



KRAKATO A

Resources Limited

ABN 39 155 231 575

& Controlled Entities

**Annual Report
For the year ended 30 June 2013**

**Krakatoa Resources Limited
& Controlled Entities**

CONTENTS

CORPORATE DIRECTORY	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION.....	12
STATEMENT OF COMPREHENSIVE INCOME	13
STATEMENT OF FINANCIAL POSITION	14
STATEMENT OF CHANGES IN EQUITY	15
STATEMENT OF CASH FLOWS.....	16
NOTES TO THE FINANCIAL STATEMENTS	17
DIRECTORS' DECLARATION.....	35
INDEPENDENT AUDITOR'S REPORT.....	36
CORPORATE GOVERNANCE STATEMENT	38
ASX INFORMATION	43
SCHEDULE OF MINERAL TENEMENTS	46

**Krakatoa Resources Limited
& Controlled Entities**

CORPORATE DIRECTORY

PRINCIPAL REGISTERED OFFICE

Suite 1, 22 Railway Road
Subiaco WA 6008
Tel: +61 8 9480 0111
Fax: +61 8 9320 8020
Email: info@krakatoaresources.com
Web: www.krakatoaresources.com

DIRECTORS

Kevin Kwok – Managing Director
Stephen Brockhurst – Non-Executive Director
Kent Hunter – Non-Executive Director
Roger Pooley - 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.computershare.com.au

AUDITORS

RSM Bird Cameron Partners
8 St Georges Terrace
PERTH WA 6000

LAWYERS

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

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT

Your directors present the following report on Krakatoa Resources Limited and controlled entities (referred to hereafter as "the Group") for the financial year ended 30 June 2013.

DIRECTORS

The names of directors in office at any time during the financial year and up to the date of this report are:

- Kevin Kwok (Managing Director)
- Stephen Brockhurst (Non-Executive Director)
- Kent Hunter (Non-Executive Director)
- Roger Pooley (Non-Executive Director) – Appointed 30 July 2013

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

COMPANY SECRETARY

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

- David Palumbo

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

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the acquisition and exploration of precious and base metal projects in Indonesia.

OPERATING RESULTS

The loss of the Group after providing for income tax amounted to \$619,264 (2012: loss of \$83,455).

FINANCIAL POSITION

As at 30 June 2013, the Company had a cash balance of \$1,773,444 (2012:\$187,267) and a net asset position of \$2,444,957 (2012:\$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 year ended 30 June 2013.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- On 20 December 2012, the Company issued 15,000,000 ordinary shares at \$0.20 per share pursuant to its initial public offering prospectus.
- On 20 December 2012, the Company completed the acquisition of an 80% interest in the issued capital of PT. Dana Ramakala through the payment of \$150,000 and the issue of 1,000,000 ordinary fully paid shares.
- On 10 April 2013, the Company issued 6,516,207 Options exercisable at \$0.20 on or before 30 June 2015 pursuant to the non-renounceable option entitlement issue prospectus.
- On 28 June 2013, the Company issued the shortfall of 7,983,795 Options exercisable at \$0.20 on or before 30 June 2015 pursuant to the non-renounceable option entitlement issue prospectus.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

REVIEW OF OPERATIONS

Krakatoa Resources Limited closed its Initial Public Offer oversubscribed and listed on the Australian Securities Exchange on 28 December 2012 after raising \$3,000,000.

Since its ASX listing, the Company has begun work on its 80% owned Donggala Project as well as evaluated additional tenements of strategic importance.

Donggala Project

The Donggala Project covers a total area of 7,200 hectares and is located 20 kilometres northwest of Palu in the central west of the Donggala Peninsula in Central Sulawesi.

The Donggala Project has displayed encouraging gold prospects, with the mineralisation styles near Palu belonging to the copper-molybdenum porphyry intrusive-epithermal style of related events. The geological setting in combination with locals panning coarse gold in the streams indicates several coherent target zones.

The Company conducted an iron sedimentation survey to evaluate the prospectivity for iron mineralisation within the Donggala Project. The Board considered it prudent to review the prospectivity of iron prior to its plan to start its gold focused survey and mapping of the tenement.

Based on the iron sedimentation survey, the Donggala Project could contain iron or other base metal mineralisation with precious mineral credits associated with intrusive rocks of andesitic-granodiorite affinities emplaced into the Tinombo Formation. The Board is encouraged by the results of its Iron Sedimentation Study and is currently evaluating its focus in light of current market conditions given that the Donggala district has now displayed prospectivity for both gold and iron mineralisation.

The company plans to revisit the area and to focus on gold exploration by conducting a survey, mapping and soil sampling, as more data is required for a formal amendment of the mineral covered under the IUP Exploration Licence to gold.

Project Generation

The Company has continued to evaluate additional tenements of strategic importance to expand the land area held. This work is ongoing as Krakatoa seeks to acquire further value accretive assets.

The Company comprehensively surveyed the neighbouring exploration licence to our existing Exploration Licence, and conducted field surveys at two production licences located in the surrounding area of Sulawesi for potential acquisition. The Board and the company's technical team are currently evaluating the data obtained.

Competent Person Statement

The information in this report which relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Brian Vardell, a Fellow Member of the Australasian Institute of Mining & Metallurgy ("AusIMM") and independent consultant to the Company. Mr Vardell is an employee of Al Maynard & Associates Pty Ltd and has many years of experience in exploration and mining in a variety of mineral deposit styles. Mr Vardell has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Vardell consents to inclusion in the report of the matters based on his information in the form and context in which it appears.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS

Kevin Kwok (BCom, CPA)

Managing Director

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

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, Jacka Resources Limited and Plymouth Minerals Limited and company secretary of Plymouth Minerals Limited, Raptor Resources Limited and Terrace Resources Limited.

