end of the year
Directors of Kula Gold Limited					
D Frecker	-	-	-	10,000	10,000
L Spencer	463	-	-	541,907	542,370
L Rozman	-	-	-	359,023	359,023
J Watkins	87	-	-	275,513	275,600
P Bradford	285	-	-	432,615	432,900
M Stowell	-	-	-	25,000	25,000
Former directors					
A Vogel (resigned 16 September 2010)	-	-	-	-	-
R Perkes (resigned 16 September 2010)	-	-	-	-	-

* Other changes for D Frecker and M Stowell represent shares purchased on market.
* Other changes for L Rozman represent shares acquired at the Offer Price under the Offer.
* Other changes for L Spencer, J Watkins and P Bradford represent shares subscribed and adjustments on capital reorganisation refer Note 16(c).

(d) Loans and other transactions with key management personnel

There were no loans made to directors and other key management personnel during the reporting period (2010: $nil).

Other transactions with directors and other key management personnel are disclosed in note 22.

19 Remuneration of auditors

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

	Consolidated	
	2011	2010
	$	$
(a) PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	**120,000**	80,000
Non-statutory audit and review of financial statements	**-**	69,000
Other assurance services:		
Investigating accountants report and other services relating to IPO	**-**	491,080
Other assurance services	**-**	9,496
Total remuneration for audit and other assurance services	**120,000**	649,576
Taxation services		
Tax compliance services	**12,450**	40,350
Other tax advice	**5,000**	-
Total remuneration for taxation services	**17,450**	40,350
Total remuneration of PricewaterhouseCoopers Australia	**137,450**	689,926
(b) Related practices of PricewaterhouseCoopers Australia		
Audit and other assurance services		
Statutory audit and review of financial statements	**49,834**	51,820
Non-statutory audit and review of financial statements	**-**	50,944
Total remuneration of audit and other assurance services	**49,834**	102,764
Taxation services		
Tax compliance services	**5,512**	22,928
Total remuneration for taxation services	**5,512**	22,928
Total remuneration of related practices of PricewaterhouseCoopers Australia	**55,346**	125,692

20 Contingencies

The Group had no contingent assets or liabilities at 31 December 2011 (2010: $nil).

21 Commitments

	Consolidated	
	2011	2010
	$'000	$'000
(a) Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**192**	165
Later than one year but not later than five years	**655**	763
Later than five years	**-**	-
	847	928

The Group leases office space and a warehouse under non-cancellable operating leases. On renewal, the terms of the lease are renegotiated. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

(b) Service commitments		
Commitments for minimum service payments in relation to drilling services, air charter, barge charter and aerial survey are payable as follows:		
Within one year	**47**	7,359
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	47	7,359

22 Related party transactions

(a) Subsidiaries

Details of the interest in the subsidiary are set out in note 23.

(b) Key management personnel compensation

Details of key management personnel remuneration are disclosed in note 18 and the remuneration report section of the directors' report.

(c) Transactions with other related parties

The following transactions occurred with related parties during the year ending 31 December 2011:

- Consulting fees paid to Goldkidz Pty Ltd for services of P Bradford as a director of the parent entity $25,000.
- Consulting fees paid to Pacific Road Capital Management Pty Ltd for services of L Rozman as a director of the parent entity $50,000.
- Fees paid to Pacific Road Capital Management Pty Ltd for facilitation of the 2010 share capital raisings $121,018.
- Fees paid to Ashurst Australia (formerly Blake Dawson) for legal fees $12,425.
- Consulting fees paid to PACT Mining Pty Ltd for the services of T Mulroney $392,399.

The following transactions occurred with related parties during the year ending 31 December 2010:

- Consulting fees paid to Capala Holdings Limited for services of R Perkes as a director of the parent entity $31,500.
- Consulting fees paid to Goldkidz Pty Ltd for services of P Bradford as a director of the parent entity $39,500.
- Fees paid / payable to Pacific Road Capital Management Pty Ltd for facilitation of share capital raisings $344,439.
- Fees paid / payable to RMB Resources for facilitation of share capital raisings $120,424.
- Fees paid / payable to Meratus Minerals Limited for facilitation of share capital raisings $13,409.
- Fees paid / payable to P and V Bradford for facilitation of share capital raisings $2,600.
- Fees paid to Blake Dawson for legal fees $1,141,591.

