

ASX Announcement & Media Release

Quarterly Activities Report

For Period Ended 31 December 2017

Highlights:

- On schedule to deliver new Resource and Reserve estimates in March 2018
- Resource drilling completed
- New gold discovery at Boscalo confirmed
- Grade continuity confirmed for Kulumadau and Busai deposits
- Plant site sterilisation drilling completed
- Geotechnical drilling commenced, completed in January 2018
- Metallurgical testwork on schedule for Q1 2018 completion
- DFS on schedule for release in Q3 2018
- Evaluation of considerable exploration upside begins

Kula Gold Limited (ASX: KGD) (“Kula” or “the Company”) is pleased to provide its Quarterly Activities Report for the period ended 31 December 2017.

OPERATIONAL OVERVIEW

Woodlark Island Drilling Program

Geopacific Resources Limited (“Geopacific”), continues to fund the Woodlark Island Gold Project through the Farm-in Agreement.

Geopacific, with assistance from independent resource consultant, MPR Geological Consultants, have undertaken an extensive review and validation process to determine the veracity of the historical geological data at Woodlark. The validation process identified that in some historical RC drilling, outdated drilling methods may have resulted in downhole contamination and would not pass modern QAQC (quality assurance and control) standards. Conversely, in some historical diamond drilling, sample loss due to bit-flushing and non-use of triple tube drilling methodology may have caused gold fines to be washed out, resulting in an under reporting of gold values. To ensure that drilling data used in resource calculations is of the highest quality, a programme of replacement drilling, utilising both diamond and RC methodologies was completed this quarter to ensure resource drilling and geological modelling meets JORC 2012 standards.

The program required a series of ‘twin’ and replacement holes, which have now been completed. Results received to date are generally better than previously indicated and are consistent with the grades and mineralisation expected.

A total of 24 holes for 3,227 metres of drilling were completed in the drilling program at the Kulumadau, Busai and Woodlark King deposits.

This programme of drilling has resulted in improved definition. This rigorous approach to resource definition will deliver a more accurate representation of the gold mineralisation at Woodlark.