Interest in Shares

250,001 Fully paid ordinary shares
125,000 options exercisable at \$0.20 on or before 30 June 2015

Directorships held in other listed entities

Red Emperor Resources NL
Jacka Resources Limited
Plymouth Minerals Limited

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS (CONT)

Kent Hunter (BCom, CA)

Non-Executive Director

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 and Stratum Metals Ltd and is company secretary of two other ASX listed entities.

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 requiring a route to commercialization including industrial, technology, mining and exploration companies.

Interest in Shares

1,183,334 Fully paid ordinary shares
591,667 options exercisable at \$0.20 on or before 30 June 2015

Directorships held in other listed entities

Cazaly Resources Limited
Carbon Conscious Limited
Stratum Metals Limited

Roger Pooley (Bsc)

Non-Executive Director (appointed 30 July 2013)

Mr Pooley has over forty years' experience in the mining industry. He has worked in Australia, Ghana, UK, Iran and Indonesia. For the first fifteen years of his career, Mr Pooley worked in operations, in both line management and staff positions. Following this, he moved into project management for twelve years. For the past eighteen years as a consultant, he has been involved mainly in studies, valuations, reserves estimates, and appraisals. The latter part of his experience has been mainly in Indonesia, although in that time he has also completed assignments in Australia, the Philippines, Cameroon, Brazil, Kyrgyzstan and Vietnam. Mr Pooley has worked on open pit, underground, and alluvial properties in gold, coal, base metals and non-metallics. This wide experience, together with his expertise in economics, helps him to competently assess a variety of solutions to mining, treatment, logistical and environmental problems.

Previous to joining the Board of Krakatoa, Mr Pooley worked at SRK Consulting (Australasia) Pty Ltd as a Senior Consultant based in the Perth and Jakarta offices from 2007 to June of 2013. Previous to working at SRK, Mr Pooley worked in Jakarta from 1994 to 2007 at PT Simapertama Minindo as an Independent Consultant.

Mr Pooley holds a BSc (Mining Engineering) - Royal School of Mines in London, is a member of The Australasian Institute of Mining and Metallurgy, a Chartered Professional Engineer, and a member of MICA. He holds a WA Quarry Manager's Certificate of Competency. Mr Pooley is bilingual, speaking English and Bahasa Indonesia.

Interest in Shares

Nil

Directorships held in other listed entities

None

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

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 Mining Network Limited, Rumble Resources Limited and Strike Resources Limited.

MEETINGS OF DIRECTORS

The number of Directors' meetings (including committees) held during the financial year 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	1	1
Kent Hunter	1	1
Roger Pooley	-	-

EVENTS AFTER THE REPORTING PERIOD

On 30 July 2013, Mr Roger Pooley was appointed as a non-executive director of the Group.

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

Krakatoa Resources Limited & Controlled Entities

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 Group 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 Group 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 Group.

Appointments of non-executive directors Stephen Brockhurst and Kent Hunter are formalised in the form of service agreements between themselves and the Group. Their engagements have no fixed term but cease on their resignation or removal as a director in accordance with the Corporations Act 2001. They are each entitled to receive directors' fees of \$30,000 per annum (inclusive of superannuation).

2. Remuneration policy

The Group'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 Group'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 Group, 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 Group 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 Group 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 Group'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 expected to increase to 9.25% effective 1 July 2013, and does not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Group 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 Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Group and are able to participate in the employee share option plan.

**Krakatoa Resources Limited
& Controlled Entities**

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 year ended 30 June 2013

The remuneration for each key management personnel of the Group during the financial year ended 30 June 2013 was as follows:

2013 Key Management Person	Short-term Benefits	Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Performance Related	Value of Options Remuneration
	Cash, salary & commissions	Super-annuation	Other	Equity	Options			
	\$	\$	\$	\$	\$	\$	%	%
Directors								
Kevin Kwok	45,000	-	-	-	-	45,000	-	-
Stephen Brockhurst	17,320	1,559	-	-	-	18,879	-	-
Kent Hunter	17,500	-	-	-	-	17,500	-	-
	79,820	1,559	-	-	-	81,379	-	-

The remuneration for each key management personnel of the Company during the period ended 30 June 2012 was as follows:

2012 Key Management Person	Short-term Benefits	Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Performance Related	Value of Options Remuneration
	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)”

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

ENVIRONMENTAL ISSUES

The Group'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 Group on any of its tenements. To date the Group 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 Group for the current or subsequent financial period. The directors will reassess this position as and when the need arises.

INDEMNIFYING AND INSURANCE OF OFFICERS

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

The Group 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 Group, other than conduct involving a wilful breach of duty in relation to the Group. 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 in this report, about likely developments in the operations of the Group 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 Group.

PROCEEDINGS ON BEHALF OF THE GROUP

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

The Group was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 30 June 2013:

—	taxation services	\$ 500
—	Investigating accountant's report	8,000

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2013 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: 26 September 2013

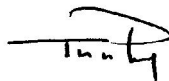
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Krakatoa Resources Limited for the year ended 30 June 2013, 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: 26 September 2013

**Krakatoa Resources Limited
& Controlled Entities**

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	30 June 2013 \$	19 January 2012 to 30 June 2012 \$
Revenue	2	38,897	-
Administration expenses		(187,081)	(12,562)
Compliance and regulatory expense		(116,621)	-
Employee benefits expense		(130,308)	(10,000)
Project evaluation costs		(100,675)	(60,893)
Travel and accommodation		(123,476)	-
Loss before income tax expense		(619,264)	(83,455)
Income tax expense	3	-	-
Loss for the year / period		(619,264)	(83,455)
Other comprehensive income			
<i>Item that may be reclassified subsequently to operating result</i>			
Foreign currency translation		446	-
Total comprehensive (loss) attributable to members of the parent entity		(618,818)	(83,455)
Net loss attributable to:			
Members of the parent entity		(619,264)	(83,455)
Non-controlling interest		-	-
		(619,264)	(83,455)
Total comprehensive loss attributable to:			
Members of the parent entity		(618,818)	(83,455)
Non-controlling interest		-	-
		(618,818)	(83,455)
Basic and diluted loss per share (cents per share)	4	(2.89)	(0.71)

