krakatoa
resources limited
ABN 39 155 231 575

& Controlled Entities

Annual Report
For the year ended 30 June 2016

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CORPORATE DIRECTORY

PRINCIPAL AND REGISTERED OFFICE
Level 11, 216 St Georges Terrace
Perth WA 6000
Tel: +61 8 9481 0389
Fax: +61 8 9463 6103
Email: admin@krakatoaresources.com
Web: www.krakatoaresources.com

DIRECTORS
Colin Locke – Executive Chairman
Aryo Bimo – Non-Executive Director
Timothy Hogan – Non-Executive Director

COMPANY SECRETARY
David Palumbo

SHARE REGISTRAR
Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth WA 6000
Tel: +61 8 9323 2000
Fax: +61 8 9323 2033
Web: www.computershare.com.au

AUDITORS
RSM Australia Partners
8 St Georges Terrace
PERTH WA 6000

DIRECTORS' REPORT

Your directors present the following report on Krakatoa Resources Limited (the "Company") and controlled entities (referred to hereafter as the "Group") for the financial year ended 30 June 2016.

DIRECTORS

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

- Colin Locke (Executive Chairman) – Appointed 6 August 2015
- Aryo Bimo (Non-Executive Director) – Previously Executive Director until 6 August 2015
- Timothy Hogan (Non-Executive Director) – Appointed 7 October 2015
- Brian Varndell (Non-Executive Director) – Resigned 7 October 2015
- Roger Pooley (Non-Executive Director) – Resigned 6 August 2015

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.

OPERATING RESULTS

The loss of the Group after providing for income tax amounted to $1,171,305 (2015: $2,952,584).

FINANCIAL POSITION

As at 30 June 2016, the Group had a cash balance of $257,671 (2015: $23,098) and a net asset position of $590,644 (2015: net liability position of $273,458).

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 2016.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the state of affairs occurred during the financial year.

DIRECTORS' REPORT (CONT.)

REVIEW OF OPERATIONS

The Company's main focus for the year ended 30 June 2016 was exploration activities at its Dalgaranga and Mac Well Projects.

Dalgaranga Project
On 2 March 2016, Krakatoa announced the acquisition of the Dalgaranga Tantalum-Niobium Lithium Project for $25,000 cash, 3,000,000 shares and 3,000,000 options exercisable at $0.20 on or before 31 March 2017. The Dalgaranga Project is located 80km north west of Mount Magnet in Western Australia.

In April 2016, the Company announced completion of a rock chip sampling campaign within the vicinity of the historical Dalgaranga Open Pit. The program aimed to determine the tenor of exposed mineralisation within the open pit, confirm the presence of Zinnwaldite (lithium mica mineral) and develop an understanding of the potential for hosting extensions to the previously mined tantalum-niobium mineralisation. Rock chip samples returned up to 1,854ppm Ta_2O_5 confirming that high grade mineralisation remains within the open pit. Zinnwaldite (lithium mica mineral) was logged in sample 16D012 which reported 0.52% (5,163ppm) Li_2O. This confirms the presence of lithium minerals within the pegmatites at Dalgaranga. A full listing of results from the rock chip sampling campaign is detailed in the Company's announcement dated 8 April 2016.

In June 2016, the Company organised a follow up expedition to the Dalgaranga open pit to validate and expand upon the geological understanding and potential for hosting extensions to the previously mined tantalum-niobium mineralisation. Former owners Meridian 120 Mining Pty Ltd completed geological mapping over the southern portions of the current Dalgaranga Prospecting License. Krakatoa validated and expanded upon past mapping. A number of samples were taken (a full listing of results is detailed in the Company's announcement dated 7 June 2016) which confirmed the tenor of mineralisation within the pit and its immediate environments, exampled by: 16D030: 0.92% Li_2O, 0.64% Rb_2O and 16D032: 226ppm Ta_2O_5, 0.51% Li_2O, 0.84% Rb_2O.

Mac Well Project
During the year, Krakatoa made an Exploration Licence Application across the Boungoonoo pegmatite-hosted beryl occurrence. The Mac Well Project has a land area of 66.9km^2, covers the pegmatite occurrence, and is located 10km west of Krakatoa's Dalgaranga Project.

A low impact field based exploration mission was deployed at Mac Well (E59/2175) which confirmed the occurrence of Li-bearing mica's and the presence of suitable pegmatites and the occurrence of the Li-bearing phyllosilicate, zinnwaldite.

BCS Project
Due to depressed iron ore prices, no work was undertaken at the BCS Project during the year ended 30 June 2016.

Bone Bay and Laeya River Projects
During the year ended 30 June 2016, Krakatoa completed comprehensive legal and technical due diligence on PT TJS and the Bone Bay and Laeya River Graphite Projects. Subsequent to year end, the option to acquire a 75% interest in PT TJS and its Bone Bay and Laeya River Graphite Projects was allowed to lapse.

Project Generation
The Company is continuing to review acquisition opportunities in the resources sector.

DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS

Colin Locke	Executive Chairman (Appointed 6 August 2015) From 1984 to 1993, Mr. Locke worked in the mining industry processing base and precious metals. During this time, he traded resource stocks and international futures contracts. In 1993, Mr. Locke joined an Australian commodity and futures broking firm as an investment advisor and became a Director in 1994. In 1998 Mr. Locke co-founded a boutique Australian Financial Services firm and held the position of Managing Director from 1999 until 2010. In 2007, Mr. Locke held the role of Corporate Advisor during the acquisition process for the Mayoko Iron Ore Project in the Republic of Congo that was subsequently taken over in 2010. From 2008, Mr. Locke focused on natural resources exploration pursuits throughout the Indonesian archipelago and founded Western Mining Network Ltd, (ASX: WMN) where he held the role of Executive Director from 2010 until 2012. From 2012, Mr. Locke assisted with the Krakatoa IPO. Mr. Locke brings to the board and shareholders a unique blend of natural resources prospecting, mineral processing, business management and financial experience spanning over 30 years. Mr. Locke is based in Jakarta and regularly visits stakeholders in Australia.
Interest in Securities	86,000 Fully paid ordinary shares 3,000,000 unlisted options exercisable at $0.40 on or before 31 March 2017
Directorships held in other listed entities	None
Aryo Bimo	Non-Executive Director (Previously Executive Director until 6 August 2015) Mr Bimo is the current Director of Operations at PT. Sitasa Resources and its operating mines, PT. Sitasa Energi and PT. Tambang Sunai Sanur. He has led the development of Sitasa Group, one of Indonesia's most successful Iron Ore Mining Companies, from its roots as an exploration Company in 2008 to a significant producer at two separate mines in less than 5 years. Mr Bimo graduated from The Institute of Technology Surabaya with a degree in Civil Engineering. He is fluent in English and Bahasa Indonesia.
Interest in Securities	1,000,000 Fully paid ordinary shares 2,000,000 unlisted options exercisable at $0.40 on or before 31 March 2017
Directorships held in other listed entities	None

DIRECTORS' REPORT (CONT.)

