

Krakatoa Resources Limited
ACN 155 231 575

Annual Report 2012
For the period 19 January 2012 to 30 June 2012

Krakatoa Resources Limited
ACN 155 231 575

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Krakatoa Resources Limited

ACN 155 231 575

CORPORATE DIRECTORY

PRINCIPAL REGISTERED OFFICE

Level 45, 108 St Georges Terrace
Perth WA 6000
Tel: +61 8 9480 0111
Fax: +61 8 9480 0166
Email: info@krakatoaresources.com
Web: www.krakatoaresources.com

DIRECTORS

Kevin Kwok – Managing Director
Stephen Brockhurst – Non-Executive Director
Kent Hunter – Non-Executive Director

COMPANY SECRETARY

David Palumbo

SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Tel: +61 8 9323 2000
Fax: +61 8 9323 2033
Web: www.advancedshare.com.au

AUDITORS

RSM Bird Cameron Partners
8 St Georges Terrace
PERTH WA 6000

LAWYERS

Indonesia

Pangemanan & Partners
Patra Office Tower, 17th Floor, S.1712-1713
Jl. Jend. Gatot Subrot Kav. 32-34
JAKARTA 112950 INDONESIA

Australia

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

Krakatoa Resources Limited

ACN 155 231 575

DIRECTORS' REPORT

Your directors present the following report on Krakatoa Resources Limited (referred to hereafter as "the Company") for the financial period ended 30 June 2012.

The Company was incorporated on 19 January 2012. This is the Company's first financial report since incorporation.

DIRECTORS

The names of directors in office at any time during or since the end of the period are:

- Kevin Kwok (Managing Director) – Appointed 23 April 2012
- Stephen Brockhurst (Non-Executive Director) – Appointed 19 January 2012
- Kent Hunter (Non-Executive Director) – Appointed 19 January 2012
- Marlon Ticoalu (Non-Executive Director) – Appointed 19 January 2012 and resigned 23 April 2012

Unless noted above, all directors have been in office since the start of the financial period to the date of this report.

COMPANY SECRETARY

The following persons held the position of company secretary during the financial period:

- David Palumbo

Details of Mr Palumbo's experience are set out below under 'Information on Directors'.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the financial period was the identification of exploration projects in Indonesia for acquisition.

OPERATING RESULTS

The loss of the Company after providing for income tax amounted to \$83,455.

FINANCIAL POSITION

As at 30 June 2012, the Company had a cash balance of \$187,267 and a net asset position of \$186,798.

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid, and the directors do not recommend the payment of a dividend for the financial period ended 30 June 2012.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs occurred during the financial period:

- On 19 January 2012, the Company was incorporated as a public company with 3 ordinary shares at \$1 per share on issue.
- On 20 January 2012, the Company issued 10,000,000 ordinary shares at \$0.0001 per share to promoters.
- On 13 March 2012, the Company issued 3,000,000 ordinary shares at \$0.10 per to seed shareholders.

REVIEW OF OPERATIONS

The company was incorporated on 19 January 2012. Since that time, the Company has been actively reviewing projects in the resources sector within Indonesia for opportunities that will provide shareholder returns.

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DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS

Kevin Kwok (BCom, CPA)

Managing Director (appointed 23 April 2012)

Prior to joining the Company, Mr Kwok was a CFO at the Milken Institute overseeing all financial aspects of a large investment portfolio. He has extensive strategic business management experience involving complex financial transactions and operations. These past several years he has served as a financial advisor, providing financial and accounting services to the mining industry. He was senior vice-president of finance and operations at Antar Investments, where Mr Kwok focused on the direct financial management of a \$3 billion international portfolio.

Mr Kwok began his private career as vice-president and corporate controller for Watt Realty Advisors, Mr Kwok's primary responsibilities included direction of the accounting department, and overseeing the accounting and financial reporting functions associated with the Company's \$11 billion AUS Centro-Watt REIT portfolio. Before joining Watt Realty Advisors, Mr Kwok spent five years at Ernst & Young, where he specialized in both tax consulting and financial reporting, for both private and publicly held clients.

