



& Controlled Entities

**Annual Report
For the year ended 30 June 2017**

**Krakatoa Resources Limited
& Controlled Entities**

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**Krakatoa Resources Limited
& Controlled Entities**

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

Krakatoa Resources Limited & Controlled Entities

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 2017.

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)
- Aryo Bimo (Non-Executive Director)
- Timothy Hogan (Non-Executive Director)

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 resource based projects.

OPERATING RESULTS

The loss of the Group after providing for income tax amounted to \$1,651,514 (2016: \$1,171,305).

FINANCIAL POSITION

As at 30 June 2017, the Group had a cash balance of \$1,007,728 (2016: \$257,671) and a net asset position of \$1,542,885 (2016: \$590,644).

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 2017.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

REVIEW OF OPERATIONS

The Company's main focus for the year ended 30 June 2017 was exploration activities at its Dalgara and Mac Well Projects and the pursuit of clean energy opportunities with United Mining Group, which were ultimately terminated.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

Dalgaranga Project

The Dalgaranga Project (P59/2082) is located 80km north-west of Mount Magnet in Western Australia and is considered prospective for tantalum, lithium, niobium and rubidium. Dalgaranga was initially discovered by Dann Todd in about 1961 and subsequently underwent small scale mining over many years, producing tantalum, beryl, tin and tungsten. Alluvial mining of tantalite has additionally been mined throughout the project area. The Dalgaranga open pit is 200m long, 40m wide and up to 15m deep.

During the March 2017 quarter, the Company completed a soil geochemical sampling program from within or near the historical Dalgaranga Open Pit and the adjacent waste dump with results announced in June 2017. Three of the seven samples had rubidium values exceeding 800ppm, with a maximum value greater than 5000ppm Rb. The rubidium is a welcome addition to the established prospectivity for lithium, tantalum and niobium at Dalgaranga.

In June 2017, the Company made a Program of Work (POW) Application to the Department of Mines and Petroleum (DMP) with a proposal to commence drilling in mid to late Q3, 2017. The drilling will target the extent of outcropping Li and Rb bearing pegmatite in and adjacent to the historical Dalgaranga Open Pit, and in other areas.

The Company also intends to complete some further sampling at Dalgaranga to ascertain the Rb grade carried within the historical waste dumps, which returned anomalous Rb samples, including a peak value of 3,820ppm.

Mac Well Project

The Mac Well Project (E59/2175) has a land area of 66.9km² is located 10km west of Krakatoa's Dalgaranga Project and is considered prospective for beryl and lithium.

During the June 2017 quarter, the Company announced the geochemical assay results of two rock chip samples taken from the Mac Well Project which warrant further infill and extensional geochemical sampling programs.

Clean Energy Opportunities

As announced to ASX on 17 August 2016, the Company entered into an agreement with private company United Mining Group (UMG) to jointly pursue opportunities in the energy sector with an immediate focus on a clean energy opportunity in Australia that is able to make synergistic use of existing infrastructure.

In October 2016, the Company with its partner UMG and corporate adviser Azure Capital submitted a bid and an expression of interest regarding the potential acquisition of two separate remnant coal assets along with associated rehabilitation works. Both assets included the prospect of implementing certain green energy facilities that would become components of the rehabilitation plans.

Due to several changing circumstances beyond the Company's control, in March 2017 the Board determined that it was in the best interests of shareholders to discontinue pursuing the two aforementioned projects. As a result, the binding agreement with United Mining Group ("UMG") to jointly pursue opportunities in the energy sector with the focus on clean energy interests in Australia, was terminated by mutual agreement.

Pursuant to the termination agreement between KTA and UMG, should UMG or any of its related entities become successful in acquiring either of the potential acquisitions outlined above, the Company will receive staged payments of up to \$1,500,000 over a period of 12 months as a reimbursement for funds expended by KTA on the bid processes.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

INFORMATION ON DIRECTORS

Colin Locke

Executive Chairman

From 1984 to 1993, Colin 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 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 for circa AUD 50mi and later on sold for over 300mi.

From 2008, Mr. Locke focused on natural resources exploration pursuits through the Indonesian archipelago and founded Western Mining Network Ltd, (now European Cobalt, EUC) where he held the role of Executive Director from 2010 until 2012.

Mr. Locke brings to the board and shareholders a mining related background with business management and financial experience spanning over 30 years.

Interest in Securities

129,000 Fully paid ordinary shares
3,000,000 options exercisable at \$0.10 on or before 31 May 2019

Directorships held in other listed entities

None

Aryo Bimo

Non-Executive Director

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
1,000,000 options exercisable at \$0.10 on or before 31 May 2019

Directorships held in other listed entities

None

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

Timothy Hogan

Non-Executive Director

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 options exercisable at \$0.10 on or before 31 May 2019

Directorships held in other listed entities

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.

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 currently \$60,000 (previously \$114,000 up until 31 March 2017).

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. Mr Hogan is currently entitled to receive directors' fees of \$36,000 plus superannuation (increased to \$90,000 plus superannuation over the period October 2016 to March 2017) and Mr Bimo is currently entitled to receive directors' fees of \$12,000 per annum (previously \$30,000 up until 28 February 2017).