Timothy Hogan	Non-Executive Director (Appointed 7 October 2015) Mr. Hogan has approximately 25 years' experience in the stockbroking industry in Australia, initially as a founding private client advisor at Hogan and Partners. Mr. Hogan has provided corporate and execution services for a wide variety of corporate and private clients. Mr. Hogan is currently a Director of Barclay Wells Limited, a boutique advisory firm that specialises in Australian resource stocks, and has assisted many companies from their initial capital raising and flotation on the ASX through to production. Mr. Hogan brings extensive experience and a wide range of contacts that will benefit the Company.
Interest in Securities	2,000,000 unlisted options exercisable at $0.40 on or before 31 March 2017
Directorships held in other listed entities	None
Roger Pooley *(Bsc)*	Former Non-Executive Director (Resigned 6 August 2015) 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.

DIRECTORS' REPORT (CONT.)

Interest in Securities (at resignation)	Nil
Directorships held in other listed entities (at resignation)	None
Brian Varndell BSc(SpecHonsGeol)	Former Non-Executive Director (Resigned 7 October 2015) Mr Varndell is a Fellow Member of the Australasian Institute of Mining & Metallurgy ("AusIMM") and has over 40 years of experience including managerial roles and consulting in the capacity of Acting or Chief Geologist. His experience encompasses all aspects of the resource sector including exploration, development and mining both opencast and underground. Mr Varndell has worked in the Indonesian mining industry since 1988 and was permanently based in Indonesia between 1994-1999 where he was the Regional Exploration Manager for Aurora Gold Limited and helped guide the exploration team to identify over 600,000oz Au resources which converted into over 350,000oz of reserves at the Indo Muro Kencana Mt Muro operation and 2.5Moz Au resources at the Meares Soputan Mining Toka Tindung Project in N. Sulawesi. He has recently maintained working contact with Indonesia mainly with involvement in the coal sector.
Interest in Securities (at resignation)	Nil
Directorships held in other listed entities (at resignation)	None

COMPANY SECRETARY

David Palumbo *(BCom, CA)*
Mr Palumbo is a Chartered Accountant with over ten years' experience in the accounting and financial reporting of ASX listed and unlisted companies, which includes five years as an external auditor.

Mr Palumbo provides corporate advisory and financial management advice and specialises in corporate compliance, statutory reporting and financial accounting services. He has also been involved in the listing of several junior exploration companies on the ASX and currently acts as Company Secretary for a number of ASX listed, unlisted and private companies.

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 Colin Locke has worked for the Group in an executive capacity as Executive Chairman since his appointment on 6 August 2015. Under the terms of the executive agreement, Mr Locke's total remuneration package is $114,000.

Mr Aryo Bimo worked for the Group in an executive capacity as Executive Director for the financial period to 6 August 2015, at which point he became a Non-Executive Director. Under the terms of the executive agreement, Mr Bimo's annual salary was $90,000.

Appointments of non-executive directors Timothy Hogan and Aryo Bimo 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 $36,000 plus superannuation and $30,000 per annum respectively.

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. 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.

DIRECTORS' REPORT (CONT.)

The maximum aggregate amount of fees that can be paid to non-executive directors is $250,000. 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.

3. Performance-based remuneration

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

4. Details of remuneration for the year ended 30 June 2016

The remuneration for each key management personnel of the Group during the financial year ended 30 June 2016 and 30 June 2015 was as follows:

2016	Short-term Benefits	Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Perfor-mance Related	Value of Options Re-muneration
Key Management Person	**Cash, salary & commissions**	**Super-annuation**	**Other**	**Equity**	**Options**			
	$	$	$	$	$	$	%	%
Directors								
Colin Locke	103,290	-	-	-	63,000	166,290	-	38
Aryo Bimo	35,968	-	-	-	42,000	77,968	-	54
Timothy Hogan	26,226	2,491	-		42,000	70,717	-	59
Brian Varndell	8,064	766	-	-	-	8,830	-	-
Roger Pooley	2,984	283	-	-	-	3,267	-	-
	176,532	**3,540**	**-**	**-**	**147,000**	**327,072**	**-**	**45**

2015	Short-term Benefits	Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Perfor-mance Related	Value of Options Re-muneration
Key Management Person	**Cash, salary & commissions**	**Super-annuation**	**Other**	**Equity**	**Options**			
	$	$	$	$	$	$	%	%
Directors								
Aryo Bimo	90,000	-	-	-	-	90,000	-	-
Brian Varndell	30,000	2,850	-	-	-	32,850	-	-
Roger Pooley	30,000	2,850	-	-	-	32,850	-	-
	150,000	**5,700**	**-**	**-**	**-**	**155,700**	**-**	**-**

DIRECTORS' REPORT (CONT.)

5. Equity holdings of key management personnel

Shareholdings
Number of shares held by key management personnel during the financial year ended 30 June 2016 was as follows:

2016	Balance 1.7.2015 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2016 No.
Directors					
Colin Locke	-	-	-	86,000	86,000
Aryo Bimo	1,000,000	-	-	-	1,000,000
Timothy Hogan	-	-	-	-	-
Brian Varndell	-	-	-	-	-
Roger Pooley	-	-	-	-	-
Total	1,000,000	-	-	86,000	1,086,000

Option holdings
Number of options held by key management personnel during the financial year ended 30 June 2016 was as follows:

2016	Balance 1.7.2015 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2016 No.
Directors					
Colin Locke	-	3,000,000	-	-	3,000,000
Aryo Bimo	-	2,000,000	-	-	2,000,000
Timothy Hogan	-	2,000,000	-	-	2,000,000
Brian Varndell	-	-	-	-	-
Roger Pooley	-	-	-	-	-
Total	-	7,000,000	-	-	7,000,000

6. Other transactions with key management personnel

The Group incurred the following transactions with related parties during the year ended 30 June 2016:

- PT. Geofirst Consulting, an entity which Aryo Bimo is a director, invoiced the Group a total of $53,499 for exploration services in the year ended 30 June 2015. No services were provided in the year 30 June 2016. An amount of $100,508 (2015: $103,978) was outstanding at year end.
- At 30 June 2016, PT. Bina Citra Sawita had a payable to PT. Sitasa Energi, an entity which Aryo Bimo is a director, totalling $61,895 (2015: $59,365).
- Timothy Hogan invoiced the Group $51,500 for promotional and investor relation services.

All transactions were made on normal commercial terms and conditions and at market rates.

7. Equity instruments granted as compensation

A total of 7,000,000 unlisted options exercisable at $0.40 on or before 31 March 2017 were granted to directors during the year. There were no other equity instruments granted as compensation.

DIRECTORS' REPORT (CONT.)

8. Company Performance

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016 $	2015 $	2014 $	2013 $	2012 $
Sales Revenue	-	-	-	-	-
EBITDA	(1,171,305)	(2,952,584)	(1,884,114)	(619,264)	(83,455)
EBIT	(1,171,305)	(2,952,584)	(1,884,114)	(619,264)	(83,455)
(Loss)/Profit after income tax	(1,171,305)	(2,952,584)	(1,884,114)	(619,264)	(83,455)

The factors that are considered to affect total shareholder return ('TSR') are summarised below:

	2016	2015	2014	2013	2012
Share price at financial year end ($)	0.18	0.15	0.16	0.05	-
Dividends declared (cents per share)	-	-	-	-	-
Basic loss per share (cents per share)	(2.3)	(7.53)	(6.12)	(2.89)	(0.71)

"End of Remuneration Report (Audited)"

MEETINGS OF DIRECTORS

The number of Directors' meetings held during the financial year and the number of meetings attended by each Director are:

	Directors' Meetings	
Director	**Number eligible to attend**	**Number attended**
Colin Locke	2	2
Aryo Bimo	3	2
Timothy Hogan	1	1
Brian Varndell	2	2
Roger Pooley	1	1

EVENTS AFTER THE REPORTING PERIOD

On 14 September 2016, the Company issued 1,000,000 fully paid ordinary shares and 1,000,000 listed options exercisable $0.20 on or before 31 March 2017 as part consideration for the Dalgaranga Project.