An active member of the community Mr Kwok's involvements include: membership in The American Institute of Certified Public Accountants (AICPA), Loyola High School Alumni Association, Board Member of the Oregon Community Solar Project and Heal the Bay.

Interest in Shares

1,000,000 Fully paid ordinary shares

Directorships held in other listed entities

None

Stephen Brockhurst (BCom)

Non-Executive Director (appointed 19 January 2012)

Mr Brockhurst has 12 years' experience in the finance and corporate advisory industry and has been responsible for the preparation of the due diligence process and prospectuses on a number of initial public offerings and significant transactions. Mr Brockhurst's experience includes corporate and capital structuring, corporate advisory and company secretarial services, capital raising, ASX and ASIC compliance requirements.

Mr Brockhurst is currently a director of Red Emperor Resources NL and Jacka Resources Limited and company secretary of Plymouth Minerals Limited, Bimini Resources Limited and Terrace Resources Limited.

Interest in Shares

350,001 Fully paid ordinary shares

Directorships held in other listed entities

Red Emperor Resources NL
Jacka Resources Limited

Kent Hunter (BCom, CA)

Non-Executive Director (appointed 19 January 2012)

Kent Hunter is a chartered accountant with over 16 years corporate and company secretarial experience. He has been involved in the listing of over 30 companies on ASX in the past 9 years. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Cazaly Resources Limited, Carbon Conscious Ltd, Stratum Metals Ltd and Western Manganese Ltd and is company secretary of two other ASX listed entities.

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DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS (CONT)

Commencing with Hall Chadwick Chartered Accountants in 1990, Mr Hunter completed his professional year and became chartered in 1993. Mr Hunter joined Ord Partners Chartered Accountants in 1995 and became corporate and audit manager for a range of listed and unlisted entities. Mr Hunter founded Mining Corporate in 2000 and established a business of identifying projects projects requiring a route to commercialization including industrial, technology, mining and exploration companies.

Interest in Shares 1,183,334 Fully paid ordinary shares

Directorships held in other listed entities Cazaly Resources Limited
Carbon Conscious Limited
Stratum Metals Limited
Western Manganese Limited

Marlon Ticoalu (BCom)

Non-Executive Director (appointed 19 January 2012 and resigned 23 April 2012)

Marlon is fluent in both Indonesian and English.

After finishing his commerce degree, Marlon worked in marketing executive roles before spending five years in a managerial position at The Ocean Beach Hotel in Perth.

Since 2010 Marlon has been working closely with the Managing Director of PT. Resource Management which is a Jakarta based due-diligence and resource project evaluation consultancy company.

Interest in Shares 1 Fully paid ordinary share

Directorships held in other listed entities None

COMPANY SECRETARY

David Palumbo (BCom, CA)

David Palumbo is a chartered accountant with over six years' experience in the auditing and financial reporting of ASX listed and unlisted companies. Mr Palumbo provides corporate advisory and financial management advice to clients of Mining Corporate and specialises in corporate compliance, statutory reporting and financial accounting services. Mr Palumbo is currently company secretary for ASX listed companies Western Manganese Limited and Rumble Resources Limited.

MEETINGS OF DIRECTORS

The number of Directors' meetings (including committees) held during the financial period and the number of meetings attended by each Director are:

Director	Directors' Meetings	
	Number eligible to attend	Number attended
Kevin Kwok	1	1
Stephen Brockhurst	5	5
Kent Hunter	5	5
Marlon Ticoalu	1	1

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each director of Krakatoa Resources Limited and for the executives receiving the highest remuneration.

1. Employment Agreements

Mr Kevin Kwok currently works for the Company in an executive capacity as Managing Director.

Mr Kwok's contract is for a term of 2 years from ASX listing date with the option to extend for a further 1 year. Under the terms of the agreement, Mr Kwok's annual salary is \$90,000 plus superannuation.

The Company may terminate Mr Kwok's contract by giving Mr Kwok a minimum of 3 months written notice or by paying Mr Kwok 3 months' salary in lieu of notice. Mr Kwok may terminate the contract by giving 3 months written notice to the Company.