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.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

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.

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 2017

The remuneration for each key management personnel of the Group during the financial year ended 30 June 2017 and 30 June 2016 was as follows:

2017	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	100,500	-	-	-	-	100,500	-	-
Aryo Bimo	24,000	-	-	-	-	24,000	-	-
Timothy Hogan	63,000	5,985	-	-	-	68,985	-	-
	187,500	5,985	-	-	-	193,485	-	-

**Krakatoa Resources Limited
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DIRECTORS' REPORT (CONT.)

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

5. Equity holdings of key management personnel

Shareholdings

Number of shares held by key management personnel during the financial year ended 30 June 2017 was as follows:

2017	Balance 1.7.2016 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2017 No.
Directors					
Colin Locke	86,000	-	-	43,000	129,000
Aryo Bimo	1,000,000	-	-	-	1,000,000
Timothy Hogan	-	-	-	-	-
Total	1,086,000	-	-	43,000	1,129,000

Option holdings

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

2017	Balance 1.7.2016 No.	Received as Compensation No.	Options Expired No.	Net Change Other No.	Balance 30.6.2017 No.
Directors					
Colin Locke	3,000,000	-	(3,000,000)	3,000,000	3,000,000
Aryo Bimo	2,000,000	-	(2,000,000)	1,000,000	1,000,000
Timothy Hogan	2,000,000	-	(2,000,000)	2,000,000	2,000,000
Total	7,000,000	-	(7,000,000)	6,000,000	6,000,000

6. Other transactions with key management personnel

The Group incurred the following transactions with related parties during the year ended 30 June 2017: Timothy Hogan invoiced the Group \$20,000 for promotional and investor relation services.

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

**Krakatoa Resources Limited
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DIRECTORS' REPORT (CONT.)

7. Equity instruments granted as compensation

There were no other equity instruments granted as compensation during the year

8. Company Performance

The earnings of the consolidated entity for the five years to 30 June 2017 are summarised below:

	2017	2016	2015	2014	2013
	\$	\$	\$	\$	\$
Sales revenue	-	-	-	-	-
EBITDA	(1,651,514)	(1,171,305)	(2,952,584)	(1,884,114)	(619,264)
EBIT	(1,651,514)	(1,171,305)	(2,952,584)	(1,884,114)	(619,264)
(Loss) after income tax	(1,651,514)	(1,171,305)	(2,952,584)	(1,884,114)	(619,264)

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

	2017	2016	2015	2014	2013
Share price at financial year end (\$)	0.04	0.18	0.15	0.16	0.05
Dividends declared (cents per share)	-	-	-	-	-
Basic loss per share (cents per share)	(2.52)	(2.3)	(7.53)	(6.12)	(2.89)

“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:

Director	Directors' Meetings	
	Number eligible to attend	Number attended
Colin Locke	4	4
Aryo Bimo	4	2
Timothy Hogan	4	4

EVENTS AFTER THE REPORTING PERIOD

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.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

ENVIRONMENTAL ISSUES

The Group's operations are subject to significant environmental regulation under the law of the Commonwealth and State in relation to discharge of hazardous waste and materials arising from any mining activities and development conducted by the Group on any of its tenements. To date 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

The following fees were paid or payable to the auditor for non-audit services provided during the year ended 30 June 2017:

— taxation services	\$ 700
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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.

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' REPORT (CONT.)

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2017 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: 4 August 2017

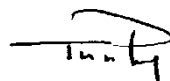
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Krakatoa Resources Limited for the year ended 30 June 2017, 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 AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 4 August 2017

**Krakatoa Resources Limited
& Controlled Entities**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017 \$	2016 \$
Revenue	2	-	5,757
Administration expense		(162,313)	(145,203)
Compliance and regulatory expense		(286,217)	(270,268)
Employee benefits expense		(220,985)	(348,073)
Exploration expenditure and project evaluation costs		(1,003,376)	(226,810)
Travel and accommodation		(26,477)	(75,532)
		<u>(1,699,368)</u>	<u>(1,060,129)</u>
Loss before income tax expense		(1,699,368)	(1,060,129)
Income tax expense	3	-	-
		<u>(1,699,368)</u>	<u>(1,060,129)</u>
Loss from continuing operations after tax		(1,699,368)	(1,060,129)
Discontinued operations after income tax			
Gain/(loss) from discontinued operations after income tax	4	47,854	(111,176)
		<u>47,854</u>	<u>(111,176)</u>
Loss attributable to members of the parent entity		(1,651,514)	(1,171,305)
Other comprehensive income, net of tax			
<i>Item that may be reclassified subsequently to operating result</i>			
Foreign currency translation		-	(8,825)
<i>Reclassification adjustments</i>			
Reclassification to profit or loss on loss of control of subsidiary	4	28,669	-
		<u>28,669</u>	<u>-</u>
Other comprehensive income/(loss)		28,669	(8,825)
Total comprehensive (loss) attributable to members of the parent entity		(1,622,845)	(1,180,130)
Basic and diluted loss per share from continuing operations (cents per share)	5	(2.59)	(2.08)
Basic and diluted gain per share from discontinued operations (cents per share)	5	0.07	(0.22)
Basic and diluted loss per share (cents per share)	5	(2.52)	(2.30)