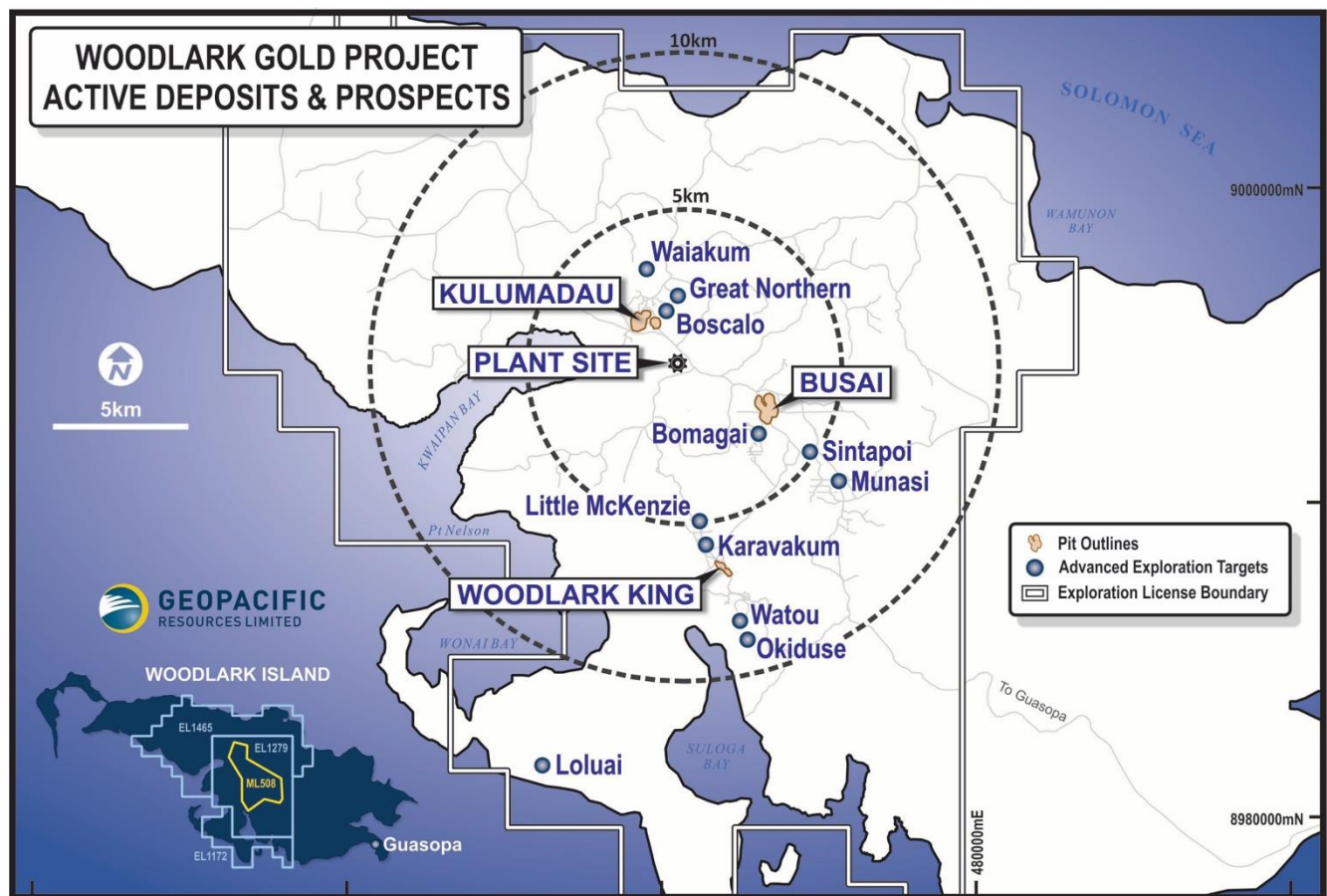


Figure 1: Topographic map of Woodlark Island showing location of deposits and licence boundaries.

Boscalo Discovery

Originally thought to be an extension of the mineralisation at Kulumadau East, it has been confirmed that Boscalo represents the discovery of a significant new zone of gold mineralisation, situated adjacent to the Kulumadau East deposit.

The main zone strikes to the north-west and is currently delineated over a two-hundred-metre strike length using shallow RC drilling and mineralisation remains open. In addition to the main zone, a parallel zone of mineralisation between Boscalo and Kulumadau East has also been identified. Both zones are expected to make a valuable contribution to gold ounces within the planned Kulumadau open pit.

Better intersections included:

- KU17RD052: 12m @ 7.45g/t gold from 72m
- KU17RD059: 20m @ 1.77g/t gold from 64m and 20m @ 1.71g/t gold from 111m
- KU17RC050: 7m @ 5.25 g/t gold from 46m

The mineralisation at Boscalo is typical of low sulphidation epithermal deposits. Host rocks are fractured and brecciated with a complex hydrothermal alteration system associated with mineralisation. High-grade gold mineralisation is evident in discrete zones.