Appointments of non-executive directors Stephen Brockhurst and Kent Hunter are formalised in the form of service agreements between themselves and the Company. Their engagements have no fixed term but cease on their resignation or removal as a director in accordance with the Corporations Act. They are each entitled to receive directors' fees of \$30,000 per annum plus superannuation.

2. Remuneration policy

The Company's remuneration policy has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Company is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and are entitled to the issue of share options.
- Incentive paid in the form of share options are intended to align the interests of directors and company with those of the shareholders.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Company's shareholders' value. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive director receives a superannuation guarantee contribution required by the government, which is currently 9%, and does not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed, or capitalised to exploration expenditure if appropriate. Options, if given to directors and executives in lieu of remuneration, are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee share option plan.

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DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (AUDITED) (CONT)

3. Performance-based remuneration

There is currently no performance-based remuneration policy in place.

4. Details of remuneration for the period ended 30 June 2012

The remuneration for each key management personnel of the Company during the period was as follows:

2012	Short-term Benefits	Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Performance Related	Value of Options Re-muneration
Key Management Person	Cash, salary & commissions	Super-annuation	Other	Equity	Options		%	%
	\$	\$	\$	\$	\$	\$		
Directors								
Kevin Kwok	10,000	-	-	-	-	10,000	-	-
Stephen Brockhurst	-	-	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-	-	-
Marlon Ticoalu	-	-	-	-	-	-	-	-
	10,000	-	-	-	-	10,000	-	-

“End of Remuneration Report (Audited)”

EVENTS AFTER THE REPORTING PERIOD

On 13 August 2012, the Company entered into a binding heads of agreement (“Option Agreement”), providing Krakatoa the option to acquire 80% of the issued share capital of PT. Dana Ramakala (“PTDR”) (“Option”). PTDR holds an exploration license, covering a total area of 7,200ha, located 20km northwest of Palu in the central west of the Donggala Peninsular in Central Sulawesi, Indonesia (“The Donggala Project”).

On 28 September 2012, the Company lodged a prospectus with the ASIC for the offer of 15,000,000 fully paid ordinary shares at an issue price of \$0.20 per share to raise \$3,000,000 before costs.

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

ENVIRONMENTAL ISSUES

The Company’s operations are subject to significant environmental regulation under the law of the Commonwealth and State in relation to discharge of hazardous waste and materials arising from any mining activities and development conducted by the Company on any of its tenements. To date the Company has not carried out any exploration activities and there have been no known breaches of any environmental obligations.

The directors have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Company for the current or subsequent financial period. The directors will reassess this position as and when the need arises.

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DIRECTORS' REPORT (CONT.)

INDEMNIFYING AND INSURANCE OF OFFICERS

The Company has entered into deeds of indemnity with each director whereby, to the extent permitted by the Corporations Act 2001, the Company agreed to indemnify each director against all loss and liability incurred as an officer of the Company, including all liability in defending any relevant proceedings.

The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The disclosure of the amount of the premium is prohibited by the insurance policy.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Further information, other than as disclosed this report, about likely developments in the operations of the Company and the expected results of those operations in future periods has not been included in this report as disclosure of this information would be likely to result in unreasonable prejudice to the Company.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the period.

NON-AUDIT SERVICES

There following fees were paid or payable to the external auditors for non-audit services provided during the period ended 30 June 2012:

—	taxation services	750
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AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the period ended 30 June 2012 has been received and can be found on the next page of the directors' report.

Signed in accordance with a resolution of the Board of Directors.



Kevin Kwok
Managing Director

Dated: 7 November 2012

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GPO Box R1253 Perth WA 6844
T +61 8 9261 9100 F +61 8 9261 9101
www.rsmi.com.au

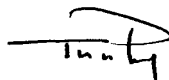
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Krakatoa Resources Limited for the financial period 19 January 2012 to 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 7 November 2012

Krakatoa Resources Limited

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STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2012

	19 January 2012 to 30 June 2012
Note	\$
Revenue	-
Administration expenses	(12,562)
Directors fees	(10,000)
Project evaluation costs	(60,893)
Loss before income tax expense	(83,455)
Income tax expense	2 -
Loss for the period	(83,455)
Other comprehensive income	-
Total comprehensive (loss) attributable to members of the parent entity	(83,455)
Loss Per Share	
Basic and diluted loss per share (cents per share)	3 (0.71)

The accompanying notes form part of these financial statements.