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Note	Company 2017 \$	Consolidated 2016 \$
CURRENT ASSETS			
Cash and cash equivalents	6	1,007,728	257,671
Trade and other receivables	7	8,579	7,601
Other financial assets	8	-	6,920
TOTAL CURRENT ASSETS		1,016,307	272,192
NON CURRENT ASSETS			
Exploration and evaluation expenditure	9	610,751	550,000
TOTAL NON CURRENT ASSETS		610,751	550,000
TOTAL ASSETS		1,627,058	822,192
CURRENT LIABILITIES			
Trade and other payables	10	84,173	231,548
TOTAL CURRENT LIABILITIES		84,173	231,548
TOTAL LIABILITIES		84,173	231,548
NET ASSETS		1,542,885	590,644
EQUITY			
Issued capital	11	8,509,736	6,549,132
Reserves	12	1,307,885	664,734
Accumulated losses		(8,274,736)	(6,623,222)
TOTAL EQUITY		1,542,885	590,644

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017**

Note	Issued Capital \$	Accumulated Losses \$	Option Premium Reserve \$	Foreign Currency Translation Reserve \$	Total \$
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)
<i>Transactions with owner directly recorded in equity</i>					
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
Balance at 1 July 2016	6,549,132	(6,623,222)	693,403	(28,669)	590,644
Loss for the year	-	(1,651,514)	-	-	(1,651,514)
Other comprehensive income	-	-	-	28,669	28,669
Total comprehensive loss	-	(1,651,514)	-	28,669	(1,622,845)
<i>Transactions with owner directly recorded in equity</i>					
Shares issued during the year	11 2,689,455	-	-	-	2,689,455
Less: transaction costs arising from issue of shares	11 (728,851)	-	-	-	(728,851)
Options issued during the year	12 -	-	614,482	-	614,482
Balance at 30 June 2017	8,509,736	(8,274,736)	1,307,885	-	1,542,885

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		-	68
Payments to suppliers and employees		(664,889)	(864,316)
Payment for exploration and evaluation expenditure and project evaluation costs		(1,140,070)	(237,411)
Net cash used in operating activities	13	<u>(1,804,959)</u>	<u>(1,101,659)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration assets		(25,000)	-
Proceeds from sale of financial assets		4,929	-
Net cash used in investing activities		<u>(20,071)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		2,737,455	1,513,595
Payment of transaction costs associated with capital raising		(162,368)	(177,363)
Net cash provided by financing activities		<u>2,575,087</u>	<u>1,336,232</u>
Net increase/(decrease) in cash held		750,057	234,573
Cash at beginning of financial year		<u>257,671</u>	<u>23,098</u>
Cash at end of financial year	6	<u>1,007,728</u>	<u>257,671</u>

The accompanying notes form part of these financial statements.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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" or "consolidated entity"). Krakatoa Resources Limited is a listed public Company, incorporated and domiciled in Australia.

The financial statements were authorised for issue on 4 August 2017 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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

c) Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

d) 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.

e) 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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

e) Financial Instruments (Cont.)

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

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

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

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

Financial assets are classified 'at fair value through profit or loss' when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance valuation where 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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

e) Financial Instruments (Cont.)

(iv) Available for sale financial assets

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

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

(v) Financial Liabilities

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

Fair Value

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

Impairment

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

f) Foreign Currencies

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency 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. Non monetary 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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

f) 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.

g) 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.

h) 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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

i) 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”).

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

p) 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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

p) 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).

q) Changes in accounting policies and disclosure

In the year ended 30 June 2017, 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.

r) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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

r) New Accounting Standards and Interpretations not yet mandatory or early adopted (Cont.)

Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. 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 those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017	2016
	\$	\$
NOTE 2: REVENUE		
Interest received	-	48
Unrealised gain on held for trading financial assets	-	5,709
	-	5,757
	-	5,757

NOTE 3: INCOME TAX EXPENSE

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

Loss from ordinary activities before income tax expense	(1,651,514)	(1,171,305)
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2016: 28.5%)	(454,166)	(333,822)

Increase in income tax due to:

- Losses and temporary differences not recognised	454,166	333,822
Income tax attributable to the Group	-	-

b. Unused tax losses and temporary differences for which no deferred tax asset has been recognised at 27.5% (2016: 28.5%):

Deferred tax assets have not been recognised in respect of the following:

Tax revenue losses	5,455,865	3,487,280
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Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2017 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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017	2016
	\$	\$
NOTE 4: DISCONTINUED OPERATIONS		
On 9 March 2017, the Company executed a binding term sheet to dispose of its dormant Indonesian subsidiaries PT Bumi Pratama and PT Bina Citra Sawita for \$1.		
The financial performance of the discontinued operation, which is included in the loss from discontinued operations per the statement of comprehensive income, is as follows:		
Revenue	24,502	20
Administration expense	(2,333)	(79,924)
Employee benefits expense	(7,313)	(31,272)
Gain/(loss) before income tax	14,856	(111,176)
Income tax expense	-	-
Gain/(loss) after income tax attributable to members of the parent entity	14,856	(111,176)
Gain on disposal of liabilities on loss of control of subsidiaries before income tax	61,667	-
Reclassification of items within other comprehensive income	(28,669)	-
Income tax expense	-	-
Total gain/(loss) after income tax attributable to the discontinued operation	47,854	(111,176)
The net cash flows of the discontinued division, which have been incorporated into the statement of cash flows, are as follows:		
Net cash outflow from operating activities	(85,881)	(111,091)
Net cash outflow from investing activities	-	-
Net cash outflow from financing activities	-	-
Net cash outflow from the outgoing operation	(85,881)	(111,091)
NOTE 5: EARNINGS PER SHARE		
Loss from continuing operations used to calculate basic EPS	(1,699,368)	(1,060,129)
Loss from discontinued operations used to calculate basic EPS	47,854	(111,176)
Loss used to calculate basic EPS	(1,651,514)	(1,171,305)
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	65,678,805	50,904,715
	Cents	Cents
Loss from continuing operations used to calculate basic EPS	(2.59)	(2.08)
Loss from discontinued operations used to calculate basic EPS	0.07	(0.22)
Loss used to calculate basic EPS	(2.52)	(2.30)

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017	2016
	\$	\$
NOTE 6: CASH AND CASH EQUIVALENTS		
Cash at bank	307,728	257,671
Term deposits	700,000	-
	1,007,728	257,671

NOTE 7: TRADE AND OTHER RECEIVABLES

GST receivable	8,579	7,601
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NOTE 8: OTHER FINANCIAL ASSETS

Financial assets at fair value through profit or loss		
Held-for-trading Australian listed shares	-	6,920

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

Exploration expenditure capitalised		
- Exploration and evaluation phase	610,751	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	550,000	-
- Acquisition of exploration assets (Dalgara)	-	550,000
- Exploration expenditure capitalised	60,751	-
- Exploration written off	-	-
	610,751	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.

NOTE 10: TRADE AND OTHER PAYABLES

Related party payables	-	162,403
Trade payables and accrued expenses	84,173	69,145
	84,173	231,548

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 11: ISSUED CAPITAL

	2017 No.	2017 \$	2016 No.	2016 \$
Fully paid ordinary shares with no par value	100,000,000	8,509,736	54,167,768	6,549,132
a) Ordinary shares				
At the beginning of reporting period	54,167,768	6,549,132	43,773,003	5,009,963
Shares issued during the year:				
- 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
- 14 September 2016 (i)	1,000,000	-	-	-
- 28 September 2016	920,035	138,005	-	-
- 7 October 2016	6,530,669	979,600	-	-
- 12 October 2016	1,764,154	264,623	-	-
- 2 December 2016	3,333,333	500,000	-	-
- 27 March 2017	1,000	150	-	-
- 26 May 2017	17,559,660	438,992	-	-
- 20 June 2017	14,723,381	368,085	-	-
Less capital raising costs	-	(728,851)	-	(203,796)
Net share capital	100,000,000	8,509,736	54,167,768	6,549,132

(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.

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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 11: ISSUED CAPITAL (CONT.)

	2017 \$	2016 \$
Cash and cash equivalents	1,007,728	257,671
Trade and other receivables	8,579	7,601
Other financial assets	-	6,920
Trade and other payables	(84,173)	(231,548)
	<u>932,134</u>	<u>40,644</u>
Working capital position	<u>932,134</u>	<u>40,644</u>

c) Share Options on issue

At 30 June 2017, the Group had 48,000,000 listed options exercisable at \$0.10 on before 31 May 2019 and 10,893,878 unlisted options exercisable at \$0.40 on before 12 December 2019.

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.

NOTE 12: RESERVES

Foreign currency translation reserve

Opening balance	(28,669)	(19,844)
Foreign currency translation	-	(8,825)
Reclassification	28,669	-
Closing balance	<u>-</u>	<u>(28,669)</u>

Option premium reserve

Opening balance	693,403	188,340
Option subscription	48,000	220,630
Options issued – share based payments	566,482	284,433
Closing balance	<u>1,307,885</u>	<u>693,403</u>

Total Reserves	<u>1,307,885</u>	<u>664,734</u>
----------------	------------------	----------------

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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017	2016
	\$	\$
NOTE 13: RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX		
Loss after income tax	(1,651,514)	(1,171,305)
Non cash-flows in loss:		
Loss/(gain) on financial assets	1,991	(5,709)
Share based payments	-	183,000
Discount received	(27,514)	-
Foreign exchange loss	(30,276)	(8,825)
Changes in assets and liabilities:		
Trade and other receivables	(979)	(902)
Exploration expenditure	(60,751)	-
Trade payables and accruals	(35,916)	(97,918)
	(1,804,959)	(1,101,659)
Cash flow used in operations	(1,804,959)	(1,101,659)

Non Cash Investing & Financing Activities:

During the financial year ended 30 June 2017, the Group issued 10,893,878 unlisted options exercisable at \$0.40 on or before 12 December 2019 as consideration for brokerage services associated with the placements completed during the year, as disclosed in Note 16.

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 16.

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 16.