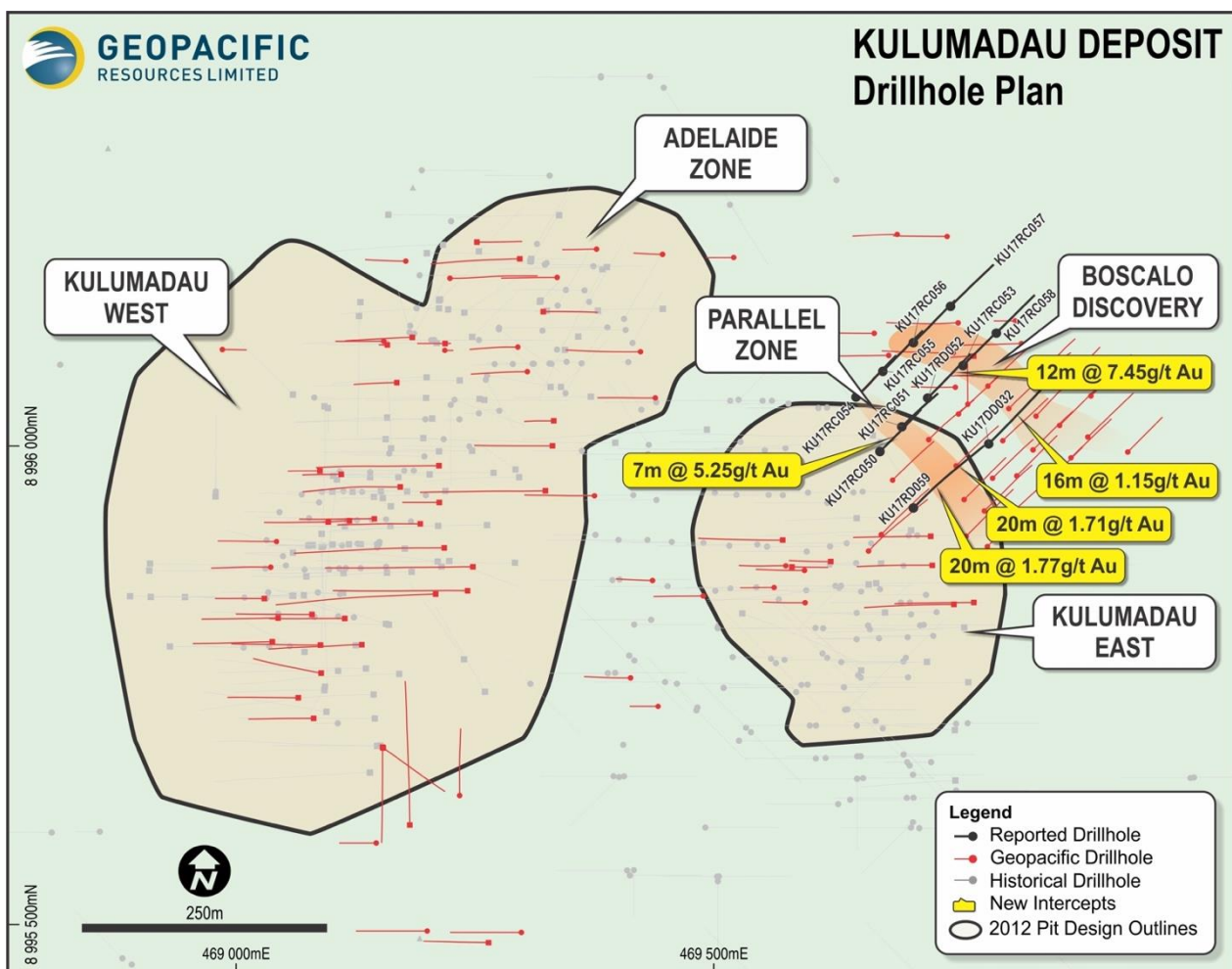


Figure 2: Drill hole location plan showing results at the Boscalo discovery, north of Kulumadau East.



Engineering

Lycopodium was engaged by Geopacific to design and manage a metallurgical variability and optimisation testwork program to facilitate an EPC contract for plant construction, where the plant builder undertakes construction for a fixed fee and provides process guarantees. The metallurgical program is on schedule for completion in Q1 2018.

Lycopodium has also been engaged to undertake the DFS which will commence following the release of Resource and Reserve estimates. The expectation is to release the DFS in Q3 2018.

Independent mining engineering consultant, Mining Plus Pty Ltd, was engaged by Geopacific to assist to develop an accurate mining cost model, optimise mine designs and complete mine scheduling, all with the aim of minimising the scheduled capital payback period and maximising Net Present Value (NPV).

All key aspects which impact Reserve estimates and the DFS have been reviewed, utilising specialist independent consultants where appropriate. Examples of these aspects include updated geotechnical review and drilling; review of environmental studies, review and optimisation of key site infrastructure.

CORPORATE OVERVIEW

Geopacific Resources Limited Takeover

The off-market takeover offer by Kula's Joint Venture partner Geopacific closed on Friday 13 October 2017 with Geopacific having secured 85% of Kula's issued shares. With the Company being a subsidiary of Geopacific, Geopacific have taken control of the Kula Board through the appointment of three directors. The Farm-in Agreement with Geopacific continues, with Geopacific funding the Woodlark Island Gold.