23 Subsidiary

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

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**	
			2011 %	2010 %
Woodlark Mining Limited	Papua New Guinea	Ordinary	**100**	100

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

	Consolidated	
	2011 $'000	2010 $'000
Loss for the year	**(1,354)**	(5,058)
Depreciation and amortisation	**34**	11
Non-cash employee benefits expense – share-based payments	**411**	29
Net exchange differences	**(448)**	(322)
Change in operating assets and liabilities:		
(Increase) decrease in receivables	**145**	(789)
(Increase) decrease in inventories	**234**	(807)
(Increase) decrease in deferred tax assets	**-**	-
(Decrease) increase in trade and other payables	**131**	2,473
(Decrease) increase in provision for income taxes payable	**-**	-
Net cash inflow (outflow) from operating activities	**(847)**	(4,463)

25 Earnings per share

	Consolidated	
	2011 Cents	2010 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**(1.20)**	(6.40)
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**(1.20)**	(6.40)

	Consolidated	
	2011	2010
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**112,615,523**	79,083,830
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**112,615,523**	79,083,830

(d) Information concerning the classification of securities

(i) Options
Options granted to employees under the Kula Gold Limited Option Plan and to non-executive directors are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 26.

26 Share-based payments

(a) (i) Employee option plan

The Kula Gold Limited Option Plan (Plan) is designed to provide long-term incentives for executives (including executive directors) and senior employees to deliver long-term shareholder returns. Participation in the Plan is at the board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

Options were granted under the Plan for no consideration.

Options granted under the Plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on market value.

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

2011

Name	Grant date	Expiry date	Issue price	Assessed fair value at date of grant	Number of options granted
L Spencer	16 Dec 2011	16 Dec 2016	$0.06	$45,000	750,000
L Spencer	16 Dec 2011	16 Dec 2016	$0.06	$45,000	750,000
J Watkins	16 Dec 2011	16 Dec 2016	$0.06	$45,000	750,000
J Watkins	16 Dec 2011	16 Dec 2016	$0.06	$45,000	750,000
T Mulroney	13 Jan 2011	13 Jan 2016	$0.32	$96,000	300,000
Other employees	16 Mar 2011	16 Mar 2016	$0.29	$58,000	200,000
Other employees	14 Apr 2011	16 Mar 2016	$0.43	$51,600	120,000
Total				$385,600	3,620,000

2010

Name	Grant date	Expiry date	Issue price	Assessed fair value at date of grant	Number of options granted
L Spencer	01 Dec 2010	01 Dec 2015	$0.31	$349,109	1,126,155
J Watkins	01 Dec 2010	01 Dec 2015	$0.31	$174,555	563,078
Total				$523,664	1,689,233

26 Share-based payments (continued)

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

Pursuant to the decision of the board on 29 September 2010 a total of 400,000 options were granted to Kula Gold non-executive directors.

Options were granted for no consideration.

Options carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on market value. The options will only vest and become exercisable after either of the following events:

1. the Company's Woodlark Island gold project (Project) reaches commercial production as determined by the pour of the first gold from the Project or,
2. there is a change of control of the Company.

Set out below are summaries of options granted to non-executive directors:

2011

No options were granted to non-executive directors for the year ending 31 December 2011.

2010

Name	Grant date	Expiry date	Issue price	Assessed fair value at date of grant	Number of options granted
D Frecker	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
L Rozman	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
P Bradford	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
M Stowell	01 Dec 2010	01 Dec 2015	$0.41	$41,000	100,000
Total				$164,000	400,000

26 Share-based payments (continued)

(b) Options granted under the Plan

2011

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
01 Dec 2010	01 Dec 2015	$1.80	2,089,233	-	-	(100,000)	1,989,233	-
13 Jan 2011	13 Jan 2016	$1.80	-	300,000	-	(300,000)	-	-
16 Mar 2011	16 Mar 2016	$1.80	-	200,000	-	(100,000)	100,000	-
14 Apr 2011	16 Mar 2016	$1.80	-	120,000	-	-	120,000	-
16 Dec 2011	16 Dec 2016	$2.00	-	3,000,000	-	-	3,000,000	1,500,000
Total			2,089,233	3,620,000	-	(500,000)	5,209,233	1,500,000
Weighted average exercise price			$1.80	$1.97			$1.92	