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

NOTE 14: 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:

Short-term employee benefits	187,500	176,532
Post-employment benefits	5,985	3,540
Share based payments	-	147,000
	193,485	327,072
Total remuneration	193,485	327,072

NOTE 15: RELATED PARTY TRANSACTIONS

The Group incurred the following transactions with related parties:

- Timothy Hogan invoiced the Group and was paid \$20,000 (2016:\$50,500) for promotional and investor relation services.

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

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

	2017 \$	2016 \$
NOTE 16: SHARE BASED PAYMENTS		
The following share based payments were in existence during the year:		
Options		
The Group issued 10,893,878 unlisted options exercisable at \$0.40 on or before 12 December 2019 as consideration for brokerage services associated with the placements completed (a)	566,482	-
The Group issued 8,000,000 unlisted options exercisable at \$0.40 on or before 31 March 2017 to directors and consultants (b)	-	168,000
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 (c)	-	75,000
The Group issued 483,333 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 (c)	-	9,666
The Group issued 838,333 unlisted options exercisable at \$0.20 on or before 31 March 2017 as consideration for brokerage services associated with the placements completed (d)	-	16,767
The Group issued 1,500,000 listed options exercisable at \$0.20 on or before 31 March 2017 in lieu of cash payment for geological services rendered (c)	-	15,000

Fair value of options issued during the period:

(a)	The options were deemed to have a fair value of \$0.052 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	3

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 16: SHARE BASED PAYMENTS (CONT.)

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

Ordinary shares

	2017	2016
	\$	\$
During the financial year ended 30 June 2016, the Group granted 3,000,000 ordinary shares as part consideration for the Dalgara 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 17: AUDITORS' REMUNERATION

Remuneration of RSM Australia Partners as auditor for:		
— Auditing or reviewing the financial report	27,250	26,100
— taxation services	700	675

NOTE 18: CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 June 2017.

NOTE 19: EVENTS AFTER THE REPORTING PERIOD

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 20: 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 \$29,439 (2016: \$4,590). The Group has no other commitments.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 21: CONTROLLED ENTITIES

	Country of Incorporation	Equity Holding	Equity Holding
		2017	2016
		%	%
Subsidiaries of Krakatoa Resources Ltd:			
PT. Bumi Pratama (i)	Indonesia	-	100
PT. Bina Citra Sawita (i)	Indonesia	-	99.8

(i) On 9 March 2017, PT. Bumi Pratama disposed of its holding in PT. Bumi Pratama and its subsidiary PT. Bina Citra Sawita for no consideration (Refer to Note 4)

NOTE 22: PARENT ENTITY DISCLOSURES

Financial position	2017	2016
	\$	\$
Assets		
Current assets	1,016,307	267,255
Non-current assets	610,751	550,000
Total assets	<u>1,627,058</u>	<u>817,255</u>
Liabilities		
Current liabilities	84,173	69,146
Total liabilities	<u>84,173</u>	<u>69,146</u>
Equity		
Issued capital	8,509,736	6,549,131
Accumulated losses	(8,274,736)	(6,494,425)
Reserves	1,307,885	693,403
Total equity	<u>1,542,885</u>	<u>748,109</u>
Financial performance		
(Loss) for the year	<u>(1,780,311)</u>	<u>(1,181,154)</u>
Total comprehensive (loss) for the year	<u>(1,780,311)</u>	<u>(1,181,154)</u>

Guarantees:

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

Other Commitments and Contingencies:

Krakatoa Resources Limited has no commitment to acquire property, plant and equipment and has no contingent liabilities (Note 18).

NOTE 23: 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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 23: OPERATING SEGMENTS (CONT.)

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 2017, 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.

NOTE 24: 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 2017 is detailed below:

	2017	2016
	\$	\$
Financial assets:		
Cash and cash equivalents		
- AA rated counterparties	1,007,728	257,671

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.

**Krakatoa Resources Limited
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 24: FINANCIAL RISK MANAGEMENT (CONT.)

Liquidity risk

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

Market Risk

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

Interest rate risk

The Group does not have any exposure to interest rate risk as there were no external borrowings at 30 June 2017 (2016: nil). Interest bearing assets are all short term liquid assets and the only interest rate risk is the effect on interest income by movements in the interest rate. There is no other material interest rate risk.

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).

2017	Level 1	Level 2	Level 3	Total
Financial assets	\$	\$	\$	\$
Fair value through profit or loss				
- Listed investments – held for trading	-	-	-	-
<hr/>				
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
<hr/>				

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

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

- (a) the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2017 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 2017.