On 28 September 2016, the Company issued 920,035 fully paid ordinary shares to raise $138,005 for working capital and pursuing the clean energy opportunity announced to ASX on 17 August 2016.

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.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

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 there have been no known breaches of any environmental obligations.

INDEMNIFYING AND INSURANCE OF OFFICERS

The Group has entered into deeds of indemnity with each director and the company secretary 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 and the company secretary 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 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

There following fees were paid or payable to the auditor for non-audit services provided during the year ended 30 June 2016:

		$
—	taxation services	675

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the non-audit services provided by the auditor do not compromise the auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services provided undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

DIRECTORS' REPORT (CONT.)

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2016 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.

Colin Locke
Executive Chairman
Dated: 30 September 2016

RSM Australia Partners

8 St Georges Terrace Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100
F +61 (0) 8 9261 9111

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Krakatoa Resources Limited for the year ended 30 June 2016, 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

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 30 September 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	30 June 2016 $	30 June 2015 $
Revenue	2	5,777	583
Administration expense		(225,127)	(224,642)
Compliance and regulatory expense		(270,268)	(170,990)
Employee benefits expense		(379,345)	(185,809)
Exploration expenditure and project evaluation costs		(226,810)	(337,693)
Impairment of capitalised exploration expenditure	9	-	(1,767,767)
Impairment of receivables		-	(204,563)
Travel and accommodation		(75,532)	(61,703)
Loss before income tax expense		**(1,171,305)**	**(2,952,584)**
Income tax expense	3	-	-
Loss for the year		**(1,171,305)**	**(2,952,584)**
Other comprehensive income			
Item that may be reclassified subsequently to operating result			
Foreign currency translation		(8,825)	(22,282)
Total comprehensive (loss) attributable to members of the parent entity		**(1,180,130)**	**(2,974,866)**
Net loss attributable to:			
Members of the parent entity		(1,171,305)	(2,865,084)
Non-controlling interest		-	(87,500)
		(1,171,305)	(2,952,584)
Total comprehensive loss attributable to:			
Members of the parent entity		(1,180,130)	(2,887,366)
Non-controlling interest		-	(87,500)
		(1,180,130)	(2,974,866)
Basic and diluted loss per share (cents per share)	4	(2.30)	(7.53)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	2016 $	2015 $
CURRENT ASSETS			
Cash and cash equivalents	6	257,671	23,098
Trade and other receivables	7	7,601	6,698
Other financial assets	8	6,920	1,211
TOTAL CURRENT ASSETS		**272,192**	**31,007**
NON CURRENT ASSETS			
Exploration and evaluation expenditure	9	550,000	-
TOTAL NON CURRENT ASSETS		**550,000**	**-**
TOTAL ASSETS		**822,192**	**31,007**
CURRENT LIABILITIES			
Trade and other payables	10	231,548	304,465
TOTAL CURRENT LIABILITIES		**231,548**	**304,465**
TOTAL LIABILITIES		**231,548**	**304,465**
NET ASSETS/(LIABILITIES)		**590,644**	**(273,458)**
EQUITY			
Issued capital	11	6,549,132	5,009,963
Reserves	12	664,734	168,496
Accumulated losses		(6,623,222)	(5,451,917)
TOTAL EQUITY/(DEFICIENCY IN EQUITY)		**590,644**	**(273,458)**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Note	Issued Capital $	Accumulated Losses $	Option Premium Reserve $	Foreign Currency Translation Reserve $	Non-controlling interest $	Total $
Balance at 1 July 2014		**4,234,730**	**(2,586,833)**	**145,000**	**2,438**	**87,500**	**1,882,835**
Loss for the year		-	(2,865,084)	-	-	(87,500)	(2,952,584)
Other comprehensive loss		-	-	-	(22,282)	-	(22,282)
Total comprehensive loss		-	(2,865,084)	-	(22,282)	(87,500)	(2,974,866)
Transactions with owner directly recorded in equity							
Shares issued during the year	11	887,800	-	-	-	-	887,800
Less: transaction costs arising from issue of shares	11	(112,567)	-	-	-	-	(112,567)
Options issued during the year	12	-	-	43,340	-	-	43,340
Balance at 30 June 2015		**5,009,963**	**(5,451,917)**	**188,340**	**(19,844)**	**-**	**(273,458)**
Balance at 1 July 2015		**5,009,963**	**(5,451,917)**	**188,340**	**(19,844)**	**-**	**(273,458)**
Loss for the year		-	(1,171,305)	-	-	-	(1,171,305)
Other comprehensive income		-	-	-	(8,825)	-	(8,825)
Total comprehensive loss		-	(1,171,305)	-	(8,825)	-	(1,180,130)
Transactions with owner directly recorded in equity							
Shares issued during the year	11	1,742,965	-	-	-	-	1,742,965
Less: transaction costs arising from issue of shares	11	(203,796)	-	-	-	-	(203,796)
Options issued during the year	12	-	-	505,063	-	-	505,063
Balance at 30 June 2016		**6,549,132**	**(6,623,222)**	**693,403**	**(28,669)**	**-**	**590,644**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		68	237
Payments to suppliers and employees		(864,316)	(527,461)
Payment for exploration and evaluation expenditure		(237,411)	(330,047)
Net cash used in operating activities	13	(1,101,659)	(857,271)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets		-	-
Net cash used in investing activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,513,595	887,800
Payment of transaction costs associated with capital raising		(177,363)	(69,227)
Net cash provided by financing activities		1,336,232	818,573
Net increase/(decrease) in cash held		234,573	(38,698)
Cash at beginning of financial year		23,098	61,796
Cash at end of financial year	6	**257,671**	**23,098**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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 30 September 2016 by the directors.

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 ("AASB") 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 International Accounting Standards Board. 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.

Going Concern
The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a net loss of $1,171,305 and had net cash outflows from operating activities of $1,101,659 for the year ended 30 June 2016.

The ability of the Group to continue as a going concern is principally dependent upon the ability of the Group to secure funds by raising additional capital from equity markets and managing cashflow in line with available funds. These conditions indicate a material uncertainty, which may cast significant doubt about the ability of the Group to continue as a going concern.

The directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report. The Group has obtained letters of financial support from related party creditors that confirm repayment of amounts payable totalling $162,403 will not be called in the next 15 months, insofar as the funds of the Group permits repayment.

Based on the cash flow forecasts, and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Group's history of raising capital to date, the directors are confident of the Group's ability to raise additional funds as and when they are required.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

Going Concern (Cont.)
Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

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).

