

**KULA GOLD LIMITED
2016 ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS**

My fellow shareholders,

During 2015, the gold price fell from a high of US\$1,300 to a low of US\$1,050. This has made it very difficult for your Company to initiate the development of its Woodlark Island Gold Project. The Company's efforts during 2015 were directed at ways to optimise and advance the Project notwithstanding this significant fall in the gold price. At the same time, the Company's wholly owned subsidiary, Woodlark Mining Limited (referred to as **WML**), continued its presence and low cost exploration activities on Woodlark Island.

Your Board is endeavouring to find a co-participant, either as a partner to advance the Woodlark Island Gold Project or as a joint venturer to do further exploration on Woodlark Island.

As a result of the Company's work during the year, it has identified that:

- (a) additional gold reserves in the order of 300,000–500,000 ounces will increase the Project's financial robustness, even at lower gold prices; and
- (b) there are a number of resource extension opportunities recently identified within WML's tenements and mostly contained within the Mining Lease already granted – these opportunities are within trucking distance to the proposed plant.

In particular, the Kulumadau area, in the vicinity of one of the mine pits proposed by the feasibility study, has not been fully explored. The potential here is indicated by the following facts:

- the Kulumadau West deposit is still open down plunge and to the south;
- the Adelaide Zone within the Kulumadau deposit is open down plunge and to the north-west on strike;
- approximately 400,000 ounces of Inferred Resources peripheral to Ore Reserves in the Eastern Zone and Adelaide Zone could fall into an enlarged open pit; and
- only two-thirds of the potential mineralised zone has been covered by drilling.

As part of its further exploration strategy, WML has also undertaken a regional drainage sampling program to identify exploration and potential resource targets within trucking distance of the plant site selected in the feasibility study. The initial phase of this program was focused on the area surrounding the Watou Prospect where the Company's trenching has intersected vein and breccia hosted mineralisation with gold tenor currently averaging higher grades than the global resources for the Project.

In December 2015, a significant milestone was achieved in the Project with the initialling by all parties of the Memorandum of Agreement, which details the benefit-sharing arrangements between the local people in the mining area, the local-level government on Woodlark Island, the Milne Bay Provincial Government and the National Government.

The Company (through WML) continued during the year to manage community and social issues through its community relations department on Woodlark Island. WML continues to maintain excellent relations with the local communities. Key areas of activities within the local communities during 2015 included:

- Health clinic – WML donated a building and water tank to establish a clinic in the village at Kulumadau and continued supplying drugs to the clinic to supplement those drugs supplied by the Provincial Government Health Department.
- Employment – WML continued to employ personnel from the local communities and, where possible, to provide a fair and reasonable spread of employment opportunities across the whole of Woodlark Island.
- Training – WML continued training programs for employees and landowners.

In mid-2015, the Company was able to raise A\$2.22 million from existing institutional and sophisticated shareholders through a share placement. More recently, in the first half of 2016, the Company has raised an additional A\$298,000 from its shareholders through a share purchase plan, and has offered a placement of shares to the Pacific Road Resources Funds for an additional A\$207,700 which is subject to shareholder approval at this meeting.

The Board has cut further costs at the corporate level and on Woodlark Island. As part of the saving of costs at corporate level, the Board regrets that it was necessary for our Chief Executive Officer, Stuart Pether, to step down, although he remains as a director of WML and is assisting the Company in that capacity. The Board thanks Stuart for his enthusiastic leadership of the Company as CEO over two and a half years. Garry Perotti as CFO has taken over responsibility for day-to-day operations.

The Board is strongly of the view that significant value can be realised from the Woodlark Island Gold Project. This may require further exploration to increase the resources and reserves available for the Project, or a review of the costs in the feasibility study, or both. There is considerable empirical evidence that costs of many of the inputs into mining projects have come down in price significantly, and therefore a cost review (which has commenced) may substantially reduce both the capital cost and the operating costs for the Project. These two avenues to add value to the Project will continue to be pursued. They should enhance the Company's ability to justify and attract development capital for the Project.

The Board expresses its thanks to all of the Woodlark Island employees for their efforts during the year. We thank the Woodlark Island local government, the Milne Bay Provincial Government, the Minister for Mining and the leaders and people of Woodlark Island for their continued support during this difficult economic period, and re-assure them all that the Company is committed to the development of the Project as soon as we can secure the necessary finance on commercial terms.

David Frecker
Chairman