On behalf of the Board



Colin Locke
Executive Chairman

Dated: 4 August 2017



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

Opinion

We have audited the financial report of Krakatoa Resources Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of the Group's financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
<p>Carrying Value of Capitalised Exploration and Evaluation Assets Refer to Note 9 in the financial statements</p>	
<p>The Group has capitalised a significant amount of exploration and evaluation expenditure, with a carrying value of \$610,751 as at 30 June 2017.</p> <p>Under AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, the Group is required to test the exploration and evaluation asset for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. This assessment was significant to our audit as a result of the judgement and complexity involved.</p>	<p>Our audit procedures in relation to the carrying value of exploration and evaluation expenditure included:</p> <ul style="list-style-type: none"> • Obtaining evidence that the Group has valid rights to explore in the specific area; • Reviewing and enquiring with management the basis on which they have determined that the exploration and evaluation of mineral resources has not yet reached the stage where it can be concluded that no commercially viable quantities of mineral resources exists; • Reviewing whether management has received sufficient data to conclude that the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; • Agreeing a sample of additions to capitalised exploration and evaluation expenditure during the year to supporting documentation and ensuring that the amounts were capital in nature and relate to the area of interest; • Enquiring with management and reviewing budgets and plans to test that the Group will incur substantive expenditure on further exploration for and evaluation of mineral resources in the specific area; and • Reviewing minutes of director meetings and Australian Securities Exchange announcements to ensure that the Group has not resolved to discontinue activities in the specific area of interest.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2017.

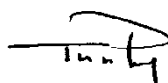
In our opinion, the Remuneration Report of Krakatoa Resources Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 4 August 2017

**Krakatoa Resources Limited
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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: 31 July 2017.

Principle / Recommendation	Compliance	Reference	Commentary
Principle 1: Lay solid foundations for management and oversight			
<u>Recommendation 1.1</u> A listed entity should disclose: <ul style="list-style-type: none"> 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	<p>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.</p> <p>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</p>

**Krakatoa Resources Limited
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		<p>Conduct to guide the Directors.</p> <p>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.</p> <p>Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:</p> <ul style="list-style-type: none"> • 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
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**Krakatoa Resources Limited
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			<p>performance of Executive Officers and monitoring the performance of senior management in their implementation of the Company's strategy.</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
<p><u>Recommendation 1.2</u> A listed entity should:</p> <ol style="list-style-type: none"> 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. 	<p>Yes</p>	<p>Director Selection Procedure, Website</p>	<p>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:</p> <ul style="list-style-type: none"> • Accounting and financial management; and • Director-level business experience. <p>Each member of the Board is committed to spending sufficient time to enable them to carry out their duties</p>

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		<p>as a Director of the Company.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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<p><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.</p>	<p>Yes</p>	<p>Kept at registered office, Independent Professional Advice Policy</p>	<p>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.</p> <p>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.</p> <p>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 (that limit is currently set at \$2,000).</p>
<p><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.</p>	<p>Yes</p>	<p>Board Charter, Website</p>	<p>Full details of the Board's and Company Secretary's roles and responsibilities are contained in the Board Charter.</p>
<p><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</p>	<p>Yes</p>	<p>Diversity Policy, Website</p>	<p>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.</p> <p>The Diversity Policy was re-adopted during the year and the Company set</p>

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<p>annually both the objectives and the entity's progress in achieving them;</p> <p>b) disclose that policy or a summary of it; and</p> <p>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:</p> <p>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</p> <p>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.</p>			<p>the following objectives for the employment of women:</p> <ul style="list-style-type: none"> • to the Board – no target set • to senior management (including Company Secretary) – 20% • to the organisation as a whole – 20% <p>As at the date of this report, the Company has the following proportion of women appointed:</p> <ul style="list-style-type: none"> • to the Board – 0% • to senior management (including Company Secretary) – 0% • to the organisation as a whole – 20% <p>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.</p>
<p><u>Recommendation 1.6:</u> A listed entity should:</p> <p>a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>b) disclose, in relation to each reporting period, whether a performance</p>	<p>Yes</p>	<p>Board , Committee & Individuals Performance Evaluation Procedure Website</p>	<p>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.</p>

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evaluation was undertaken in the reporting period in accordance with that process.			
<p>Recommendation 1.7: A listed entity should:</p> <p>a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	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			
<p>Recommendation 2.1 The Board of a listed entity should:</p> <p>a) have a nomination committee which:</p> <ol style="list-style-type: none"> 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 <p>b) if it does not have a nomination committee, disclose that fact and the</p>	No	Nomination Committee Charter, Independent Professional Advice Policy Website	<p>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 2017.</p> <p>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</p>

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<p>processes it employs to address board 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.</p>			<p>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.</p>
<p><u>Recommendation 2.2</u> 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.</p>	<p>Yes</p>	<p>Kept at registered office</p>	<p>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.</p>
<p><u>Recommendation 2.3</u> A listed entity should disclose:</p> <p>a) the names of the directors considered by the board to be independent directors;</p> <p>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</p> <p>c) the length of service of each director.</p>	<p>Yes</p>	<p>Board Charter, Independence of Directors Assessment Website</p>	<p>The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. An Independent Director:</p> <ol style="list-style-type: none"> 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

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			<p>reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Timothy Hogan (appointed 7 October 2015) is a Non-Executive Director of the Company and meets the Company's criteria for independence.</p> <p>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.</p>
<p><u>Recommendation 2.4</u> A majority of the board of a listed entity should be independent directors.</p>	<p>No</p>	<p>Independence of Directors Assessment, Website</p>	<p>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.</p>