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013**

	Note	2013 \$	2012 \$
CURRENT ASSETS			
Cash and cash equivalents	6	1,773,444	187,267
Trade and other receivables	7	16,629	1,781
Other financial assets	8	37,490	-
Other assets	9	122,684	-
TOTAL CURRENT ASSETS		1,950,247	189,048
NON CURRENT ASSETS			
Other assets	9	40,190	-
Exploration and evaluation expenditure	10	543,687	-
TOTAL NON CURRENT ASSETS		583,877	-
TOTAL ASSETS		2,534,124	189,048
CURRENT LIABILITIES			
Trade and other payables	11	89,167	2,250
TOTAL CURRENT LIABILITIES		89,167	2,250
TOTAL LIABILITIES		89,167	2,250
NET ASSETS		2,444,957	186,798
EQUITY			
Issued capital	12	2,914,730	270,253
Reserves	13	145,446	-
Non-controlling interest	14	87,500	-
Accumulated losses		(702,719)	(83,455)
TOTAL EQUITY		2,444,957	186,798

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	Issued Capital \$	Accumulated Losses \$	Option Premium Reserve \$	Foreign Currency Translation Reserve \$	Non- controlling interest \$	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	12	301,003	-	-	-	-	301,003
Less: transaction costs arising from issue of shares	12	(30,750)	-	-	-	-	(30,750)
Balance at 30 June 2012		270,253	(83,455)	-	-	-	186,798
Balance at 1 July 2012		270,253	(83,455)	-	-	-	186,798
Loss for the year		-	(619,264)	-	-	-	(619,264)
Other comprehensive income		-	-	-	446	-	446
Total comprehensive loss		-	(619,264)	-	446	-	(618,818)
<i>Transactions with owner directly recorded in equity</i>							
Shares issued during the year	12	3,200,000	-	-	-	-	3,200,000
Less: transaction costs arising from issue of shares	12	(555,523)	-	-	-	-	(555,523)
Options issued during the year	13	-	-	145,000	-	-	145,000
Recognition of minority interest of PT. Dana Ramakala	14	-	-	-	-	87,500	87,500
Balance at 30 June 2013		2,914,730	(702,719)	145,000	446	87,500	2,444,957

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	2013 \$	19 January 2012 to 30 June 2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		22,062	-
Payments to suppliers and employees		(593,058)	(22,093)
Payment for exploration and evaluation expenditure		(206,862)	(60,893)
Net cash used in operating activities	16	<u>(777,858)</u>	<u>(82,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration assets		(150,000)	-
Payments for financial assets		(114,060)	-
Proceeds from sale of financial assets		32,850	-
Net cash used in investing activities		<u>(231,210)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,000,000	301,003
Proceeds from issue of options		140,768	-
Share application money received		10,000	-
Payment of transaction costs associated with capital raising		(555,523)	(30,750)
Net cash provided by financing activities		<u>2,595,245</u>	<u>270,253</u>
Net increase in cash held		1,586,177	187,267
Cash at beginning of financial year / period		<u>187,267</u>	<u>-</u>
Cash at end of financial year / period	6	<u>1,773,444</u>	<u>187,267</u>

The accompanying notes form part of these financial statements.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements were authorised for issue on 26 September 2013 by the directors of the Group.

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*. The Group is a for profit entity for financial reporting purposes under Australian Accounting Standards.

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.

Accounting Policies

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

b) 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 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.

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.

c) 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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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

c) Exploration and Evaluation Expenditure (Cont.)

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.

d) Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and reduction for impairment, and adjusted for any cumulative amortisation of the difference between the amount initially recognised and the maturity amount calculated using the effective interest method.

Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit and loss

Financial assets are classified 'at fair value through profit or loss' when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance valuation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in the carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

d) Financial Instruments (Cont.)

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets).

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

(iv) Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets).

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

e) Impairment of Assets

At the end of each reporting date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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

g) 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.

h) 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).

i) 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.

j) 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.

k) Trade and other payables

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

l) 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.

m) Earnings per share

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.

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.

n) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. The Group acquired and incorporated subsidiaries during the year. The current period balances reflect the Group while the comparatives reflect only the balances of the parent entity.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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

o) 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 Group.

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 Group 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.

Exploration and Evaluation Expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at balance date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(c).

p) Changes in accounting policies and disclosure

In the year ended 30 June 2013, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

q) New Accounting Standards for Application in Future Periods

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Group has elected not to early adopt any Standards or Interpretations.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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

q) New Accounting Standards for Application in Future Periods (Cont.)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 January 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	19 January 2012 to 30 June 2012
	\$	\$
NOTE 2: REVENUE		
Interest received	28,047	-
Profit on sale of financial assets	10,850	-
	38,897	-

NOTE 3: INCOME TAX EXPENSE

a. Reconciliation of income tax expense to prima facie tax payable:

Loss from ordinary activities before income tax expense	(619,264)	(83,455)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(185,779)	(25,036)
Increase in income tax due to:		
- Non-deductible expenses	-	-
- Losses and temporary differences not recognised	185,779	25,036
Decrease in income tax due to:		
- Deductible equity raising costs	-	-
Income tax attributable to the Group	-	-

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	210,815	25,036
	210,815	25,036

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2013 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 Group derives future assessable income of a nature and of an amount sufficient to enable it to realise the deductions for the loss and exploration expenditure to be realised;
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

NOTE 4: EARNINGS PER SHARE

a. Loss used to calculate basic EPS	(619,264)	(83,455)
	No	No.
b. Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	21,460,277	11,760,739

As the Group is in a loss position the options outstanding at 30 June 2013 have no dilutive effects on the earnings per share calculation.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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 Group's key management personnel for the year ended 30 June 2013.

