



KRAKATOA

RESOURCES LTD.

& Controlled Entities

**Annual Report
For the year ended 30 June 2021**

**Krakatoa Resources Limited
& Controlled Entities**

CONTENTS

CORPORATE DIRECTORY	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	20
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	21
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23
CONSOLIDATED STATEMENT OF CASH FLOWS.....	24
NOTES TO THE FINANCIAL STATEMENTS	25
DIRECTORS' DECLARATION.....	43
INDEPENDENT AUDITOR'S REPORT	44
ASX INFORMATION.....	47
SCHEDULE OF MINERAL TENEMENTS	49

**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@ktaresources.com
Web: <https://ktaresources.com>

CHIEF EXECUTIVE OFFICER

Mark Major

DIRECTORS

Colin Locke – Executive Chairman
Timothy Hogan – Non-Executive Director
David Palumbo – 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
Level 32, Exchange Tower
2 The Esplanade
PERTH WA 6000

STOCK EXCHANGE LISTING

Australian Securities Exchange
ASX Code: KTA

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 2021.

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)
- Timothy Hogan (Non-Executive Director)
- David Palumbo (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

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 \$3,719,276 (2020: \$2,650,603).

FINANCIAL POSITION

As at 30 June 2021, the Group had a cash balance of \$2,341,691 (2020: \$686,170) and a net asset position of \$2,202,721 (2020: \$478,986).

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 2021.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

REVIEW OF OPERATIONS

During the financial year, the Company was very active on the exploration front. We had several new tenements granted, with the majority being associated with what is collectively known as the Mt Clere project in the Gascoyne region of WA. The Rand project in southern NSW was also granted and underwent considerable systematic exploration. An additional tenement around the Dalgara project, WA was granted at the end of the financial reporting period which extends the prospectivity of this project. Exploration work over the Belgravia project focused on the Sugarloaf target which culminated into development of a deep porphyry drilling opportunity.

The Company completed exploration on all its assets; with several drilling campaigns and extensive first pass geochemical surveys and reconnaissance exploration. Details of the project specific exploration operations are provided below.

Mt Clere Project – REE, HMS, Ni, Cu +/- Co, PGE

During the year, several of the Mt Clere Rare Earth Project tenements were granted. The Company currently controls more than 2,300km² of prospective land separated over 11 tenements, 3 of which are still under application.

The project is located approximately 200km northwest of Meekatharra, within the Narryer terrane, Gascoyne Region of Western Australia. The Narryer Terrane is thought to represent reworked remnants of greenstone sequences that are prospective for intrusion-hosted Ni-Cu-(Co)-(PGE's) with similar mineralisation-styles of the likes of Julimar.

The Project also contains significant opportunities related to rare earth elements, in particular via the previously identified widespread monazite sands concentrated within the drainage networks of the northern applications and ion adsorption clay REE targets in extensive laterite areas. Historical work by BHP and Astro Mining NL confirmed the abundance of monazite a prospective rare earth element bearing mineral. Other valuable heavy minerals such as zircon and ilmenite with lesser rutile, leucoxene and xenotime, were recovered in samples from the same area, favourable for large placer resources of easily recoverable material.

After granting of the initial three licenses in January 2021, the Company sought land access and heritage clearance to undertake initial reconnaissance exploration, which involved mapping and geochemical sampling. Once approval was confirmed an extensive stream sediment survey and rock sampling program was undertaken over the granted tenure during April and May. The results of both surveys were extremely encouraging, resulting in the Company defining three extensive areas of interest (AOI) (Figure 1). These AOI recorded highly anomalous rare earth elements, base metals and pathfinder elements associated with platinum group mineralisation systems.

Highly anomalous discoveries of note from the stream geochemical survey include numerous total rare earth oxide (TREO) samples including 10,380ppm, 8,126ppm, 7,887ppm TREO over several catchments, with around 25% being critical magnet REO. In addition there were several anomalous Ni-Cu-Co-Pb-Cr catchment areas, demonstrating the prospectivity for Ni-Cu-PGE deposits.

Follow up exploration is continuing over these areas of interest and the extensive alluvial terraces, with reconnaissance drilling planned over the dominant Tower AOI laterites and alluvial terraces, airborne EM geophysical surveys over the three southern AOI, Errabiddy shear zone and craton margin areas. The Company will continue to expand the regional geochemical surveys over the newly granted tenure during the next reporting period.

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' REPORT (CONT.)