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<p>Recommendation 2.5</p> <p>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.</p>	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.
<p>Recommendation 2.6</p> <p>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.</p>	Yes	Director Induction Program, Ongoing Education Framework, Website	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
<p>Principle 3: Act ethically and responsibly</p>			
<p>Recommendation 3.1</p> <p>A listed entity should:</p> <p>a) have a code of conduct for its directors, senior executives and employees; and</p> <p>b) disclose that code or a summary of it.</p>	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.
<p>Principle 4: Safeguard integrity in corporate reporting</p>			
<p>Recommendation 4.1</p> <p>The board of a listed entity should: (a) have an audit committee which:</p>	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

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<p>a) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</p> <ol style="list-style-type: none"> 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 experience of the members of the committee; and 4) 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 <p>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.</p>			<p>separate Audit Committee. Accordingly, the Board performs the role of Audit Committee.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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<p><u>Recommendation 4.2</u></p> <p>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.</p>	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.
<p><u>Recommendation 4.3</u></p> <p>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.</p>	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			
<p><u>Recommendation 5.1</u></p> <p>A listed entity should:</p> <p>a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</p> <p>b) disclose that policy or a summary of it.</p>	Yes	Continuous Disclosure Policy, Website	<p>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:</p> <ol style="list-style-type: none"> 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.

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Principle 6: Respect the rights of security holders			
<p><u>Recommendation 6.1</u></p> <p>A listed entity should provide information about itself and its governance to investors via its website.</p>	Yes	Website Disclosure Policy, Website	<p>The Company's website includes the following:</p> <ul style="list-style-type: none"> • 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
<p><u>Recommendation 6.2</u></p> <p>A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.</p>	Yes	Shareholder Communication Policy, Social Media Policy Website	<p>The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:</p> <ul style="list-style-type: none"> • 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

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			<p>of the auditor's report of future Annual Reports.</p> <p>The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.</p>
<p>Recommendation 6.3</p> <p>A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</p>	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.
<p>Recommendation 6.4</p> <p>A listed entity should give security holders the option to receive communications from and send communications to, the entity and its security registry electronically.</p>	Yes	Shareholder Communication Policy Website	Shareholders are regularly given the opportunity to receive communications electronically.
Principle 7: Recognise and manage risk			
<p>Recommendation 7.1</p> <p>The board of a listed entity should:</p> <p>a) have a committee or committees to oversee risk, each of which:</p> <ol style="list-style-type: none"> 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 	No	Risk Management Policy Website	<p>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.</p> <p>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</p>

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<p>b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>			<p>a Risk Management Policy.</p>
<p><u>Recommendation 7.2</u> The board or a committee of the board should:</p> <p>a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p>Yes</p>	<p>Risk Management Policy Website</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>The Board monitors risk through various arrangements including:</p> <ul style="list-style-type: none"> • regular Board meetings; • share price monitoring; • market monitoring; and • regular review of financial position and operations. <p>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.</p>
<p><u>Recommendation 7.3</u> A listed entity should disclose:</p> <p>a) if it has an internal audit function, how the function is structured and what role it performs; or</p>	<p>No</p>	<p>Audit Committee Charter Website</p>	<p>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</p>

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<p>b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>			<p>managing material risk throughout the Company, which includes the Company's internal compliance and control systems.</p> <p>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.</p>
<p>Recommendation 7.4 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.</p>	<p>Yes</p>	<p>Corporate Governance Statement</p>	<p>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.</p>
<p>Principle 8: Remunerate fairly and responsibly</p>			
<p>Recommendation 8.1 The board of a listed entity should:</p> <p>a) have a remuneration committee which:</p> <ol style="list-style-type: none"> 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 <p>b) if it does not have a</p>	<p>No</p>	<p>Remuneration Committee Charter, Independent Professional Advice Policy Website</p>	<p>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.</p> <p>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 2017.</p> <p>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</p>

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<p>remuneration committee, disclose 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.</p>			<p>changes and undertaking reviews of the Managing Director's performance, 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.</p>
<p><u>Recommendation 8.2</u> 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.</p>	<p>Yes</p>	<p>Remuneration Policy Website</p>	<p>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.</p>
<p><u>Recommendation 8.3</u> A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> 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. 	<p>Yes</p>	<p>Remuneration Policy Website</p>	<p>Executives and Non-Executive Directors are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.</p>

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**ASX INFORMATION
AS AT 30 JUNE 2017**

The following additional information is required by the ASX Limited in respect of listed public companies and was applicable at 30 June 2017.

1. Shareholder and Option holder information

a. Number of Shareholders and Option Holders

Shares

As at 30 June 2017, there were 610 shareholders holding a total of 100,000,000 fully paid ordinary shares.

Options

As at 30 June 2017, there were 48,000,000 Quoted Options exercisable at \$0.10 on or before 31 May 2019 held by 149 holders.

As at 30 June 2017, there were 10,893,878 Unquoted Options exercisable at \$0.40 on or before 12 December 2019 held by 14 holders.

b. Distribution of Equity Securities

Fully paid ordinary shares	Number (as at 30 June 2017)	
	Shareholders	Ordinary Shares
Category (size of holding)		
1 – 1,000	29	2,645
1,001 – 5,000	8	27,057
5,001 – 10,000	93	898,871
10,001 – 100,000	303	13,299,845
100,001 – and over	177	85,771,582
	610	100,000,000

The number of shareholdings held in less than marketable parcels is 134 shareholders amounting to 972,152 shares.