Krakatoa Resources Limited

ACN 155 231 575

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Note	2012 \$
CURRENT ASSETS		
Cash and cash equivalents	6	187,267
Trade and other receivables	7	<u>1,781</u>
TOTAL CURRENT ASSETS		<u>189,048</u>
TOTAL ASSETS		<u>189,048</u>
CURRENT LIABILITIES		
Trade and other payables	8	<u>2,250</u>
TOTAL CURRENT LIABILITIES		<u>2,250</u>
TOTAL LIABILITIES		<u>2,250</u>
NET ASSETS		<u><u>186,798</u></u>
EQUITY		
Issued capital	9	270,253
Accumulated losses		<u>(83,455)</u>
TOTAL EQUITY		<u><u>186,798</u></u>

The accompanying notes form part of these financial statements.

Krakatoa Resources Limited
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STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2012

	Note	Issued Capital \$	Accumulated losses \$	Total \$
Balance at 19 January 2012 (date of incorporation)		-	-	-
Loss for the period		-	(83,455)	(83,455)
Other comprehensive income		-	-	-
Total comprehensive (loss)		-	(83,455)	(83,455)
<i>Transactions with owner directly recorded in equity</i>				
Shares issued during the period	9	301,003	-	301,003
Less: transaction costs arising from issue of shares	9	(30,750)	-	(30,750)
Balance at 30 June 2012		270,253	(83,455)	186,798

The accompanying notes form part of these financial statements.

Krakatoa Resources Limited

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**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2012**

		19 January 2012 to 30 June 2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees		(22,093)
Payment for exploration and evaluation expenditure		(60,893)
Net cash used in operating activities	10	<u>(82,986)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		301,003
Payment of transaction costs associated with capital raising		(30,750)
Net cash provided by financing activities		<u>270,253</u>
Net increase in cash held		187,267
Cash at beginning of financial period		-
Cash at end of financial period	6	<u>187,267</u>

The accompanying notes form part of these financial statements.

Krakatoa Resources Limited

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of Krakatoa Resources Limited (the "Company"). Krakatoa Resources Limited is a listed public Company, incorporated and domiciled in Australia.

The financial statements were authorised for issue on 7 November 2012 by the directors of the Company.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied. All amounts are presented in Australian dollars unless otherwise stated.

Comparatives

Krakatoa Resources Limited was incorporated on 19 January 2012. This is the company's first financial report since incorporation and as a result there are no comparatives to include in this financial report.

Accounting Policies

a) Income Tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

a) Income Tax (Cont.)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

b) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the period in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one period of abandoning the site.

c) Impairment of Assets

At the end of each reporting date, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed.

Impairment testing is performed annually for intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

e) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

g) Trade and other receivables

All trade receivables are recognised when they are due for settlement in the short term. Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

h) Trade and other payables

These amounts represent liabilities for goods and services provided to the company before the end of the financial period and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

i) Issued capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

j) Earnings per share

1. Basic earnings per share

Basic earnings per share is determined by dividing the net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

2. 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

k) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I) New accounting standards for application in future period

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Company. The Company has decided not to early adopt any of the new and amended pronouncements. The Company's assessment of the new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

- AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Company has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I) New accounting standards for application in future period (Cont.)

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Company has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Company.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Company.

- AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I) New accounting standards for application in future period (Cont.)

- AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Company.

- AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Company does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Company has not yet been able to reasonably estimate the impact of these changes to AASB 119.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

19 January 2012
to
30 June 2012
\$

NOTE 2: INCOME TAX EXPENSE

a. Reconciliation of income tax expense to prima facie tax payable:	
Loss from ordinary activities before income tax expense	(83,455)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(25,036)
Increase in income tax due to:	
- Non-deductible expenses	-
- Losses and temporary differences not recognised	25,036
Decrease in income tax due to:	
- Deductible equity raising costs	-
Income tax attributable to the Company	-
b. Unused tax losses and temporary differences for which no deferred tax asset has been recognised at 30%:	
Deferred tax assets have not been recognised in respect of the following:	
Deductible temporary differences	-
Tax revenue losses	25,036
	<u>25,036</u>

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2012 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the loss and exploration expenditure.