Income and expense of subsidiaries acquired or disposed of during the year are included in profit or loss 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 Company's ownership interests in subsidiaries that do not result in the Company losing control are accounted for as equity transactions. The carrying amounts of the Company'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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

d) Financial Instruments (Cont.)

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 financial assets are 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. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

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

d) Financial Instruments (Cont.)

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 profit or loss.

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.

e) 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 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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

e) Foreign Currencies (Cont.)

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 Company'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 Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company 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 Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

f) 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

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

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
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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

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

o) Critical Accounting Estimates and Judgements (Cont.)

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.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a valuation model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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 2016, 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

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the company, together with an assessment of the potential impact of such pronouncements on the company when adopted in future periods, are discussed below:

- AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods commencing on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments, and simplified requirements for hedge accounting.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

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

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

The key changes that may affect the company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of this Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the company's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2018).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact, it is impracticable at this stage to provide a reasonable estimate of such impact.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 $	2015 $
NOTE 2: REVENUE		
Interest received	68	237
Unrealised gain on held for trading financial assets	5,709	346
	5,777	583

NOTE 3: INCOME TAX EXPENSE

	2016 $	2015 $
a. Reconciliation of income tax expense to prima facie tax payable:		
Loss from ordinary activities before income tax expense	(1,171,305)	(2,952,584)
Prima facie tax benefit on loss from ordinary activities before income tax at 28.5% (2015: 30%)	(333,822)	(885,775)
Increase in income tax due to:		
- Losses and temporary differences not recognised	333,822	885,775
Income tax attributable to the Group	-	-
b. Unused tax losses and temporary differences for which no deferred tax asset has been recognised at 28.5% (2015: 30%):		
Deferred tax assets have not been recognised in respect of the following:		
Tax revenue losses	3,487,280	2,257,543

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2016 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 the benefit from 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

	2016	2015
a. Loss used to calculate basic EPS	(1,171,305)	(2,952,584)
	No	**No**
b. Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	50,904,715	39,193,047

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 $	2015 $
NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION		

Remuneration of Key Management Personnel

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

	2016 $	2015 $
Short-term employee benefits	176,532	150,000
Post-employment benefits	3,540	5,700
Share based payments	147,000	-
Total remuneration	327,072	155,700

NOTE 6: CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash at bank	257,671	23,098

NOTE 7: TRADE AND OTHER RECEIVABLES

CURRENT

	2016 $	2015 $
GST receivable	7,601	6,698

NOTE 8: OTHER FINANCIAL ASSETS

	2016 $	2015 $
Financial assets at fair value through profit or loss Held-for-trading Australian listed shares	6,920	1,211

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.

NOTE 9: EXPLORATION AND EVALUATION EXPENDITURE

	2016 $	2015 $
Exploration expenditure capitalised - Exploration and evaluation phase	550,000	-
A reconciliation of the carrying amount of exploration and evaluation expenditure is set out below:		
- Carrying amount at the beginning of the year	-	1,767,767
- Acquisition of exploration assets (Dalgaranga)	550,000	-
- Exploration written off	-	(1,767,767)
	550,000	-

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 10: TRADE AND OTHER PAYABLES

	2016 $	2015 $
CURRENT		
Related party payables	162,403	163,343
Sundry payables and accrued expenses	69,145	141,122
	231,548	304,465

Trade creditors, excluding related party payables, are expected to be paid on 30 day terms.

NOTE 11: ISSUED CAPITAL

		2016 No.	2016 $	2015 No.	2015 $
Fully paid ordinary shares with no par value		54,167,768	6,549,132	43,773,003	5,009,963
a)	**Ordinary shares**				
	At the beginning of reporting period	43,773,003	5,009,963	35,000,003	4,234,730
	Shares issued during the year:				
	- 12 March 2014			-	-
	- 22 August 2014	-	-	1,000,000	100,000
	- 5 November 2014	-	-	500,000	50,000
	- 17 November 2014	-	-	810,000	81,000
	- 3 December 2014	-	-	1,450,000	145,000
	- 17 December 2014	-	-	2,250,000	225,000
	- 10 April 2015	-	-	998,000	99,800
	- 1 May 2015	-	-	660,000	66,000
	- 11 May 2015	-	-	650,000	65,000
	- 21 May 2015	-	-	350,000	35,000
	- 22 June 2015	-	-	25,000	5,000
	- 30 June 2015	-	-	80,000	16,000
	- 30 July 2015	1,846,732	277,010	-	-
	- 12 August 2015	640,000	96,000	-	-
	- 29 October 2015	1,020,000	153,000	-	-
	- 3 December 2015	733,333	110,000	-	-
	- 4 March 2016	2,000,000	300,000	-	-
	- 15 March 2016	3,479,700	521,955	-	-
	- 3 May 2016	500,000	100,000	-	-
	- 15 June 2016	175,000	35,000	-	-
	- Unissued shares (i)	-	150,000	-	-
	Less capital raising costs	-	(203,796)	-	(112,567)
	Net share capital	54,167,768	6,549,132	43,773,003	5,009,963

(i) Pursuant to the tenement sale agreement announced on 2 March 2016, 1,000,000 shares and 1,000,000 listed options exercisable at $0.20 on or before 31 March 2017 were to be issued upon grant of the Dalgaranga tenement. On 14 September 2016, the securities were issued upon grant of the Dalgaranga tenement (refer to Note 18).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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.

	2016 $	2015 $
Cash and cash equivalents	257,671	23,098
Trade and other receivables	7,601	6,698
Other financial assets	6,920	1,211
Trade and other payables	(231,548)	(304,465)
Working capital position	40,644	(273,458)

c) Share Options on issue

At 30 June 2016, the Group had 29,124,518 listed options exercisable at $0.20 on before 31 March 2017 and 8,000,000 unlisted options exercisable at $0.40 on before 31 March 2017. At 30 June 2015, the Group had no options on issue.

NOTE 12: RESERVES

Foreign currency translation reserve		
Opening balance	(19,844)	2,438
Foreign currency translation	(8,825)	(22,282)
Closing balance	(28,669)	(19,844)
Option premium reserve		
Opening balance	188,340	145,000
Option subscription	220,630	-
Options issued – share based payments	284,433	43,340
Closing balance	693,403	188,340
Total Reserves	664,734	168,496

Foreign currency translation reserve

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.

Option premium reserve

The Option premium reserve is used to recognise the fair value of options issued but not exercised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 $	2015 $
NOTE 13: RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX		
Loss after income tax	(1,171,305)	(2,952,584)
Non cash-flows in loss:		
Unrealised (gain)/loss on financial assets	(5,709)	(346)
Share based payments	183,000	-
Impairment of receivables	-	204,563
Impairment of capitalised exploration expenditure	-	1,767,767
Foreign exchange loss	(8,825)	(22,282)
Changes in assets and liabilities:		
Trade and other receivables	(902)	(1,825)
Other assets	-	38,181
Trade payables and accruals	(97,918)	109,255
Cash flow used in operations	(1,101,659)	(857,271)

Non Cash Investing & Financing Activities:

During the financial year ended 30 June 2016, the Group granted 3,000,000 ordinary shares and 3,000,000 listed options exercisable at $0.20 on or before 31 March 2017 as consideration for the Dalgaranga Project, as disclosed in Note 15.

