



Kula Gold Limited

ACN 126 741 259

Interim report for the half-year ended 30 June 2018

Corporate Information

Directors

Mark Bojanjac	Non-executive chairman
Matthew Smith	
Mark Stowell	
Ronald Heeks	
Garry Perotti	Executive director and company secretary

Registered Office

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Auditor

Ernst & Young
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Perth WA 6000
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Share Registry

Link Market Services Limited
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680 George Street
Sydney NSW 2000
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Stock Exchange Listing

Australian Securities Exchange: ASX code: KGD

Australian Company Number

126 741 259

Kula Gold Limited

ACN 126 741 259

Interim report

30 June 2018

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by Kula Gold Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' report

Your directors present their report on Kula Gold Limited for the half-year ended 30 June 2018.

Directors

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

Mark Bojanjac
Mark Stowell
Matthew Smith
Philippa Leggat (resigned 8 September 2018)
Ronald Heeks (appointed 8 September 2018)
Garry Perotti

Review of operations

Geopacific Resources Limited ("**Geopacific**") continues to deliver against the Farm-in Agreement having spent in excess of \$16 million and drilled over 15,550 metres of diamond drilling by the end of the reporting period. Geopacific has satisfied the spend and diamond drilling requirements of the second earn-in period of the Farm-in Agreement and on 15 August 2018 issued a notice of completion, having achieved the incentive gold Reserve target, and elected to proceed to the third earn-in period of the Farm-in Agreement.

In March 2018 Geopacific released a new JORC 2012 compliant gold resource of 1.53 million ounces and a gold reserve of 1.1 million ounces and continued to progress the Definitive Feasibility Study ("**DFS**") which is expected to be released by Geopacific in the third quarter of 2018.

Exploration has recently been expanded to regional targets to discover new gold deposits outside of the defined deposits, which have had very limited exploration to date.

The consolidated entity recorded a loss of \$207,000 for the six months ended 30 June 2018 (2017: \$14.6 million loss).

The consolidated entity had cash and cash equivalents at 30 June 2018 of \$3,000. Cash at 31 August 2018 was \$4,000.

Significant matters relating to the ongoing viability of operations

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

- Geopacific Resources Limited ("**Geopacific**") has confirmed that, subject to certain conditions, they currently intend to provide financial support to the Group to enable it to meet its liabilities as and when they fall due for a period of 12 months from the signing of the financial report, but only to the extent that money is not otherwise available to the company to meet such liabilities. Geopacific may withdraw the offer of financial support at any time and for any reason by written notice.
- There is a draw down Loan Facility in place with Geopacific which was executed on 19 December 2017, is interest free, unsecured, matures on 19 December 2018 and is convertible at any time, at Geopacific's election, to shares in the Company at the 30 day VWAP. At the time of this report the Company has drawn down \$301,000 of the facility.

Directors' report (continued)

Significant matters relating to the ongoing viability of operations (continued)

- On 15 August 2018 Geopacific issued a notice of completion of the second earn-in period of the Farm-in Agreement including the achievement of the incentive target gold reserve. Geopacific will be issued shares in WML such that Geopacific holds 51% of the issued shares of WML and Geopacific will continue to fund WML project costs while progressing under the third earn-in period of the Farm-in Agreement to earn up to 75% of WML. In May 2018, Geopacific successfully raised \$10 million via a share placement with the objective of advancing the Woodlark Gold Project through continuation under the farm-in agreement.

In the event that Geopacific withdraw their financial support and the Group is unable to raise additional funds to meet the Group's ongoing working capital and development funding requirements as and when required, there is a significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

Pursuant to the farm-in agreement, "In the event that the terms of Mining Lease ML508 are varied to extend the Construction End Date to a date that is consistent with the reasonable development intentions of the Parties or remove the requirement to complete construction and commissioning by the Construction End Date (ML508 Resolution), Geopacific will make an offer to Kula to a placement of Kula Shares for such number of Kula Shares as would have a value of \$300,000 at an issue price equal to the VWAP of Kula Shares for the 30 trading days prior to the ML508 Resolution (Kula Placement), provided that the Kula Placement shall be capped at 5% of the total issued capital of Kula, and subject to and conditional on any regulatory approvals required." If the provision is or has been triggered and Kula accept the offer this may, subject to the necessary shareholder approvals, result in a placement of \$300,000 for use by the Company.