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

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

a. Remuneration of Key Management Personnel

The totals of remuneration paid to the KMP of the Group during the year are as follows:

	2013 \$	19 January 2012 to 30 June 2012 \$
Short-term employee benefits	79,820	10,000
Post-employment benefits	1,559	-
Total remuneration	81,379	10,000

**b. Shareholdings
Number of Shares held by Key Management Personnel**

2013	Balance 1.7.2012 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2013 No.
Directors					
Kevin Kwok	1,000,000	-	-	-	1,000,000
Stephen Brockhurst	250,001	-	-	-	250,001
Kent Hunter	1,183,334	-	-	-	1,183,334
Total	2,433,335	-	-	-	2,433,335

2012	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	-	-	-	250,001	250,001
Kent Hunter	-	-	-	1,183,334	1,183,334
Marlon Ticoalu	-	-	-	-	-
Total	-	-	-	2,433,335	2,433,335

**c. Option holdings
Number of Options held by Key Management Personnel**

2013	Balance 1.7.2013 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2013 No.
Directors					
Kevin Kwok	-	-	-	-	-
Stephen Brockhurst	-	-	-	125,000	125,000
Kent Hunter	-	-	-	591,667	591,667
Total	-	-	-	716,667	716,667

There are no options on issued as at 30 June 2012.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013 \$	2012 \$
NOTE 6: CASH AND CASH EQUIVALENTS		
Cash at bank	1,773,444	187,267
NOTE 7: TRADE AND OTHER RECEIVABLES		
CURRENT		
GST receivable	6,412	1,781
Other receivables	10,217	-
	16,629	1,781
NOTE 8: OTHER FINANCIAL ASSETS		
Financial assets at fair value through profit or loss		
Held-for-trading Australian listed shares	37,490	-
<p>Shares held for trading are traded for the purpose of short-term profit taking. Changes in fair value are included in the statement of comprehensive income.</p>		
NOTE 9: OTHER ASSETS		
CURRENT		
Prepayments	122,684	-
NON-CURRENT		
Prepayments	40,190	-
NOTE 10: EXPLORATION AND EVALUATION EXPENDITURE		
Exploration expenditure capitalised		
- Exploration and evaluation phase	543,687	-
<p>A reconciliation of the carrying amount of exploration and evaluation expenditure is set out below:</p>		
- Carrying amount at the beginning of the year	-	-
- Acquisition of exploration assets	350,000	-
- Non-controlling interest	87,500	-
- Costs capitalised during the year	106,187	-
	543,687	-

The value of the Group's interest in exploration expenditure is dependent upon:

- the continuance of the Group's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
NOTE 11: TRADE AND OTHER PAYABLES		
CURRENT		
Sundry payables and accrued expenses	89,167	2,250

Trade creditors are expected to be paid on 30 day terms.

NOTE 12: ISSUED CAPITAL

	2013	2013	2012	2012
	No.	\$	No.	\$
Fully paid ordinary shares with no par value	29,000,003	2,914,730	13,000,003	270,253
a) Ordinary shares				
At the beginning of reporting period	13,000,003	270,253	-	-
Shares issued during the year /period:				
- 19 January 2012	-	-	3	3
- 20 January 2012	-	-	10,000,000	1,000
- 23 March 2012	-	-	3,000,000	300,000
- 20 December 2012	15,000,000	3,000,000	-	-
- 20 December 2012	1,000,000	200,000	-	-
Less capital raising costs	-	(555,523)	-	(30,750)
Net share capital	29,000,003	2,914,730	13,000,003	270,253

The Group does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Group, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Group.

b) Capital risk management

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

Due to the nature of the Group'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 Group's capital risk management is to balance the current working capital position against the requirements of the Group 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 Group is not subject to any externally imposed capital requirements.

	2013	2012
	\$	\$
Cash and cash equivalents	1,773,444	187,267
Trade and other receivables	16,629	1,781
Other financial assets	37,490	-
Trade and other payables	(89,167)	(2,250)
Working capital position	1,738,396	186,798

c) Share Options on issue

At 30 June 2013, the Group has 14,500,002 (2012: nil) listed options exercisable at \$0.20 on or before 30 June 2015. Options carry no rights to dividends and have no voting rights.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
NOTE 13: RESERVES		
Foreign currency translation reserve	446	-
Option premium reserve	145,000	-
	145,446	-
	145,446	-

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

NOTE 14: NON-CONTROLLING INTEREST

Balance at the beginning of the year	-	-
Non-controlling interests arising on the acquisition of PT. Dana Ramakala	87,500	-
Share of loss for the year	-	-
	87,500	-
	87,500	-

NOTE 15: BUSINESS COMBINATIONS

On 20 December 2012, the Group completed the acquisition of an 80% interest in the issued capital of PT. Dana Ramakala through the payment of \$150,000 and the issue of 1,000,000 ordinary fully paid shares. It is considered that the acquisition of PT. Dana Ramakala is not a business combination, but rather an acquisition of mining tenements.