During the financial year ended 30 June 2016, the Group issued 1,321,666 listed options exercisable at $0.20 on or before 31 March 2017 as consideration for brokerage services associated with the placements completed during the year, as disclosed in Note 15.

During the financial year ended 30 June 2015, the Group issued 4,334,000 unlisted options exercisable at $0.20 on or before 30 June 2015 as consideration for brokerage services associated with the placements completed during the year, 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 14: RELATED PARTY TRANSACTIONS

The Group incurred the following transactions with related parties:

- PT. Geofirst Consulting, an entity which Aryo Bimo is a director, invoiced the Group a total of $53,499 for exploration services in the year ended 30 June 2015. No services were provided in the year 30 June 2016.An amount of $100,508 (2015: $103,978) was outstanding at year end.
- At 30 June 2016, the Group had a payable to PT. Sitasa Energi, an entity which Aryo Bimo is a director, totalling $61,895 (2015: $59,365).
- Timothy Hogan invoiced the Group and was paid $50,500 for promotional and investor relation services.

All transactions were made on normal commercial terms and condition and at market rates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

	2016 $	2015 $
NOTE 15: SHARE BASED PAYMENTS		
The following share based payments were in existence during the year:		
Options		
During the financial year ended 30 June 2016, the Group issued 8,000,000 unlisted options exercisable at $0.40 on or before 31 March 2017 to directors and consultants (a)	168,000	-
During the financial year ended 30 June 2016, the Group granted 3,000,000 listed options exercisable at $0.20 on or before 31 March 2017 as part consideration for the Dalgaranga Project (b)	75,000	-
During the financial year ended 30 June 2016, the Group issued 483,333 unlisted options exercisable at $0.20 on or before 30 March 2017 as consideration for brokerage services associated with the placements completed during the year (b)	9,666	-
During the financial year ended 30 June 2016, the Group issued 838,333 listed options exercisable at $0.20 on or before 30 March 2017 as consideration for brokerage services associated with the placements completed during the year (c)	16,767	
During the financial year ended 30 June 2016, the Group issued 15,000,000 listed options exercisable at $0.20 on or before 30 March 2017 in lieu of cash payment for geological services rendered (b)	15,000	-
During the financial year ended 30 June 2015, the Group issued 4,334,000 unlisted options exercisable at $0.20 on or before 30 June 2015 as consideration for brokerage services associated with the placements completed during the year (c)	-	43,340

Fair value of options issued during the period:

(a) The options were deemed to have a fair value of $0.021 per option. This value was calculated using the Black-Scholes option pricing model applying the following inputs:

Share price	$0.15
Exercise price	$0.40
Expected volatility	87%
Risk-free interest rate	2.50%
Annualised time to expiry	1.36

(b) The fair value of listed options issued were determined by reference to market price.

(c) The fair value of unlisted options issued were determined by reference to market price of the listed options with the same expiry date, exercise price and terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 15: SHARE BASED PAYMENTS (CONT.)

Ordinary shares

	2016 $	2015 $
During the financial year ended 30 June 2016, the Group granted 3,000,000 ordinary shares as part consideration for the Dalgaranga Project	450,000	-

Fair value of ordinary shares issued during the period:

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

NOTE 16: AUDITORS' REMUNERATION

Remuneration of RSM Australia Partners as auditor for:		
— Auditing or reviewing the financial report	26,100	25,300
— taxation services	675	600

NOTE 17: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent assets or contingent liabilities.

NOTE 18: EVENTS AFTER THE REPORTING PERIOD

On 14 September 2016, the Company issued 1,000,000 fully paid ordinary shares and 1,000,000 listed options exercisable $0.20 on or before 31 March 2017.

On 28 September 2016, the Company issued 920,035 fully paid ordinary shares to raise $138,005 for working capital and pursuing the clean energy opportunity announced to ASX on 17 August 2016.

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 19: COMMITMENTS

In order to maintain current rights of tenure to Western Australia exploration tenements, the Group is required to perform minimum exploration requirements specified by the Department of Mines and Petroleum of $4,590 (2015: nil). The Group has no other commitments.

NOTE 20: CONTROLLED ENTITIES

	Country of Incorporation	Equity Holding 2016 %	Equity Holding 2015 %
Subsidiaries of Krakatoa Resources Limited:			
PT. Bumi Pratama	Indonesia	100	100
PT. Dana Ramakala (i)	Indonesia	-	80
PT. Bina Citra Sawita	Indonesia	99.8	99.8

(i) On 17 March 2016, PT. Bumi Pratama disposed of its holding in PT. Dana Ramakala for no consideration. PT. Dana Ramakala had net assets of nil at disposal.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 21: PARENT ENTITY DISCLOSURES

Financial position	**2016**	**2015**
	$	**$**
Assets		
Current assets	267,255	26,154
Non-current assets	550,000	-
Total assets	817,255	26,154
Liabilities		
Current liabilities	69,146	141,122
Total liabilities	69,146	141,122
Equity		
Issued capital	6,549,131	5,009,963
Accumulated losses	(6,494,425)	(5,313,271)
Reserves	693,403	188,340
Total equity	748,109	(114,968)
Financial performance		
(Loss) for the year	(1,181,154)	(2,816,376)
Total comprehensive (loss) for the year	(1,181,154)	(2,816,376)

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 contingent liabilities (Note 17).

NOTE 22: 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 Group 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 2016, the Group had no development assets. The Board considers that it has only operated in one segment, being mineral exploration.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23: 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 reporting 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.

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 2016 is detailed below:

	2016 $	2015 $
Financial assets:		
Cash and cash equivalents		
- AA rated counterparties	257,671	23,098

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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 2016, 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 $1 (2015: $5) and an increase in equity by $1 (2015: $5). 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 $1 (2015: $5) and an decrease in equity by $1 (2015: $5).

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).

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets	**$**	**$**	**$**	**$**
Fair value through profit or loss				
- Listed investments – held for trading	6,920	-	-	6,920

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets	**$**	**$**	**$**	**$**
Fair value through profit or loss				
- Listed investments – held for trading	1,211	-	-	1,211

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.

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 2016 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 2016.

On behalf of the Board

Colin Locke
Executive Chairman

Dated: 30 September 2016

RSM Australia Partners

8 St Georges Terrace Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100
F +61 (0) 8 9261 9111

www.rsm.com.au

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 2016, the statement of profit or loss and other 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 opinion.

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 2016 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1, which indicates that the consolidated entity incurred a net loss of $1,171,305 and had net cash outflows from operating activities of $1,101,659 for the year ended 30 June 2016. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

RSM

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 30 September 2016

CORPORATE GOVERNANCE STATEMENT

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has considered the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Recommendations*.

In line with the above, the Board has set out the way forward for the Company in its implementation of its Principles of Good Corporate Governance and Recommendations. The approach taken by the board was to set a blueprint for the Company to follow as it introduces elements of the governance process. Due to the current size of the Company and the scale of its operations it is neither practical nor economic for the adoption of all of the recommendations approved via the board charter. Where the Company has not adhered to the recommendations it has stated that fact in this Corporate Governance Statement however has set out a mandate for future compliance when the size of the Company and the scale of its operations warrants the introduction of those recommendations. Date of last review and Board approval: 16 September 2016.