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

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 7.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise indicated.

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



Garry Perotti
Director

Perth
11 September 2018

Auditor's independence declaration to the directors of Kula Gold Limited

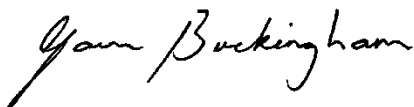
As lead auditor for the review of Kula Gold Limited for the half-year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Gavin Buckingham
Partner
11 September 2018

Kula Gold Limited
Interim consolidated statement of comprehensive income
For the half-year ended 30 June 2018

		Half-year 30 June 2018 \$'000	30 June 2017 \$'000
Continued operations	Notes		
Other operating income		-	1
Expenses			
Employee benefits expense		(141)	(143)
Professional and consulting expenses		(12)	(128)
Rental expense		-	(8)
Insurance expense		(8)	(21)
Foreign exchange gain/(loss)		-	(5)
Other expenses		(46)	(111)
Loss before income tax		(207)	(415)
Income tax benefit/(expense)		-	-
Net loss for the half-year from continued operations		(207)	(415)
Discontinued operations			
Loss from discontinued operations		-	(14,156)
Total loss for the half-year net of tax		(207)	(14,571)
Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		-	(1,240)
Accumulated gains in foreign currency translation reserve transferred to profit or loss on disposal of subsidiary		-	(9,059)
Total Other comprehensive income/(loss) for the half-year		-	(10,299)
Total comprehensive income / (loss) for half-year		(207)	(24,870)
Profit / (Loss) for the half year attributable to:			
- Members of the parent		(207)	(14,571)
- Non-controlling interest		-	-
Total comprehensive income / (loss) for the half year attributable to:			
- Members of the parent		(207)	(24,808)
- Non-controlling interest		-	(62)
Earnings per share		Cents	Cents
From continuing operations			
- Basic and diluted loss per share in cents		(0.05)	(0.12)
From total operations			
- Basic and diluted loss per share in cents		(0.05)	(4.17)

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

Kula Gold Limited
Interim consolidated statement of financial position
As at 30 June 2018

		Consolidated	
		30 June	31 December
		2018	2017
		\$'000	\$'000
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents	4	3	41
Receivables and other assets		8	31
Total current assets		<u>11</u>	<u>72</u>
Non-current assets			
Furniture and Fittings		2	2
Financial assets	2	9,920	9,920
Total non-current assets		<u>9,922</u>	<u>9,922</u>
Total assets		<u>9,933</u>	<u>9,994</u>
LIABILITIES			
Current liabilities			
Trade and other payables		28	37
Loans and borrowings		176	20
Provisions		13	13
Total current liabilities		<u>217</u>	<u>70</u>
Non-current liabilities			
Provisions		10	10
Total non-current liabilities		<u>10</u>	<u>10</u>
Total liabilities		<u>227</u>	<u>80</u>
Net assets		<u>9,706</u>	<u>9,914</u>
EQUITY			
Contributed equity	5	151,577	151,577
Reserves		1,233	1,234
Accumulated losses		(143,104)	(142,897)
Equity attributable to equity holders of parent		<u>9,706</u>	<u>9,914</u>
Non-controlling interest		-	-
Total equity		<u>9,706</u>	<u>9,914</u>

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

Kula Gold Limited										
Interim consolidated statement of changes in equity										
As at 30 June 2018										
		Contributed equity	Share-based payments reserve	Fair value financial asset reserve	Foreign currency translation reserve	Consolidation reserve	Total reserves	Accumulated losses	Non-controlling interest	Total equity
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2017		151,026	1,161	-	9,784	398	11,343	(127,982)	1,457	35,844
Comprehensive income / (loss) for the year		-	-	-	-	-	-	(14,571)	-	(14,571)
Other Comprehensive Income / (loss) for the half year		-	-	-	(9,784)	-	(9,784)	-	(62)	(9,846)
Loss of control in subsidiary		-	-	-	-	-	-	-	(1,395)	(1,395)
Contributions of equity, net of transactions costs and tax		551	-	-	-	-	-	-	-	551
Balance at 30 June 2017		151,577	1,161	-	-	398	1,559	(142,554)	-	10,582
Balance at 1 January 2018		151,577	1,160	(325)	-	398	1,233	(142,897)	-	9,914
Comprehensive income / (loss) for the half year		-	-	-	-	-	-	(207)	-	(207)
Balance at 30 June 2018		151,577	1,160	(325)	-	398	1,233	(143,104)	-	9,706