NOTE 3: EARNINGS PER SHARE

a. Loss used to calculate basic EPS	<u>(83,455)</u>
	No.
b. Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	<u>11,760,739</u>

As the Company is in a loss position the options outstanding at 30 June 2012 have no dilutive effects on the earnings per share calculation.

NOTE 4: AUDITORS' REMUNERATION

Remuneration of the auditor of the parent entity for:	
— auditing the financial report	1,500
— taxation services	750

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's key management personnel for the period ended 30 June 2012.

Names and positions held of Company's key management personnel in office at any time during the period are :

Kevin Kwok	Managing Director (appointed 23 April 2012)
Stephen Brockhurst	Non-Executive Director (appointed 19 January 2012)
Kent Hunter	Non-Executive Director (appointed 19 January 2012)
Marlon Ticoalu	Non-Executive Director (appointed 19 January 2012 and resigned 23 April 2012)

a. **Remuneration of Key Management Personnel**

The totals of remuneration paid to the KMP of the Company during the period are as follows:

	19 January 2012 to 30 June 2012 \$
Short-term employee benefits	10,000
	<u>10,000</u>

b. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 19.1.2012 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2012 No.
Directors					
Kevin Kwok	-	-	-	1,000,000	1,000,000
Stephen Brockhurst	-	-	-	350,001	350,001
Kent Hunter	-	-	-	1,183,334	1,183,334
Marlon Ticoalu	-	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,533,335</u>	<u>2,533,335</u>

**2012
\$**

NOTE 6: CASH AND CASH EQUIVALENTS

Cash at bank	<u>187,267</u>
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NOTE 7: TRADE AND OTHER RECEIVABLES

CURRENT

GST receivable	<u>1,781</u>
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NOTE 8: TRADE AND OTHER PAYABLES

CURRENT

Sundry payables and accrued expenses	<u>2,250</u>
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Trade creditors are expected to be paid on 30 day terms.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

NOTE 9: ISSUED CAPITAL

	2012 No.	2012 \$
Fully paid ordinary shares with no par value	13,000,003	270,253
a) Ordinary shares		
At the beginning of reporting period	-	-
Shares issued during the period:		
- 19 January 2012	3	3
- 20 January 2012	10,000,000	1,000
- 23 March 2012	3,000,000	300,000
Less capital raising costs	-	(30,750)
Net share capital	13,000,003	270,253

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b) Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

The Company's capital includes ordinary share capital and financial liabilities, supported by financial assets.

Due to the nature of the Company's activities, being mineral exploration, it does not have ready access to credit facilities, with the primary source of funding being equity raisings. Accordingly, the objective of the Company's capital risk management is to balance the current working capital position against the requirements of the Company to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The company is not subject to any externally imposed capital requirements.

	2012 \$
Cash and cash equivalents	187,267
Trade and other receivables	1,781
Trade and other payables	(2,250)
Working capital position	186,798

NOTE 10: CASH FLOW INFORMATION

Reconciliation of Cash Flow from Operations with Loss after Income Tax

Loss after income tax	(83,455)
Changes in assets and liabilities:	
Trade and other receivables	(1,781)
Trade payables and accruals	2,250
Cashflow from operations	(82,986)

NOTE 11: RELATED PARTY TRANSACTIONS

a) Key management personnel

Disclosures relating to key management personnel are set out in Note 5.

b) Other transactions

During the year the Company incurred the following transactions with related parties:

- Mining Corporate Pty Ltd, an entity which Kent Hunter and Stephen Brockhurst are directors and have a beneficial interest, was paid \$20,000 in relation capital raising costs.
- Stellar Securities Pty Ltd, an entity which Kent Hunter is a director and has a beneficial interest, was paid a mandate acceptance fee of \$10,000 under the co-lead broker mandate.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

NOTE 12: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the opinion of the directors there were no contingent liabilities at 30 June 2012, and the interval between 30 June 2012 and the date of this report.

NOTE 13: CAPITAL AND LEASING COMMITMENTS

The Company has no commitments as at 30 June 2012.