		Fair Value
		\$
Purchase consideration:		
Cash		150,000
Ordinary shares		200,000
Non-controlling interest		87,500
		437,500
		437,500
Identifiable assets acquired:		
Mineral exploration and evaluation expenditure		437,500
		437,500

NOTE 16: CASH FLOW INFORMATION

Reconciliation of Cash Flow from Operations with Loss after Income Tax

Loss after income tax	(619,264)	(83,455)
Non cash-flows in loss:		
Profit on sale of financial assets	(10,850)	-
Unrealised loss on financial assets	54,570	-
Changes in assets and liabilities:		
Trade and other receivables	(10,616)	(1,781)
Other assets	(162,874)	-
Exploration and evaluation	(106,187)	-
Trade payables and accruals	77,363	2,250
	(777,858)	(82,986)
Cash flow from operations	(777,858)	(82,986)

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 16: CASH FLOW INFORMATION (CONT.)

Non Cash Investing & Financing Activities:

During the financial year ended 30 June 2013, the Group issued 1,000,000 shares as part consideration of an 80% interest in the issued capital of PT. Dana Ramakala, as disclosed in Note 15.

Apart from the above, there were no non-cash investing or financing activities entered into by the Group during the year.

NOTE 17: 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 Group 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 \$163,650 (2012:\$20,000) in Group secretarial and IPO compliance fees.
- Stellar Securities Pty Ltd, an entity which Kent Hunter is a director and has a beneficial interest, was issued 933,333 ordinary fully paid shares and paid \$102,667 (2012:\$10,000) under the co-lead broker mandate.

	2013	2012
	\$	\$

NOTE 18: SHARE BASED PAYMENTS

The following share based payments were in existence during the year:

Ordinary shares

On 20 December 2012, 1,000,000 ordinary shares were issued to vendors as part consideration for exploration assets acquired

	200,000	-
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Fair value of ordinary shares issued during the period:

The fair value of ordinary shares issued were determined by reference to market price.

NOTE 19: AUDITORS' REMUNERATION

Remuneration of RSM Bird Cameron Partners as auditor for:

— Auditing or reviewing the financial report	20,000	1,500
— taxation services	500	750
— Other services	8,000	-

NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group will issue to the vendors of PT. Dana Ramakala up to an additional 2,000,000 Krakatoa shares, upon the achievement of the following performance milestones:

- a. 1,000,000 upon completion of a mapped geochemical survey, that in the sole discretion of Krakatoa, warrants a 3 to 4 thousand metre diamond drilling program; and
- b. 1,000,000 upon a JORC compliant resource of 1m oz Au or equivalent.

The Group has other no contingent assets or contingent liabilities.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 21: EVENTS AFTER THE REPORTING PERIOD

On 30 July 2013, Mr Roger Pooley was appointed as a non-executive director of the Group.

Other than the above, no matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

NOTE 22: CAPITAL AND LEASING COMMITMENTS

The Group has no commitments as at 30 June 2013.

NOTE 23: CONTROLLED ENTITIES

	Country of Incorporation	Equity holding	Equity Holding
		2013	2012
		%	%
Subsidiaries of Krakatoa Resources Limited:			
PT. Bumi Pratama	Indonesia	100	-
PT. Dana Ramakala	Indonesia	80	-

NOTE 24: PARENT ENTITY DISCLOSURES

Financial position	2013	2012
	\$	\$
Assets		
Current assets	1,899,790	189,048
Non-current assets	546,387	-
Total assets	<u>2,446,177</u>	<u>189,048</u>
Liabilities		
Current liabilities	89,167	2,250
Total liabilities	<u>89,167</u>	<u>2,250</u>
Equity		
Issued capital	2,914,730	270,253
Accumulated losses	(702,720)	(83,455)
Reserves	145,000	-
Total equity	<u>2,357,010</u>	<u>186,798</u>
Financial performance		
(Loss) for the year / period	<u>(619,264)</u>	<u>(83,455)</u>
Total comprehensive (loss) for the year /period	<u>(619,264)</u>	<u>(83,455)</u>

Guarantees:

Krakatoa Resources Limited has not entered into any guarantees in the current or previous financial year, in relation to the debts of its subsidiaries.

Other Commitments and Contingencies:

Krakatoa Resources Limited has no commitment to acquire property, plant and equipment and has no contingents liabilities other than disclosed in Note 20.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTE 25: OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are used by the Board (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by the Board based on the phase of operation within the mining industry. For management purposes, the consolidated entity has organised its operations into two reportable segments on the basis of stage of development as follows:

- Development assets; and
- Exploration and evaluation assets, which includes assets that are associated with the determination and assessment of the existence of commercial economic reserves.

The Board as a whole will regularly review the identified segments in order to allocate resources to the segment and to assess its performance.

During the year ended 30 June 2013, the Group had no development assets. The Board considers that it has only operated in one segment, being mineral exploration within Indonesia.

The Group is domiciled in Australia. All revenue from external customers are only generated from Australia and Indonesia. No revenues were derived from a single external customer.

NOTE 26: FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk; and
- market risk

This note presents information about the Group'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 Group 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 Group 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 Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26: FINANCIAL RISK MANAGEMENT (CONT.)

Credit risk (Cont.)

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 Group's surplus funds are invested with AA Rated financial institutions.

The credit risk for counterparties included in cash and cash equivalents at 30 June 2013 is detailed below:

	2013 \$	2012 \$
Financial assets:		
Cash and cash equivalents		
- AA rated counterparties	1,773,444	187,267

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

Liquidity risk

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

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

The Group is exposed to interest rate risk as it invests funds at floating interest rates.

Interest rate sensitivity analysis

At 30 June 2013, the effect on loss and equity as a result of a 2% increase in the interest rate, with all other variables remaining constant would be a decrease in loss by \$35,469 (2012: \$3,745) and an increase in equity by \$35,469 (2012: \$3,745). The effect on loss and equity as a result of a 2% decrease in the interest rate, with all other variables remaining constant would be an increase in loss by \$35,469 (2012: \$3,745) and a decrease in equity by \$35,469 (2012: \$3,745).

Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair value.

Financial instruments measured at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Quoted prices in active markets for identical assets and liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

NOTE 26: FINANCIAL RISK MANAGEMENT (CONT.)

Financial instruments measured at fair value (Cont.)

2013	Level 1	Level 2	Level 3	Total
Financial assets	\$	\$	\$	\$
Fair value through profit or loss				
- Listed investments – held for trading	37,490	-	-	37,490

Included within level 1 of the hierarchy are listed investments. The fair value of these financial assets have been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs.

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Krakatoa Resources, I state that:

1. In the opinion of the directors:
 - (a) the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
 - (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1.
2. This declaration has been made after receiving the declarations required to be made by the directors in accordance with sections of 295A of the *Corporations Act 2001* for the financial year ended 30 June 2013.

On behalf of the Board



Kevin Kwok
Managing Director

Dated: 26 September 2013

**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, which comprises the statement of financial position as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; 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 year ended 30 June 2013. 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 year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 26 September 2013

Krakatoa Resources Limited & Controlled Entities

CORPORATE GOVERNANCE STATEMENT

The Board recognises the need for the Group to operate with the highest standards of behaviour and accountability.

The Group has considered the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

The Group seeks to follow these recommendations for listed companies where appropriate for its size and operations. In cases where the Group determines it would be inappropriate to follow the principles because of its circumstances, the Group will provide reasons for not doing so in its Annual Report.

The Board will consider on an ongoing basis its Corporate Governance procedures and whether they are sufficient given the Group's nature of operations and size.

Compliance with the Recommendations

For ease of comparison to the Recommendations, the following Section addresses each of the Recommendations and, where the Group has not followed a Recommendation, this is identified with the reasons for not following the Recommendation.

PRINCIPLES AND RECOMMENDATIONS	COMMENT
1. Lay solid foundations for management and oversight	
<i>1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.</i>	The Group's Corporate Governance Manual includes a Board Charter, which discloses the specific responsibilities of the Board. The Board delegates responsibility for the day-to-day operations and administration of the Group to the Managing Director. On appointment, all Directors of the Group receive a letter of appointment which sets out the terms and conditions of their appointment.
<i>1.2 Companies should disclose the process for evaluating the performance of senior executives.</i>	The Group's Corporate Governance Manual includes a section on performance evaluation practices adopted by the Group. The Board will review the performance of the Managing Director and executives to ensure they execute the Group's strategy through the efficient and effective implementation of the business objectives. The Managing Director and executives will be assessed against the performance of the Group and individual performance.
<i>1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.</i>	Explanation of departures from Principles and Recommendations 1.1 and 1.2 (if any) are set out above. No performance evaluation of senior executives has taken place to date as this process is conducted annually. Future annual reports will disclose whether such a performance evaluation has taken place in the relevant reporting period and whether it was in accordance with the process disclosed. The Corporate Governance Manual, which includes the Board Charter, is posted on the Group's website.
2. Structure the board to add value	

**Krakatoa Resources Limited
& Controlled Entities**

PRINCIPLES AND RECOMMENDATIONS	COMMENT
<p><i>2.1 A majority of the Board should be independent directors.</i></p>	<p>The Board consists of one executive Director and three non-executive Directors. Details of each Board member's experience, expertise and qualifications are set out in the Director's Report. The Board has assessed the independence of the non-executive Directors using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1. The Board has determined that two of the three non-executive directors are independent as defined under Recommendation 2.1.</p> <p>The Group is at variance with Recommendation 2.1 in that the majority of directors are not independent. The Board has nevertheless determined that the composition of the current Board represents the best mix of directors that can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management. Furthermore, each individual member of the Board is satisfied that whilst the Group may not comply with Recommendation 2.1, all directors bring an independent judgment to bear on Board decisions.</p>
<p><i>2.2 The chair should be an independent director.</i></p>	<p>The Group is at variance with Recommendation 2.2 in that the Board does not have an independent chair.</p>
<p><i>2.3 The roles of chair and chief executive officer should not be exercised by the same individual.</i></p>	<p>The Board Charter summarises the roles and responsibilities of the chairman and the Chief Executive Officer (once appointed).</p>
<p><i>2.4 The Board should establish a nomination committee.</i></p>	<p>As the whole Board only consists of four (4) members, the Group does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.</p>
<p><i>2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.</i></p>	<p>The Board will review its performance each year to ensure individual directors and the Board as a whole work efficiently in achieving their functions as set out in the Board charter. The Board as a whole discusses and analyses its own performance during the year including suggestions for change or improvement. The Board may also utilise the services of an external party to review the performance of the Board.</p>
<p><i>2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.</i></p>	<p>In accordance with the guide to reporting on Principle 2, a description of the procedure for the selection appointment of new directors and the re-election of current directors is available from the corporate governance section of the Group's website.</p>
3. Promote ethical and responsible decision-making	
<p><i>3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:</i></p> <ul style="list-style-type: none"> • <i>the practices necessary to maintain confidence in the Group's integrity</i> • <i>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</i> • <i>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</i> 	<p>The Board has adopted a Code of Conduct which applies to all directors and officers of the Group. It sets out Krakatoa's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards. The Code of Conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1.</p>