Principle / Recommendation	**Compliance**	**Reference**	**Commentary**
Principle 1: **Lay solid foundations for management and oversight**			
Recommendation 1.1 A listed entity should disclose: a) the respective roles and responsibilities of its board and management; and b) those matters expressly reserved to the board and those delegated to management.	Yes	Board Charter Code of Conduct, Independent Professional Advice Policy, Website	To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment. The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out those delegated duties. In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company. To assist the Board carry its functions, it has developed a Code of

			Conduct to guide the Directors. In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company. Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following: • Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board. • Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company. • Overseeing Planning Activities: the development of the Company's strategic plan. • Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company as well as ensuring timely and balanced disclosures of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the entity's securities. • Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company. • Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting along with ensuring the integrity of the Company's financial and other reporting. • Human Resources: reviewing the

			performance of Executive Officers and monitoring the performance of senior management in their implementation of the Company's strategy. • Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees. • Delegation of Authority: delegating appropriate powers to the Managing Director to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board. • Monitoring the effectiveness of the Company's corporate governance practices. Full details of the Board's and Company Secretary's roles and responsibilities are contained in the Board Charter. The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, (that limit is currently set at $2,000), to assist them to carry out their responsibilities.
<u>Recommendation 1.2</u> A listed entity should: a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re- elect a director.	Yes	Director Selection Procedure, Website	Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's operations. The Company's current Directors all have relevant experience in the operations. In addition, Directors should have the relevant blend of personal experience in: • Accounting and financial management; and • Director-level business experience. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties

			as a Director of the Company. In determining candidates for the Board, the Nomination Committee (refer to recommendation 2.1) follows a prescribed process whereby it evaluates the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting. The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or one third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting and re-appointment of directors is not automatic. The Nomination Committee is responsible for implementing a program to identify, assess and enhance Director competencies. In addition, the Nomination Committee puts in place succession plans to ensure an appropriate mix of skills, experience, expertise and diversity are maintained on the Board.

<u>Recommendation 1.3</u> A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Yes	Kept at registered office, Independent Professional Advice Policy	Each non-executive director has a written agreement with the Company that covers all aspects of their appointment including term, time commitment required, remuneration, disclosure of interests that may affect independence, guidance on complying with the Company's corporate governance policies and the right to seek independent advice, indemnity and insurance arrangements, rights of access to the Company's information and ongoing confidentiality obligations as well as roles on the Company's committees. Each executive director's agreement with the Company includes the same details as the non-executive directors' agreements but also includes a position description, reporting hierarchy and termination clauses. To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.
<u>Recommendation 1.4</u> The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Yes	Board Charter, Website	Full details of the Board's and Company Secretary's roles and responsibilities are contained in the Board Charter.
<u>Recommendation 1.5</u> A listed entity should: a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the	Yes	Diversity Policy, Website	The Company recognises and respects the value of diversity at all levels of the organisation. The Company is committed to setting measurable objectives for attracting and engaging women at the Board level, in senior management and across the whole organisation. The Diversity Policy was re-adopted during the year and the Company set the following objectives for the

entity's progress in achieving them; b) disclose that policy or a summary of it; and c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: 1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or 2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.			employment of women: • to the Board – no target set • to senior management (including Company Secretary) – 20% • to the organisation as a whole – 20% As at the date of this report, the Company has the following proportion of women appointed: • to the Board – 0% • to senior management (including Company Secretary) – 0% • to the organisation as a whole – 33% The Company recognises that the mining and exploration industry is intrinsically male dominated in many of the operational sectors and the pool of women with appropriate skills will be limited in some instances. The Company recognises that diversity extends to matters of age, disability, ethnicity, marital/family status, religious/cultural background and sexual orientation. Where possible, the Company will seek to identify suitable candidates for positions from a diverse pool.
<u>Recommendation 1.6:</u> A listed entity should: a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the	Yes	Board , Committee & Individuals Performance Evaluation Procedure Website	It is the policy of the Board to conduct evaluation of its performance. The objective of this evaluation is to provide best practice corporate governance to the Company. During the financial year an evaluation of the performance of the Board and its members was not formally carried out. However, a general review of the Board and executives occurs on an on-going basis to ensure that structures suitable to the Company's status as a listed entity are in place.

reporting period in accordance with that process.			
Recommendation 1.7: A listed entity should: a) have and disclose a process for periodically evaluating the performance of its senior executives; and b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes	Board , Committee & Individuals Performance Evaluation Procedure, Website	It is the policy of the Board to conduct evaluation of individuals' performance. The objective of this evaluation is to provide best practice corporate governance to the Company. During the financial year an evaluation of the performance of the individuals was not formally carried out. However, a general review of the individuals occurs on an on-going basis to ensure that structures suitable to the Company's status as a listed entity are in place.
Principle 2: Structure the board to add value			
Recommendation 2.1 The Board of a listed entity should: a) have a nomination committee which: 1) has at least three members, a majority of whom are independent directors; and 2) is chaired by an independent director, and disclose: 3) the charter of the committee; 4) the members of the committee; and 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board	No	Nomination Committee Charter, Independent Professional Advice Policy Website	The full Board performs the role of Nomination Committee. The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times. The Nomination Committee did not meet during the year ended 30 June 2016. The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee also oversees management succession plans including the Executive Director and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Matters such as remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice are clearly understood by all Directors, who are experienced public company Directors. The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified

succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.			limits, (that limit is currently set at $2,000), to assist them to carry out their responsibilities.
Recommendation 2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Yes	Kept at registered office	The Company has reviewed the skill set of its Board to determine where the skills lie and any relevant gaps in skills shortages. The Company is working through professional development initiatives as well as seeking to identify suitable Board candidates for positions from a diverse pool.
Recommendation 2.3 A listed entity should disclose: a) the names of the directors considered by the board to be independent directors; b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and c) the length of service of each director.	Yes	Board Charter, Independence of Directors Assessment Website	The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. An Independent Director: 1. is a Non-Executive Director and; 2. is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company; 3. within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment; 4. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided; 5. is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; 6. has no material contractual relationship with the Company or other group member other than as a Director of the Company; 7. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the

			Director's ability to act in the best interests of the Company; and 8. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company. Materiality for the purposes of points 1 to 8 above is determined on the basis of both quantitative and qualitative aspects with regard to the independence of Directors. An amount over 5% of the Company's expenditure or 10% of the particular directors annual gross income is considered to be material. A period of more than six years as a Director would be considered material when assessing independence. Colin Locke (appointed 6 August 2015) is an Executive Director of the Company and does not meet the Company's criteria for independence. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board. Timothy Hogan (appointed 7 October 2015) is a Non-Executive Director of the Company and meets the Company's criteria for independence. Aryo Bimo (appointed Non-Executive Director on 6 August 2015 and previously Executive Director appointed on 18 December 2013) does not meet the Company's criteria for independence. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.
<u>Recommendation 2.4</u> A majority of the board of a listed entity should be independent directors.	No	Independence of Directors Assessment, Website	Due to recent changes within the Company, 1 out of 3 directors are independent. The Company is continually evaluating and reviewing the Board structure with an aim to appoint more independent directors.