2010

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
03 Apr 2009	07 Dec 2013	US$1,000	95	-	-	(95)	-	-
09 Dec 2008	07 Dec 2013	US$1,000	740	-	-	(740)	-	-
09 Dec 2008	29 Jan 2014	US$1,000	370	-	-	(370)	-	-
01 Dec 2010	01 Dec 2015	$1.80	-	2,089,233	-	-	2,089,233	-
Total			1,205	2,089,233	-	(1,205)	2,089,233	-
Weighted average exercise price			US$1,000	$1.80			$1.80	

No options expired during the periods covered by the tables above.

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.5 years (2010: 5 years).

Fair value of options granted
The assessed fair value at grant date of options granted to key management personnel is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the expected life of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the expected life of the option. The expected volatility reflects the assumption that the current volatility during the time of issue is indicative of further trends, which may not necessarily be the actual outcome. The expected life of the options has been determined as two years based upon the expected date of the Papua New Guinea Mineral Resource Authority issuing a mining licence for the Woodlark mining project.

Where options are issued to employees of subsidiaries within the Group, the subsidiaries compensate Kula Gold Limited for the amount recognised as expense in relation to these options.

26 Share-based payments (continued)

(b) Options granted under the Plan (continued)

Model inputs used in determining the fair value of options granted during the year ended 31 December 2011:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
L Spencer *	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
L Spencer **	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
J Watkins *	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
J Watkins **	750,000	16 Dec 2016	$0.06	$2.00	$1.09	37%	3.24%
T Mulroney	300,000	13 Jan 2016	$0.32	$1.80	$1.70	30%	5.28%
Other employees	200,000	16 Mar 2016	$0.29	$1.80	$1.65	30%	5.10%
Other employees	120,000	16 Mar 2016	$0.43	$1.80	$1.86	30%	5.36%

* Options vest on 16 December 2011.
** Options vest on 16 November 2012.

Options were granted for no consideration and vest based on terms detailed in the Kula Gold Limited Option Plan. Options vest on 16 November 2012 except for the options granted to Lee Spencer and John Watkins which vested on 16 December 2011.

The following factors were used in determining the fair value of options granted during the year ended 31 December 2010:

Name	Granted Number	Expiry Date	Fair Value Per Option	Exercise Price	Price Of Shares On Grant Date	Expected Volatility	Interest Rate
Executive directors	1,689,233	01 Dec 2015	$0.31	$1.80	$1.68	30%	5.33%
Non-executive directors	400,000	01 Dec 2015	$0.41	$1.80	$1.68	30%	5.33%

Options were granted to executive directors for no consideration and vest based on terms detailed in the Kula Gold Limited Option Plan. These options will vest on 16 November 2012.

Options granted to non-executive directors will only vest and become exercisable after either of the following events:

1. the Company's Woodlark island gold project (Project) reaches commercial production, which is assumed to be on 31 December 2013, as determined by the pour of the first gold from the Project or,
2. there is a change of control of the Company.

(c) Expenses arising from share-based payment transactions

	Consolidated 2011 $'000	Consolidated 2010 $'000
Options issued under Kula Gold Limited Option Plan	**471**	29
	471	29

27 Parent entity financial information

(a) Summary financial information

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

	Parent entity	
Balance sheet	**2011**	2010
	$'000	$'000
Current assets	20,023	57,656
Total assets	**134,280**	129,680
Current liabilities	3,771	506
Total liabilities	**3,829**	506
Net Assets	**130,451**	129,174
Shareholders' equity		
Contributed equity	134,792	134,792
Share-based payment reserve	(388)	(859)
Accumulated losses	(3,953)	(4,759)
Total equity	**130,451**	129,174
Profit/(Loss) for the year	**806**	(3,773)
Total comprehensive profit/(loss)	**806**	(3,773)

(b) Guarantees entered into by the parent entity

The parent entity has provided an unconditional bank guarantee to the lessor of Suite 2, Level 15, 1 York Street, Sydney in respect of a lease agreement which amounts to $107,286 (2010: $107,286).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2011 (31 December 2010: $nil). For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity had no contractual commitments for the acquisition of property, plant and equipment as at 31 December 2011 (31 December 2010: $nil).