**Krakatoa Resources Limited
& Controlled Entities**

PRINCIPLES AND RECOMMENDATIONS	COMMENT
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	The Board has adopted a Diversity Policy which sets out the Group's aims and practices in relation to recognising and respecting diversity in employment. The Policy reinforces the Group's commitment to actively managing diversity as a means of enhancing the Group's performance by recognising and utilising the contributions of diverse skills and talent from its employees. The Diversity Policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.
3.3 Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress in achieving them.	The Board continues to monitor diversity across the organisation and is satisfied with the current level of gender diversity within the Company. Due to the size of the company and its small number of employees, the Board does not consider it appropriate at this time, to formally set measurable objectives for gender diversity.
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	The Company is committed to setting measurable objectives for attracting and engaging women of the board level, in senior management and across the whole organisation. As at the date of this report, the Company has the following proportion of women appointed: to the Board - nil to senior management – nil to the organisation – 14%
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.	In accordance with the guide to reporting on Principle 3, the Group's Code of Conduct and Diversity Policy is available from the corporate governance section of the Group's website.
4. Safeguard integrity in financial reporting	
4.1 The Board should establish an audit committee.	Due to the size and scale of operations of the Group the full Board undertakes the role of the Audit Committee. In the absence of a formal audit committee the Board considers the issues that would otherwise be considered by the audit committee. A copy of the Audit Committee Charter is available on the Group's website.
4.2 The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members	The Group is at variance with Recommendation 4.2 in that full Board undertakes the role of the Audit Committee, which consists of an executive and non-independent directors.
4.3 The audit committee should have a formal charter.	The Audit and Risk Committee charter sets out its role, responsibilities and membership requirements and reflects the matters set out in the commentary and guidance for Recommendation 4.3. Consistent with the Group's Audit and Risk Committee Charter, the Audit and Risk Committee reviews the external auditor's terms of engagement and audit plan, and assesses the independence of the external auditor. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years.
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.	In accordance with the guide to reporting on Principle 4, the Group's Audit and Risk Committee charter is available from the corporate governance section of the Group's website.
5. Make timely and balanced disclosure	

**Krakatoa Resources Limited
& Controlled Entities**

PRINCIPLES AND RECOMMENDATIONS	COMMENT
<i>5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.</i>	The Group's Continuous Disclosure Policy sets out the key obligations of the Directors and employees in relation to continuous disclosure as well as the Group's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for the monitoring of Group compliance. The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.
<i>5.2 Companies should provide the information indicated in Guide to Reporting on Principle 5.</i>	The Group will include the disclosure required by Recommendation 5.2 in its future annual reports. In accordance with the guide to reporting on Principle 5, the Group's Continuous Disclosure Policy is available from the corporate governance section of the Group's website.
6. Respect the rights of shareholders	
<i>6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.</i>	The Shareholder Communications Policy sets out the Group's aims and practices in respect of communicating with both current and prospective Shareholders. The Policy reinforces the Group's commitment to promoting investor confidence and reflects the matters set out in the commentary and guidance for Recommendation 6.1.
<i>6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.</i>	The Group will include the disclosure required by Recommendation 6.2 in its future annual reports. In accordance with the guide to reporting on Principle 6, the Group's Shareholder Communication Policy is available from the corporate governance section of the Group's website.
7. Recognise and manage risk	
<i>7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.</i>	Krakatoa recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Group. As a result, the Board has adopted a Risk Management Policy which sets out the Group's system of risk oversight, management of material business risks and internal control.
<i>7.2 The board should require management to design and implement the risk management and internal control system to manage the Group's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Group's management of its material business risks.</i>	Krakatoa's risk management framework is supported by the Board of Directors, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Group's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee also has delegated responsibilities in relation to risk management and the financial reporting process as set out in the Group's Audit and Risk Committee Charter.
<i>7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</i>	When considering the Audit and Risk Committee's review of financial reports, the Board will receive a written statement declaration in accordance with section 295A of the Corporations Act, signed by the Managing Director and Chief Financial Officer, stating whether, amongst other things, the Group's financial reports give a true and fair view, in all material respects, with the Group's financial position and performance and comply with relevant accounting standards. This statement will also confirm whether the Group's financial reports are founded on a sound system of risk management and internal control and whether the system is operating effectively in relation to financial reporting risks. Similarly, in a separate written statement the Managing

**Krakatoa Resources Limited
& Controlled Entities**

PRINCIPLES AND RECOMMENDATIONS	COMMENT
	Director and the Chairman of the Audit and Risk Committee will also confirm to the Board whether the Group's risk management and internal control systems are operating effectively in relation to material business risks for the period, and that nothing has occurred since period-end that would materially change the position.
<i>7.4 Companies should provide the information indicated in Guide to Reporting on Principle 7.</i>	In accordance with the guide to reporting on Principle 7, the Group's Audit and Risk Committee Charter is available from the corporate governance section of the Group's website.
8. Remunerate fairly and responsibly	
<i>8.1 The board should establish a remuneration committee.</i>	As the whole Board only consists of three (3) members, the Group does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.
<i>8.2 The remuneration committee should be structured so that it:</i> <ul style="list-style-type: none"> • consists of a majority of independent directors • is chaired by an independent director • has at least three members 	The Group is at variance with Recommendation 8.2 in that full Board undertakes the role of the Nomination and Remuneration Committee, which consists of an executive and non-independent directors.
<i>8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.</i>	The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2012 General Meeting, is not to exceed \$250,000 per annum. Neither the non-executive directors nor the executives of the Group receive any retirement benefits, other than superannuation. The Managing Director is employed pursuant to an employment agreement, which is summarised in the Director's Report.
<i>8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.</i>	In accordance with the guide to reporting on Principle 8, the Group's Nomination and Remuneration Committee Charter is available from the corporate governance section of the Group's website.

Krakatoa Resources Limited & Controlled Entities

ASX INFORMATION AS AT 31 AUGUST 2013

The following additional information is required by the ASX Limited in respect of listed public companies and was applicable at 31 August 2013.