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

Kula Gold Limited
Interim consolidated statement of cash flows
For the half-year ended 30 June 2018

	Half-year	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Notes		
Cash flows from operating activities		
Payments to suppliers and employees (inclusive of goods and services tax)	(214)	(236)
Interest income	-	1
Net cash (outflow) from operating activities	(214)	(235)
Cash flows from investing activities		
Loss of control over subsidiary's cash	-	(345)
Net cash (outflow) from investing activities	-	(345)
Cash flows from financing activities		
Proceeds from rights issue	-	626
Transaction costs on rights issue	-	(75)
Loan from Geopacific Resources Limited	176	-
Net cash inflow/(outflow) from financing activities	176	551
Net (decrease) in cash and cash equivalents	(38)	(29)
Cash and cash equivalents at the beginning of half year	41	401
Cash and cash equivalents at the end of the half-year	3	372
5		

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

Kula Gold Limited
Notes to consolidated financial statements
30 June 2018

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1. Basis of preparation of half-year report

This interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by Kula Gold Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new standards and interpretations as of 1 January, 2018. Newly adopted standards and interpretations have not had a material impact on the consolidated interim financial report.

The following additional accounting policies have been applied during the half-year.

AASB 9 Financial Instruments (“AASB 9”)

The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 January 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB 39 *Financial Instruments: Recognition and Measurement* (“AASB 39”), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 January 2018 (see note 2 for details of the new accounting policy for receivables).

Measurement and classification

Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the ‘SPPI criterion’). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 January 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 January 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under (i.e. prior to 1 January 2018)	New measurement category under AASB 9 (i.e. from 1 January 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Financial assets	Available for sale financial assets	Fair value through other comprehensive income
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost
Interest bearing loans and borrowings	Financial liability at amortised cost	Financial liability at amortised cost

The financial asset relates to the investment in Woodlark Mining Limited and has been accounted for as fair value through other comprehensive income.

The change in classification has not resulted in any re-measurement adjustments at 1 January 2018.

1. Basis of preparation of half-year report (continued)

(a) Significant matters relating to ongoing viability of operations

The consolidated entity recorded a loss of \$207,000 for the six months ended 30 June 2018 (2017: \$14.6 million) and the company had a net cash outflow from operating and investing activities of \$214,000 for the six months ended 30 June 2018 (2017: \$580,000). The consolidated entity had cash and cash equivalents at 30 June 2018 of \$3,000.

The Group's cashflow forecast for the period ending 30 September 2019 reflects that the Group will need to raise additional working capital to enable it to continue to fund its ongoing expenditure requirements.

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

- Geopacific Resources Limited ("Geopacific"), the Group's parent entity who currently have an 85% interest in the Company, has confirmed that, subject to certain conditions, they currently intend to provide financial support to the Group to enable it to meet its liabilities as and when they fall due for a period of 12 months from the signing of the financial report, but only to the extent that money is not otherwise available to the company to meet such liabilities. Geopacific may withdraw the offer of financial support at any time and for any reason by written notice.
- There is a draw down Loan Facility in place with Geopacific which was executed on 19 December 2017, is interest free, unsecured, matures on 19 December 2018 and is convertible at any time, at Geopacific's election, to shares in the Company at the 30 day VWAP. At the time of this report the Company has drawn down \$301,000 of the facility. The balance of the facility remains available for draw down
- On 15 August 2018 Geopacific issued a notice of completion of the second earn-in period of the Farm-in Agreement including the achievement of the incentive target gold reserve. Geopacific will be issued shares in WML such that Geopacific holds 51% of the issued shares of WML and Geopacific will continue to fund WML project costs while progressing under the third earn-in period of the Farm-in Agreement to earn up to 75% of WML. In May 2018, Geopacific successfully raised \$10 million via a share placement with the objective of advancing the Woodlark Gold Project through continuation under the farm-in agreement.