In the directors' opinion:

(a) the financial statements and notes set out on pages 22 to 61 are in accordance with the *Corporations Act 2001,* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the financial year ended on that date, and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

David Frecker
Chairman

Lee Spencer
Director

Sydney
27 March 2012

Independent auditor's report to the members of Kula Gold Limited

Report on the financial report

We have audited the accompanying financial report of Kula Gold Limited (the company), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Kula Gold Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
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pwc

Auditor's opinion

In our opinion:

(a) the financial report of Kula Gold Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 13 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Kula Gold Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
27 March 2012

Additional Information

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in the report is as follows:

In accordance with ASX listing rule 4.10.19 the Company confirms that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX in a way consistent with its business objectives.

The shareholder information set out below was applicable as at 23 March 2012.

Ordinary share capital

As at 23 March 2012, the issued capital comprised of 92,200,707 ordinary fully paid shares (quoted) and 20,414,816 ordinary fully paid shares (not quoted) held by 5 holders**.**

Distribution of equity securities

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

	Ordinary shares		Options	
Holding	**Number of Holders**	**Number of Shares**	**Number of Holders**	**Number of options**
1 to 1,000	66	42,389	-	-
1,001 to 5000	155	423,718	-	-
5,001 to 10,000	96	755,667	-	-
10,001 to 100,000	115	3,311,001	6	520,000
100,000 and over	39	108,082,748	2	4,689,233
	471	112,615,523	8	5,209,233

There were 16 holders of less than a marketable parcel of shares.

Restricted securities

The Company has the following number and class of restricted securities on issue.

Class	**Number of ordinary shares**	**Date escrow period ends**
Mandatory restricted securities		
Fully paid ordinary shares	20,414,816	16-Nov-12
Voluntary escrowed securities		
Fully paid ordinary shares	25,534,039	16-Nov-12

Additional Information (continued)

Unquoted options

a) Employee option plan – there are 4,909,233 unquoted options on issue held by 5 employees or contractors.

Option holder	Number of Options	Percentage
LK & AS Spencer	2,626,155	50.41
JDW Investments Australia Pty Ltd	2,063,078	39.60
	4,689,233	90.01

b) Other unlisted options

Option holder	Number of Options	Percentage
DC Frecker & JM Frecker ATF The GEO Superannuation Fund	100,000	33.33
Pacific Road Capital Management Holdings Pty Ltd	100,000	33.33
Merchant Holdings Pty Ltd ATF The Zulu Family Trust	100,000	33.33
	300,000	100.00

Twenty largest holders of issued equity securities

No.	Shareholder	Ordinary shares	
		Number held	Percentage of issued shares
1	Pacific Road Holdings NV	39,156,661	34.77
2	RMB Resources Limited	16,663,253	14.80
3	National Nominees Limited	13,288,078	11.80
4	HSBC Custody Nominees (Australia) Limited	9,951,311	8.84
5	JP Morgan Nominees Australia Limited	5,069,926	4.50
6	Pacific Road Capital B Pty Ltd	4,850,936	4.31
7	Pacific Road Capital A Pty Ltd	4,850,936	4.31
8	Credit Suisse Securities (Europe) Ltd	1,760,000	1.56
9	Citicorp Nominees Pty Ltd	1,536,923	1.36
10	UBS Nominees Pty Ltd	1,351,629	1.20
11	AMP Life Limited	1,187,575	1.05
12	Escor Investments Pty Ltd	800,000	0.71
13	Mr GN & JD Mantle	695,593	0.62
14	Mr SA Zychewicz	605,000	0.54
15	Mr LK & AS Spencer	542,370	0.48
16	Cogent Nominees Pty Ltd	449,355	0.40
17	Mr PJ & VA Bradford	432,900	0.38
18	Mr CE Watson	408,636	0.36
19	Merrill Lynch (Australia) Nominees Pty Limited	396,822	0.35
20	JDW Investments Australia Pty Ltd	310,000	0.28
	Total	104,307,904	92.62