1. Shareholding

a. Distribution of Shareholders	Number (as at 31 August 2013)	
Category (size of holding)	Shareholders	Ordinary Shares
1 – 1,000	17	452
1,001 – 5,000	1	5,000
5,001 – 10,000	169	1,683,000
10,001 – 100,000	200	8,027,301
100,001 – and over	46	19,284,250
	433	29,000,003

b. The number of shareholdings held in less than marketable parcels is 20 shareholders amounting to 18,452 shares.

c. The followings securities are restricted at 31 August 2013:

- 1,000,000 ordinary shares fully paid until 19 December 2013
- 10,060,000 ordinary shares fully paid until 28 December 2014

d. The names of substantial shareholders listed in the company's register as at 31 August 2013 are:

Shareholder	Ordinary Shares	%Held of Total Ordinary Shares
CK Locke & Partners Pty Ltd	1,866,667	6.44%

e. **Voting Rights**

The voting rights attached to the ordinary shares are as follows:

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Krakatoa Resources Limited & Controlled Entities

f. 20 Largest Shareholders as at 31 August 2013 — Ordinary Shares

	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. CK LOCKE & PARTNERS PTY LTD	1,866,667	6.44
2. LINKWELL LTD	1,445,000	4.98
3. CV INDO PROJECT SERVICES	1,250,000	4.31
4. CV JAVA HOLDINGS	1,250,000	4.31
5. LUCKY BILLION INVESTMENTS LTD	1,055,000	3.64
6. ASGAR ALI DJUHAEPA	1,000,000	3.45
7. HOLLOW POINT HOLDINGS LTD	1,000,000	3.45
8. STELLAR SECURITITES PTY LTD	933,333	3.22
9. PROF YEW KWANG NG	700,000	2.41
10. DR RONALD JOHN BOND	500,000	1.72
11. GILPIN PARK PTY LTD	500,000	1.72
12. RJB MEDICAL PTY LTD <BOND SUPER FUND A/C>	500,000	1.72
13. ARCHFIELD HOLDINGS PTY LTD	495,500	1.71
14. CITICORP NOMINEES PTY LIMITED	363,200	1.25
15. MR MURRAY WILLIAM BROUN	325,000	1.12
16. MR ALF TOMMY HARSTROM	325,000	1.12
17. PROFESSOR YEW KWANG NG	300,000	1.03
18. R & P AUSTIN SUPERANNUATION PTY LTD <AUSTIN SUPER FUND A/C>	300,000	1.03
19. DR SHIRLEY THEIN GI LIM	270,000	0.93
20. MR STEPHEN BROCKHURST <SM BROCKHURST FAMILY A/C>	250,000	0.86
	14,628,700	50.42

2. The name of the company secretary is David Palumbo.
3. The address of the principal registered office in Australia is:
Suite 1, 22 Railway Road, Subiaco WA 6008.
4. Registers of securities are held at the following address:
Computershare Investor Services Pty Ltd, Level 2, 45 St Georges Terrace, Perth WA 6000
5. Stock Exchange Listing
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the ASX Limited.
6. Unquoted Securities
The Company has no unquoted securities as at 31 August 2013.

**Krakatoa Resources Limited
& Controlled Entities**

7. Quoted Options over Unissued Shares (\$0.20 options – expiry 30 June 2015)

A total of 14,500,002 \$0.20 options are on issue. Each option can be exercised upon the payment of \$0.20 and will receive one ordinary share. The expiry date for the options is 30 June 2015.

20 Largest Shareholders as at 31 August 2013 — \$0.20 options expiring on or before 30 June 2015

	Number of \$0.20 Options Held	% Held of \$0.20 Options
1. YORK RICH (CHINA) LTD	6,000,000	41.38
2. STELLAR SECURITITES PTY LTD	466,667	3.22
3. PROF YEW KWANG NG	350,000	2.41
4. MR MURRAY WILLIAM BROUN	339,243	2.34
5. RJB MEDICAL PTY LTD <BOND SUPER FUND A/C>	333,334	2.30
6. MS SALLY JUDITH MOLYNEUX	292,900	2.02
7. MISS FELICITY ANNE WISBEY	255,713	1.76
8. DR RONALD JOHN BOND	250,000	1.72
9. EAGLE EYE NOMINEES PTY LTD	250,000	1.72
10. MR TERRY JAMES GARDINER + MRS VICTORIA HELEN GARDINER <TERRY JAMES GARDINER S/F A/C>	179,750	1.24
11. MR ALF TOMMY HARSTROM	162,500	1.12
12. PROFESSOR YEW KWANG NG	150,000	1.03
13. CICCHINO PTY LTD <CICCHINO SHARE A/C>	137,500	0.95
14. DR SHIRLEY THEIN GI LIM	135,000	0.93
15. MR STEPHEN BROCKHURST <SM BROCKHURST FAMILY A/C>	125,000	0.86
16. MS SUSAN FIDLER	125,000	0.86
17. KOUTA BAY PTY LTD <HOUDY FAMILY A/C>	125,000	0.86
18. STRATUM METALS LIMITED	125,000	0.86
19. TILPA PTY LTD <TILPA PTY LTD STAFF S/F A/C>	125,000	0.86
20. SUBIACO ASSET MANAGEMENT P/L <GLOBAL SPECULATIVE A/C>	112,500	0.78
	10,040,107	69.22

8. Use of Cash and Assets

The Company used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives stated in the company's prospectus dated 28 September 2012.

**Krakatoa Resources Limited
& Controlled Entities**

**SCHEDULE OF MINERAL TENEMENTS
AS AT 31 AUGUST 2013**

<i>Project</i>	<i>Tenement</i>	<i>Interest held by Krakatoa Resources Limited</i>
DONGGALA	IUP No.188.45/0465/DESDM	80%