Quoted \$0.10 options	Number (as at 30 June 2017)	
	Shareholders	Options
Category (size of holding)		
1 – 1,000	-	-
1,001 – 5,000	11	55,000
5,001 – 10,000	2	15,834
10,001 – 100,000	61	3,523,122
100,001 – and over	75	44,406,044
	149	48,000,000

The number of option holdings held in less than marketable parcels is 11 option holders amounting to 55,000 options.

**Krakatoa Resources Limited
& Controlled Entities**

c. The names of substantial shareholders listed in the company's register as at 30 June 2017 are:

Shareholder	Ordinary Shares	%Held of Total Ordinary Shares
Lafras Luitingh	8,000,000	8.00%

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 30 June 2017 — Ordinary Shares

	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. MR LAFRAS LUITINGH	8,000,000	8.00
2. ARCHFIELD HOLDINGS PTY LTD	3,075,000	3.07
3. PROF YEW KWANG NG	2,550,000	2.55
4. MR BIN LIU	2,500,000	2.50
5. MR JOHN COLIN LOOSEMORE + MS SUSAN MARJORY LOOSEMORE <LOOSEMORE SUPER FUND A/C>	2,000,001	2.00
6. CV INDO PROJECT SERVICES	1,875,000	1.88
7. CV JAVA HOLDINGS	1,875,000	1.88
8. DR ANTONIO CREA + MRS GINA CREA <THE CREA SUPERANNUATION A/C>	1,500,000	1.50
9. MRS TING TING XUE LUU	1,500,000	1.50
10. MR THOMAS FRANCIS CORR	1,499,300	1.50
11. MR KONG HOCK TAN + MRS MARY MENG MAY ANG	1,414,250	1.41
12. MR JOHN ROBERT TYRRELL + MS CLAIRE KATHERINE TYRRELL <THE TYRRELL SUPER FUND A/C>	1,320,000	1.32
13. MS SALLY JUDITH MOLYNEUX	1,200,000	1.20
14. R C FISHING PTY LTD	1,199,000	1.20
15. OCEANIC CAPITAL PTY LTD	1,000,001	1.00
16. SHRIVER NOMINEES PTY LTD	1,000,000	1.00
17. NEESMITH PTY LTD <HELPMERHONDA SUPER FUND A/C>	1,000,000	1.00
18. ST BARNABAS INVESTMENTS PTY LTD <THE MELVISTA FAMILY A/C>	1,000,000	1.00
19. UNIVERSAL FIRM LIMITED	1,000,000	1.00
20. THREEBEE INVESTMENT GROUP PTY LTD	1,000,000	1.00
	37,507,552	37.51

**Krakatoa Resources Limited
& Controlled Entities**

f. 20 Largest Quoted \$0.10 Option Holders as at 30 June 2017

	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. SOPRANO INVESTMENTS (WA) PTY LTD <MJ MARANO SUPER FUND A/C>	3,108,500	6.48
2. MR COLIN KENNETH LOCKE <C LOCKE SUPER FUND A/C>	3,000,000	6.25
3. MR TIMOTHY HOGAN	2,000,000	4.17
4. MR LAFRAS LUITINGH	2,000,000	4.17
5. MR MURRAY WILLIAM BROUN	1,570,000	3.27
6. MR BIN LIU	1,500,000	3.13
7. OCEANIC CAPITAL PTY LTD	1,500,000	3.13
8. MR JOHN ROBERT TYRRELL + MS CLAIRE KATHERINE TYRRELL <THE TYRRELL SUPER FUND A/C>	1,455,000	3.03
9. TITAN SECURITIES PTY LTD	1,381,101	2.88
10. MR JOHN COLIN LOOSEMORE + MS SUSAN MARJORY LOOSEMORE <LOOSEMORE SUPER FUND A/C>	1,333,334	2.78
11. MR TERRY JAMES GARDINER	1,125,000	2.34
12. ARYO BIMO	1,000,000	2.08
13. MR TERRY JAMES GARDINER + MRS VICTORIA HELEN GARDINER <TERRY JAMES GARDINER S/F A/C>	1,000,000	2.08
14. HARD ROCK MINING PTY LTD	1,000,000	2.08
15. SHRIVER NOMINEES PTY LTD	1,000,000	2.08
16. NEESMITH PTY LTD <HELPMERHONDA SUPER FUND A/C>	961,813	2.00
17. MR GREGG FREEMANTLE	800,000	1.67
18. UNI PRO ENTERPRISES PTY LTD <NOUNOURS SUPER FUND A/C>	736,154	1.53
19. LAKE SPRINGS PTY LTD <THE LAKE SPRINGS S/F A/C>	730,000	1.52
20. OPULENTUS INVESTMENTS PTY LTD <JAMLOUMARVALBOY A/C>	711,040	1.48
	27,911,942	58.15

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

**Krakatoa Resources Limited
& Controlled Entities**

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 30 JUNE 2017**

<i>Project</i>	<i>Tenement</i>	<i>Interest held by Krakatoa Resources Limited</i>
DALGARANGA	P59/2082	100%
MAC WELL	E59/2175	100%