Additional Information (continued)

Twenty largest holders of quoted equity securities

No.	Shareholder	Ordinary shares Number held	Percentage of quoted shares
1	Pacific Road Holdings NV	19,406,573	21.05
2	RMB Resources Limited	16,663,253	18.07
3	National Nominees Limited	13,288,078	14.41
4	HSBC Custody Nominees (Australia) Limited	9,951,311	10.79
5	JP Morgan Nominees Australia Limited	5,069,926	5.50
6	Pacific Road Capital B Pty Ltd	4,850,936	5.26
7	Pacific Road Capital A Pty Ltd	4,850,936	5.26
8	Credit Suisse Securities (Europe) Ltd	1,760,000	1.91
9	Citicorp Nominees Pty Ltd	1,536,923	1.67
10	UBS Nominees Pty Ltd	1,351,629	1.47
11	AMP Life Limited	1,187,575	1.29
12	Escor Investments Pty Ltd	800,000	0.87
13	Mr GN & JD Mantle	695,593	0.75
14	Mr SA Zychewicz	605,000	0.66
15	Cogent Nominees Pty Ltd	449,355	0.49
16	Mr CE Watson	408,636	0.44
17	Merrill Lynch (Australia) Nominees Pty Limited	396,822	0.43
18	Baystreet Pty Ltd	300,000	0.33
19	Mr PJ & VA Bradford	299,392	0.32
20	Pacific Road Provident Pty Ltd	277,778	0.30
	Total	84,149,716	91.27

Unquoted ordinary shares

Shareholder	Number held	Percentage of unquoted shares
Pacific Road Holdings NV	19,750,088	96.74
Other holders of unquoted shares	664,728	3.26
Total unquoted ordinary Shares	20,414,816	100.00

Substantial holders

Substantial holders in the company are set out below:

Name of substantial shareholder	Number of shares held	Percentage of issued shares
Pacific Road Holdings NV	48,859,833	43.39
RMB Resource Limited	16,663,253	14.80
Westpac Banking Corporate (& its related bodies corporate)	8,667,043	7.70
Franklin Resources, Inc	8,005,000	7.11
National Australia Bank Limited	5,860,185	6.36

Additional Information (continued)

Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

Interest in Mining Tenements

Current interest in tenements held by Kula Gold Limited and its subsidiaries as at 27 March 2012 are listed below:

Country / Location	Tenement	Interest
Papua New Guinea / Woodlark Island	EL 1172	100%
Papua New Guinea / Woodlark Island	EL 1279	100%
Papua New Guinea / Woodlark Island	EL 1465	100%

FORWARD LOOKING STATEMENTS

All statements other than statements of historical fact included in this report including, without limitation, statements regarding future plans and objectives of Kula Gold Limited (Kula Gold) are forward-looking statements. When used in this report, forward-looking statements can be identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this report, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Kula Gold that could cause Kula Gold's actual results to differ materially from the results expressed or anticipated in these statements.

The company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Kula Gold does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this report, except where required by applicable law and stock exchange listing requirements.

COMPETENT PERSONS STATEMENTS

The information in this report that relates to Exploration Results is based on information compiled by Lee Spencer. Lee Spencer is the chief executive officer of Kula Gold Limited. Mr. Spencer is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Spencer consents to the inclusion in the report of these matters based on information in the form and context in which it appears.

The information in this report that relates to the Mineral Resource estimates for Kulumadau, Busai and Boniavat is based on information compiled by Mr. John Doepel, Principal Geologist for Continental Resource Management Pty Limited (CRM) (Resource Report, Woodlark Island). CRM has acted as independent consulting geologist to Woodlark Mining Limited since 2005 and has undertaken several visits to the island and to the sample preparation facilities. Mr. Doepel is a Member of The Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Doepel consents to the inclusion in this report of these matters based on information in the form and context in which it appears.

The information in this report that relates to Ore Reserves based on information compiled by Mr. Linton Putland, Principal of LJ Putland & Associates and a consultant to Woodlark Mining Limited. Mr. Putland is a Member of The Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Putland consents to the inclusion in this report of these matters based on information in the form and context in which it appears.