In December 2017 the Company entered into a loan agreement with Geopacific for a loan of up to \$500,000, at zero interest and convertible to equity at the option of Geopacific either under the agreed terms under the Farm-in Agreement or at 30 day VWAP. The entering into the loan agreement was announced on the ASX on 21 December 2017, this loan facility provides working capital for the Company for 12 months from the date of entering the loan agreement.

The consideration payable by the PNG Government for its 5% interest pursuant to the terms of the exploration licence from which the Mining Lease was derived will be determined based on a pro rata proportion off the exploration and development costs to the time of purchase. Costs to date indicate that Kula would be entitled to receive a sum of approximately A\$6 million from the PNG Government in consideration for a 5% interest in the Project.



Background on the Woodlark Island Gold Project, PNG

Kula Gold Limited owns 95% of the Woodlark Island Gold Project, which has been granted an Environmental Permit and Mining Lease. Geopacific Resources Limited (“**Geopacific**”) holds the remaining 5% of the Project and is also Kula’s largest shareholder with 85% of the Company. The Project is located 600 kilometres east of Port Moresby in the Milne Bay Province, Papua New Guinea.

Geopacific, Kula’s Joint Venture Partner and holding company, is in the second earn-in period of the Farm-in Agreement and advancing the Project by delivering defined milestones, to earn additional equity in the Project.

The Project has excellent upside potential through upgrading the existing JORC Resources and numerous nearby exploration targets within a short distance of the proposed process plant location.

The Resource Estimates for the Kulumadau and Busai Deposits were re reported and released on 31 January 2017 in accordance with JORC 2012. The estimates for Munasi and Woodlark King have not been re reported in accordance with JORC 2012, as there has been no additional work within these deposits since the previous estimate.

Kula Gold’s Feasibility Study, based on a JORC 2004 Ore Reserve of 766,000 ounces and a gold price of US\$1200/ounce, defined a Project with a mine life of nine years, three open pit mining areas and a 1.8Mtpa gravity and carbon in leach plant (KGD ASX release 27 September 2012).

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Mark Stowell	Non-executive director
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Philippa Leggat	Director
Garry Perotti	Executive director

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

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

Information contained in this report is a compilation of previously announced exploration results, ASX releases of July 14, August 16 and August 28. The company confirms that the information and all assumptions contained in those releases remain valid. These ASX releases are available on the company and ASX websites.

Appendix A: Table 1. Woodlark Island 2012 Resource Table

Reported as per JORC 2012
As of July 2012 at 0.5g/t Gold lower cutoff

Deposit	Category	Resource (Mt)	Grade – cut (g/t gold)	Gold – cut (Oz)
Kulumadau	Measured	5	1.78	285,000
	Indicated	4.4	1.75	250,000
	Inferred	8.6	1.4	380,000
	Totals	18	1.6	910,000
Busai	Measured	3.9	1.54	190,000
	Indicated	10.4	1.4	470,000
	Inferred	4.9	1.6	250,000
	Totals	19	1.5	910,000
All	Measured	8.9	1.66	475,000
	Indicated	14.8	1.5	720,000
	Inferred	13.5	1.5	630,000
Totals	All	37.2	1.5	1,820,000

Notes

- 1: Totals may appear incorrect due to rounding.
- 2: The Busai Indicated Resource includes 0.4Mt @ 1.4/t gold for 20,000oz from overlying alluvial mineralisation.
- 3: The Busai Inferred Resource includes 0.4Mt @ 1.2/t gold for 14,000oz from overlying alluvial mineralisation.

Appendix A: Table 2. Woodlark Island 2004 Resource Table

Reported as per JORC 2004
As of July 2012 at 0.5g/t Gold lower cutoff

Deposit	Category	Resource (Mt)	Grade – cut (g/t gold)	Gold – cut (Oz)
Munasi	Inferred	3.9	0.9	110,000
	Total	3.9	0.9	110,000
Woodlark King	Indicated	3	1.2	115,000
	Inferred ²	1	1.8	60,000
	Total	4	1.4	175,000
Total	All	7.9	1.1	285,000

1: Totals may appear incorrect due to rounding.

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

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