Recommendation 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	No	Independence of Directors Assessment, Website	The Chairperson is not an independent Director and is not the CEO / Managing Director. The Company is continually evaluating and reviewing the Board structure.
Recommendation 2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Yes	Director Induction Program, Ongoing Education Framework, Website	It is the policy of the Company that each new Director undergoes an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include: • details of the roles and responsibilities of a Director; • formal policies on Director appointment as well as conduct and contribution expectations; • a copy of the Corporate Governance Statement, Charters, Policies and Memos and • a copy of the Constitution of the Company. In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. The Board has implemented an Ongoing Education Framework.
Principle 3: Act ethically and responsibly			
Recommendation 3.1 A listed entity should: a) have a code of conduct for its directors, senior executives and employees; and b) disclose that code or a summary of it.	Yes	Code of Conduct Website	As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole.
Principle 4: Safeguard integrity in corporate reporting			
Recommendation 4.1 The board of a listed entity should: (a) have an audit committee which: a) has at least three members, all of whom are non-	No	Audit Committee Charter, Website	Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Audit Committee. Accordingly, the Board performs the role of Audit Committee.

executive directors and a majority of whom are independent directors; and 1) is chaired by an independent director, who is not the chair of the board, and disclose: 2) the charter of the committee; 3) the relevant qualifications and 4) experience of the members of the committee; and 5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.			Items that are usually required to be discussed by an Audit Committee are discussed at a separate meeting when required. When the Board convenes as the Audit Committee it carries out those functions which are delegated to it in the Company's Audit Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Audit Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions. The Board did not meet as the Audit Committee during the year. To assist the Board to fulfil its function as the Audit Committee, the Company has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee. All of the Directors consider themselves to be financially literate and possess relevant industry experience. The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

Recommendation 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Yes	Kept at registered office	The Executive Director (Executive Chairman) and Company Secretary (Chief Financial Officer) provide a declaration to the Board in accordance with section 295A of the Corporations Act for each financial report and assure the Board that such declaration 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.
Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Yes	AGM	The external auditor is required to attend every AGM for the purpose of answering questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure			
Recommendation 5.1 A listed entity should: a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and b) disclose that policy or a summary of it.	Yes	Continuous Disclosure Policy, Website	The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information: 1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and 2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Principle 6: Respect the rights of security holders			
<u>Recommendation 6.1</u> A listed entity should provide information about itself and its governance to investors via its website.	Yes	Website Disclosure Policy, Website	The Company's website includes the following: • Corporate Governance policies, procedures, charters, programs, assessments, codes and frameworks • Names and biographical details of each of its directors and senior executives • Constitution • Copies of annual, half yearly and quarterly reports • ASX announcements • Copies of notices of meetings of security holders • Media releases • Overview of the Company's current business, structure and history • Details of upcoming meetings of security holders • Summary of the terms of the securities on issue • Historical market price information of the securities on issue • Contact details for the share registry and media enquiries • Share registry key security holder forms
<u>Recommendation 6.2</u> A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Yes	Shareholder Communication Policy, Social Media Policy Website	The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to: • communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company; • giving shareholders ready access to balanced and understandable information about the Company and corporate proposals; • requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report of future Annual Reports.

			The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.
<u>Recommendation 6.3</u> A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Yes	Shareholder Communication Policy Website	The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to making it easy for shareholders to participate in shareholder meetings of the Company.
<u>Recommendation 6.4</u> A listed entity should give security holders the option to receive communications from and send communications to, the entity and its security registry electronically.	Yes	Shareholder Communication Policy Website	Shareholders are regularly given the opportunity to receive communications electronically.
Principle 7: Recognise and manage risk			
<u>Recommendation 7.1</u> The board of a listed entity should: a) have a committee or committees to oversee risk, each of which: 1) has at least three members, a majority of whom are independent directors; and 2) is chaired by an independent director, and disclose: 3) the charter of the committee; 4) the members of the committee; and 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b) if it does not have a risk committee or committees that	No	Risk Management Policy Website	The Board has not established a separate Risk Committee, and therefore it is not structured in accordance with Recommendation 7.1. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Risk Committee. Accordingly, the Board performs the role of Risk Committee. Items that are usually required to be discussed by a Risk Committee are discussed at a separate meeting when required. When the Board convenes as the Risk Committee it carries out those functions which are delegated to it in the Company's Risk Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Risk Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions. The Board as a whole did not meet as the Risk Committee during the year. Risk identification and risk management discussions occurred during the year. To assist the Board to fulfil its function as the Risk Committee, the Company has adopted a Risk Management Policy.

satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.			
Recommendation 7.2 The board or a committee of the board should: a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and b) disclose, in relation to each reporting period, whether such a review has taken place.	Yes	Risk Management Policy Website	The Company's Risk Management Policy states that the Board as a whole is responsible for the oversight of the Company's risk management and control framework. The objectives of the Company's Risk Management Strategy are to: • identify risks to the Company; • balance risk to reward; • ensure regulatory compliance is achieved; and • ensure senior executives, the Board and investors understand the risk profile of the Company. The Board monitors risk through various arrangements including: • regular Board meetings; • share price monitoring; • market monitoring; and • regular review of financial position and operations. The Company has developed a Risk Register in order to assist with the risk management of the Company. The Company's Risk Management Policy is considered a sound strategy for addressing and managing risk. During the year, the Board reviewed the following categories of risks affecting the Company as part of the Company's systems and processes for managing material business risks: operational, financial reporting, sovereignty and market-related risks.
Recommendation 7.3 A listed entity should disclose: a) if it has an internal audit function, how the function is structured and what role it performs; or b) if it does not have an internal audit function, that fact and the	No	Audit Committee Charter Website	The Board performs the role of Audit Committee. When the Board convenes as the Audit Committee it carries out those functions which are delegated to it in the Company's Audit Committee Charter which include overseeing the establishment and implementation by management of a system for identifying, assessing, monitoring and managing material risk throughout the Company, which includes the

processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.			Company's internal compliance and control systems. Due to the nature and size of the Company's operations, and the Company's ability to derive substantially all of the benefits of an independent internal audit function, the expense of an independent internal auditor is not considered to be appropriate.
<u>Recommendation 7.4</u> A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Yes	Corporate Governance Statement	The Company has considered its economic, environmental and social sustainability risks by way of internal review and has concluded that it is not subject to material economic, environmental and social sustainability risks.
Principle 8: Remunerate fairly and responsibly			
<u>Recommendation 8.1</u> The board of a listed entity should: a) have a remuneration committee which: 1) has at least three members, a majority of whom are independent directors; and 2) is chaired by an independent director, and disclose: 3) the charter of the committee; 4) the members of the committee; and 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b) if it does not have a remuneration committee, disclose	No	Remuneration Committee Charter, Independent Professional Advice Policy Website	The Board performs the role of Remuneration Committee. When the Board convenes as the Remuneration Committee it carries out those functions which are delegated to it in the Company's Remuneration Committee Charter. The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees. The Remuneration Committee did not meet during the financial year ended 30 June 2016. The responsibilities of a Remuneration Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Executive Director, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors, recommendations for remuneration by gender and making recommendations on any proposed changes and undertaking reviews of the Managing Director's performance,

that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.			including, setting with the Executive Director goals and reviewing progress in achieving those goals. The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, (that limit is currently set at $2,000), to assist them to carry out their responsibilities.
Recommendation 8.2 A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Yes	Remuneration Policy Website	Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Executive Director remuneration is set by the Board with the executive director in question not present. Full details regarding the remuneration of Directors has been included in the Remuneration Report within the Annual Report.
Recommendation 8.3 A listed entity which has an equity-based remuneration scheme should: a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and b) disclose that policy or a summary of it.	Yes	Remuneration Policy Website	Executives and Non-Executive Directors are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

ASX INFORMATION
AS AT 31 AUGUST 2016

The following additional information is required by the ASX Limited in respect of listed public companies and was applicable at 31 August 2016.