In the event that Geopacific withdraw their financial support and the Group is unable to raise additional funds to meet the Group's ongoing working capital and development funding requirements as and when required, there is a significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

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

2. Non-current financial asset

	30 June 2018	31 December 2017
Investment at fair value at 1 January 2018	9,920	10,245
Movement for the period	-	(325)
Investment at fair value at 30 June 2018	9,920	9,920

The financial asset relates to the Company's share in Woodlark Mining Limited ("WML") as at 30 June 2018. The Group no longer controls Woodlark Mining Limited ("WML"), as a result WML was deconsolidated effective 25 January 2017. Post deconsolidation, the Group does not have control, joint control or significant influence over the operations of WML and accounts for its investment in WML as a financial asset at fair value through other comprehensive income.

3. Related party transactions

The company occupies office space at the Geopacific offices at zero rental.

The Company has a Loan Facility in place with Geopacific under the following terms:

- Draw down Loan Facility with Geopacific was executed 19 December 2017
- Amount: up to \$500,000
- Interest free
- Unsecured
- Maturity date: 19 December 2018
- Amount drawn against the loan facility at the date of this report was \$301,000
- Convertible, at Geopacific's election, to shares in the Company at 30 day VWAP, subject to the regulatory approvals

4. Cash and cash equivalents	Half-year	
	2018	2017
	\$'000	\$'000
Cash at bank and in hand	3	372

5. Contributed equity

	June 2018 \$'000	December 2017 \$'000
(a) Share capital		
Ordinary shares	151,577	151,577

(b) Movement in share capital

Date	Details	Number of shares	Issue price \$	Total \$'000
1 January 2018	Opening balance	375,658,028		151,577
30 June 2018	Movement for the period	-		-
30 June 2018	Balance	<u>375,658,028</u>		<u>151,577</u>

(c) Ordinary shares

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

6. Events occurring after the report period

On 15 August 2018 Geopacific issued a notice of completion of the second earn-in period of the Farm-in Agreement including the achievement of the incentive target gold reserve. Geopacific will be issued shares in WML such that Geopacific holds 51% of the issued shares of WML and Geopacific will continue to fund WML project costs while progressing under the third earn-in period of the Farm-in Agreement to earn up to 75% of WML.

7. Segment reporting

The Group operates in only one segment being holder of an interest in Woodlark Mining Limited as at 30 June 2018. Woodlark Mining is currently into exploration and evaluation of the Woodlark Island Gold project in PNG.

In accordance with a resolution of the directors of Kula Gold Limited, I state that:

In the opinion of the directors:

- a) the financial statements and notes of Kula Gold Limited for the half-year ended 30 June 2018 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and
- b) subject to achieving the matters set out in note 1(a), there are reasonable grounds to believe that Kula Gold Limited will be able to pay its debts as and when they become due and payable.

On behalf of the board



Garry Perotti
Director
Perth

11 September 2018

Independent auditor's review report to the Members of Kula Gold Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Kula Gold Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as at 30 June 2018, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1(a) in the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Ernst & Young



Gavin Buckingham

Partner

Perth

11 September 2018

Interest in Mining Tenements

Current interest in tenements held by Kula Gold Limited via Woodlark Mining Limited, as at 11 September 2018 are listed below:

Country / Location	Tenement	Interest
Papua New Guinea / Woodlark Island	EL 1172	49%
Papua New Guinea / Woodlark Island	EL 1279	49%
Papua New Guinea / Woodlark Island	EL 1465	49%
Papua New Guinea / Woodlark Island	ML 508	49%
Papua New Guinea / Woodlark Island	LMP 89	49%
Papua New Guinea / Woodlark Island	LMP 90	49%
Papua New Guinea / Woodlark Island	LMP 91	49%
Papua New Guinea / Woodlark Island	LMP 92	49%
Papua New Guinea / Woodlark Island	LMP 93	49%
Papua New Guinea / Woodlark Island	ME 85	49%
Papua New Guinea / Woodlark Island	ME 86	49%