NOTE 14: EVENTS AFTER THE REPORTING PERIOD

On 13 August 2012, the Company entered into a binding heads of agreement ("Option Agreement"), providing Krakatoa the option to acquire 80% of the issued share capital of PT. Dana Ramakala ("PTDR") ("Option"). PTDR holds an exploration license, covering a total area of 7,200ha, located 20km northwest of Palu in the central west of the Donggala Peninsular in Central Sulawesi, Indonesia ("The Donggala Project").

On 28 September 2012, the Company lodged a prospectus with the ASIC for the offer of 15,000,000 fully paid ordinary shares at an issue price of \$0.20 per share to raise \$3,000,000 before costs.

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

NOTE 15: OPERATING SEGMENTS

The Company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on the basis of two geographical segments being Australia and Indonesia, and two business segments being treasury and exploration.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Company.

Inter-segment transactions

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- administrative expenses

Comparative information

Krakatoa Resources Limited was incorporated on 19 January 2012 and as a result there are no comparatives to include in the 30 June 2012 financial report.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2012

NOTE 15: OPERATING SEGMENTS (CONT.)

(a) Segment performance

Period Ended 30 June 2012	Exploration \$	Treasury \$	Total Operations \$
Revenue			
Interest revenue			
Total segment revenue	-	-	-
<i>Reconciliation of segment revenue to Company revenue</i>			
Unallocated revenue	-	-	-
Total Company revenue	-	-	-
Segment net profit before tax	(60,893)	-	(60,893)
<i>Reconciliation of segment result to net profit (loss) before tax</i>			
Unallocated items:			
- Administration expenses			(12,562)
- Directors fees			(10,000)
Net loss before tax from continuing operations			(83,455)

(b) Segment assets

As at 30 June 2012	Exploration \$	Treasury \$	Total Operations \$
Segment assets			
Segment asset increases/(decreases) for the period:			
- capital expenditure	-	187,267	187,267
		187,267	187,267
<i>Reconciliation of segment assets to total assets</i>			
GST receivable			1,781
Total Company assets			189,048

(c) Segment liabilities

As at 30 June 2012	Exploration \$	Treasury \$	Total Operations \$
Segment liabilities			
<i>Reconciliation of segment liabilities to total liabilities</i>			
Other liabilities			2,250
Total liabilities from continuing operations			2,250

(d) Assets by geographical location

The location of segment assets by geographical location of the assets is disclosed below:

Australia	189,048
Indonesia	-
Total assets	189,048

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012**

NOTE 16: FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from their use of financial instruments:

- credit risk; and
- liquidity risk.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Company through regular reviews of the risks.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties.

Credit risk related to balances with banks and other financial institutions is managed by the board. The board's policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA-. All of the Company's surplus funds are invested with AA Rated financial institutions.

The credit risk for counterparties included in cash and cash equivalents at 30 June 2012 is detailed below:

	2012
	\$
Financial assets:	
Cash and cash equivalents	
- AA rated counterparties	<u>187,267</u>

The Company does not have any material credit risk exposure to any single receivable or Company of receivables under financial instruments entered into by the Company.

Liquidity risk

The responsibility with liquidity risk management rests with the Board of Directors. The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained. The Company's policy is to ensure that it has sufficient cash reserves to carry out its planned exploration activities over the next 12 months.

Krakatoa Resources Limited
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DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes and the remuneration report in the Directors Report designated as audited, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the Company's financial position as at 30 June 2012 and its performance for the period ended on that date; and
 - c) are in accordance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
2. the Managing Director and Company Secretary have each declared that:
 - a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Kevin Kwok
Managing Director

Dated: 7 November 2012

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KRAKATOA RESOURCES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Krakatoa Resources Limited ("the company"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period 19 January 2012 to 30 June 2012, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

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 about 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.

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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Krakatoa Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Krakatoa Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the financial period 19 January 2012 to 30 June 2012; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

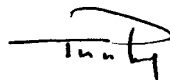
We have audited the Remuneration Report contained within the directors' report for the financial period 19 January 2012 to 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Krakatoa Resources Limited for the financial period 19 January 2012 to 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 7 November 2012