1. Shareholder and Option holder information

a. Number of Shareholders and Option Holders

Shares
As at 31 August 2016, there were 501 shareholders holding a total of 54,167,768 fully paid ordinary shares.

Options
As at 31 August 2016, there were 29,124,518 Quoted Options exercisable at $0.20 on or before 31 March 2017 held by 198 holders.

As at 24 August 2016, there were 8,000,000 Unquoted Options exercisable at $0.40 on or before 31 March 2017 held by 4 holders.

b. Distribution of Equity Securities

Fully paid ordinary shares	**Number (as at 31 August 2016)**	
Category (size of holding)	**Shareholders**	**Ordinary Shares**
1 – 1,000	26	2,170
1,001 – 5,000	13	49,057
5,001 – 10,000	114	1,110,346
10,001 – 100,000	248	11,429,032
100,001 – and over	100	41,577,163
	501	54,167,768

The number of shareholdings held in less than marketable parcels is 28 shareholders amounting to 6,577 shares.

Quoted $0.20 options	**Number (as at 31 August 2016)**	
Category (size of holding)	**Shareholders**	**Ordinary Shares**
1 – 1,000	-	-
1,001 – 5,000	31	152,000
5,001 – 10,000	13	101,668
10,001 – 100,000	93	4,521,872
100,001 – and over	61	24,348,978
	198	29,124,518

The number of option holdings held in less than marketable parcels is 65 option holders amounting to 576,584 options.

c. The names of substantial shareholders listed in the company's register as at 31 August 2016 are:

Shareholder	Ordinary Shares	%Held of Total Ordinary Shares
Asia Mineral Trade Pte Ltd	5,000,000	9.23%

d. 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.

e. 20 Largest Shareholders as at 31 August 2016 — Ordinary Shares

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	ASIA MINERAL TRADE PTE LTD	5,000,000	9.23
2.	MR LAFRAS LUITINGH	2,000,000	3.69
3.	PROF YEW KWANG NG	1,700,000	3.14
4.	MR JOHN ROBERT TYRRELL + MS CLAIRE KATHERINE TYRRELL <THE TYRRELL SUPER FUND A/C>	1,500,000	2.77
5.	MRS TING TING XUE LUU	1,484,675	2.74
6.	CV INDO PROJECT SERVICES	1,250,000	2.31
7.	CV JAVA HOLDINGS	1,250,000	2.31
8.	DR ANTONIO CREA + MRS GINA CREA <THE CREA SUPERANNUATION A/C>	1,000,000	1.85
9.	KEVIN KWOK	1,000,000	1.85
10.	UNIVERSAL FIRM LIMITED	1,000,000	1.85
11.	MR THOMAS FRANCIS CORR	999,300	1.84
12.	COBALT ROAD MANAGEMENT LLC <COBALT RESOURCES A/C>	750,000	1.38
13.	DR SHIRLEY THEIN GI LIM	740,000	1.37
14.	OCEANIC CAPITAL PTY LTD	666,667	1.23
15.	E C DAWSON SUPER PTY LTD <THE DAWSON SUPER FUND A/C>	602,117	1.11
16.	IBT HOLDINGS PTY LTD <IBT HOLDINGS FAMILY A/C>	600,000	1.11
17.	RJB MEDICAL PTY LTD <BOND SUPER FUND A/C>	600,000	1.11
18.	MR MURRAY WILLIAM BROUN	578,479	1.07
19.	MR JOHN LOMBARDO	560,000	1.03
20.	MR KONG HOCK TAN & MRS MARY MENG MAY ANG	517,500	0.96
		23,798,738	43.95

f. 20 Largest Quoted $0.20 Option Holders as at 31 August 2016

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	SOPRANO INVESTMENTS (WA) PTY LTD <MJ MARANO SUPER FUND A/C>	2,608,500	8.96
2.	MR MURRAY WILLIAM BROUN	1,570,000	5.39
3.	OCEANIC CAPITAL PTY LTD	1,500,000	5.15
4.	FIRST INVESTMENT PARTNERS PTY LTD	1,250,529	4.29
5.	MR TERRY JAMES GARDINER + MRS VICTORIA HELEN GARDINER <TERRY JAMES GARDINER S/F A/C>	1,000,000	3.43
6.	TITAN SECURITIES PTY LTD	773,400	2.66
7.	OPULENTUS INVESTMENTS PTY LTD <JAMLOUMARVALBOY A/C>	711,040	2.44
8.	MR BRIAN JOHN VARNDELL + MR GUY SEBASTIAN VARNDELL + MRS MEGAN CLARE HARTLEY <VARNDELL SMSF A/C>	697,963	2.40
9.	CPS CAPITAL GROUP PTY LTD	685,625	2.35
10.	DR ANTONIO CREA + MRS GINA CREA <THE CREA SUPERANNUATION A/C>	663,202	2.28
11.	MR JOHN LOMBARDO	546,667	1.88
12.	MR TERRY JAMES GARDINER	525,000	1.80
13.	MR ROBERT ANDREW JEWSON	500,000	1.72
14.	MONTICONE INVESTMENTS PTY LTD <MONTICONE SUPERANNUATION A/C>	500,000	1.72
15.	PROF YEW KWANG NG	500,000	1.72
16.	LAKE SPRINGS PTY LTD <THE LAKE SPRINGS S/F A/C>	480,000	1.65
17.	MR JOHN ROBERT TYRRELL + MS CLAIRE KATHERINE TYRRELL <THE TYRRELL SUPER FUND A/C>	455,000	1.56
18.	BARCLAY WELLS LTD <NOMINEE A/C>	450,000	1.55
19.	TITAN SECURITIES PTY LTD	440,683	1.51
20.	MR PETER JOHN CULLEN	439,750	1.51
		16,297,359	55.97

2. The name of the company secretary is David Palumbo.

3. The address of the principal registered office in Australia is:
Level 11, 216 St Georges Terrace Perth WA 6000

4. Registers of securities are held at the following address:
Computershare Investor Services Pty Ltd, Level 11, 172 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.

SCHEDULE OF MINERAL TENEMENTS
AS AT 31 AUGUST 2016

Project	*Tenement*	*Interest held by Krakatoa Resources Limited*
BCS	IUP No.540/23/IUP/DESDM/BUP-2010	99.8%
DALGARANGA	P59/2082	100%
MAC WELL	E59/2175	-*

* The project consists of a single exploration licence application applied for directly by Krakatoa Resources Ltd, with no known impediments towards its grant.