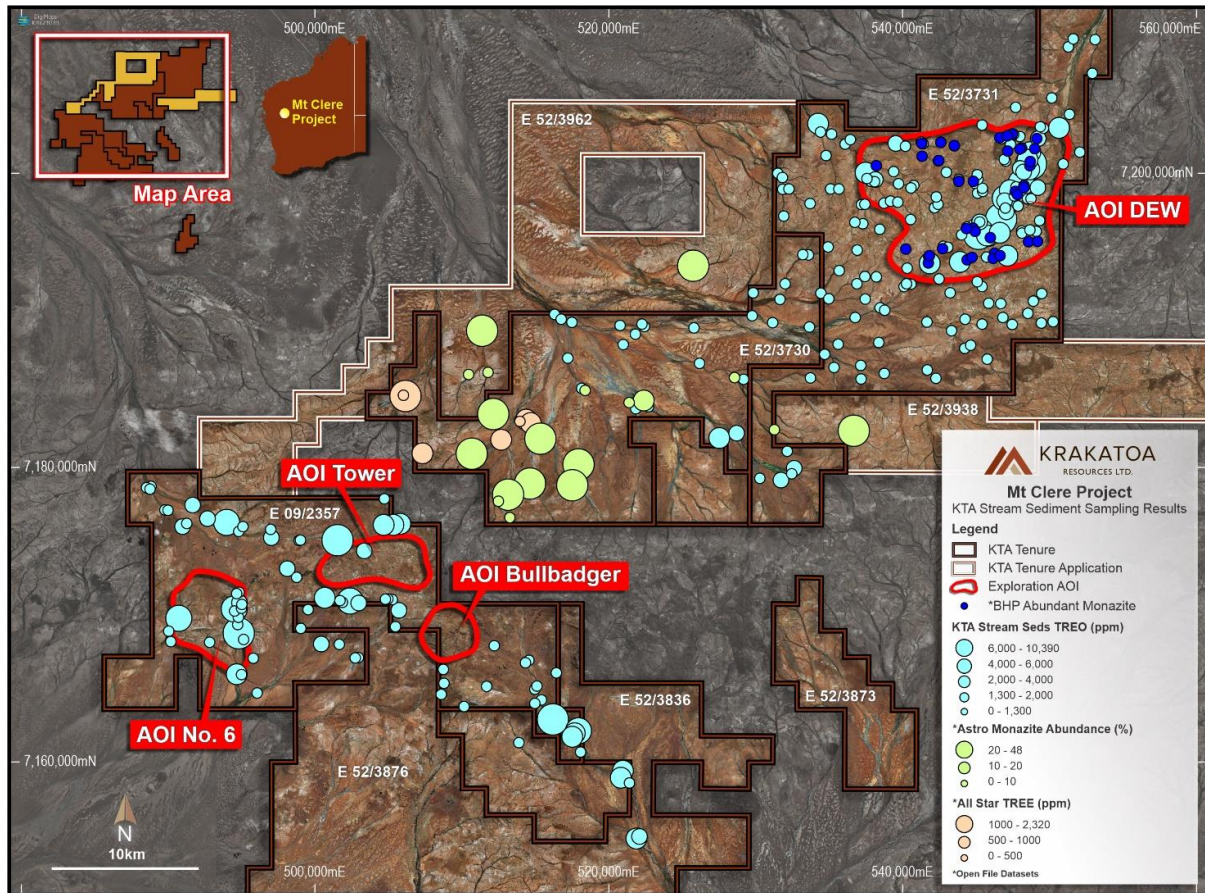


Figure 1 Krakatoa exploration licenses and applications within the Narryer Terrane, Mt Clere Project, Gascoyne Region, Western Australia. Highlighting current derived REE anomalies determined from KTA stream sampling geochemistry analysis, BHP (abundant), Astro’s significant stream sampling abundance monazite, and All Star’s auger samples.

Belgravia Project – Cu, Au

The Belgravia Project covers an area of 80km² and is located in the central part of the Molong Volcanic Belt (MVB), Lachlan Fold Belt, NSW. It contains the same rocks (Fairbridge Volcanics and Oakdale Formation), or their lateral equivalents, that respectively host the giant Cadia-Ridgeway mine 35km south and Alkane Resources' Boda discovery 65km north. Historical exploration at Belgravia has failed to adequately consider the regolith and tertiary basalt (up to 40m thick) that obscures much of the prospective geology. The Project contains six targets with considerable exploration potential for porphyry Cu-Au and associated skarn mineralisation (Figure 2).

The deep ground penetrating radar ("DGPR") survey identified several critical anomalies associated with and proximal to previously announced interpreted porphyry-related targets in the Bella region. Further south of this a total of seven anomalies were identified at Sugarloaf. These anomalies ultimately form two separate polygons striking over 900m and 500m respectively.

After extensive landowner negotiation the Company was granted permission to complete additional work programs in the later part of the reporting period, over the sugarloaf target. The Company completed several soil geochemical survey over the sugarloaf target along with reconnaissance air core drilling program (37 holes). The results of which reinforced that the Sugarloaf target is a prominent, structurally bound magnetic low ("demag") zone spanning 800 x 900 metres (Figure 3).

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

Within the centre of this demag zone lies a central core which is a discrete magnetic high featuring anomalous soil metal geochemistry. The high-grade chip result, reporting 5.19g/t gold and 1.73% copper derived within the NE-SW trending DGPR polygon on the margin of the target zone may reflect a shallower contact-metasomatic (skarn and carbonate replacement style gold-base metal deposit).

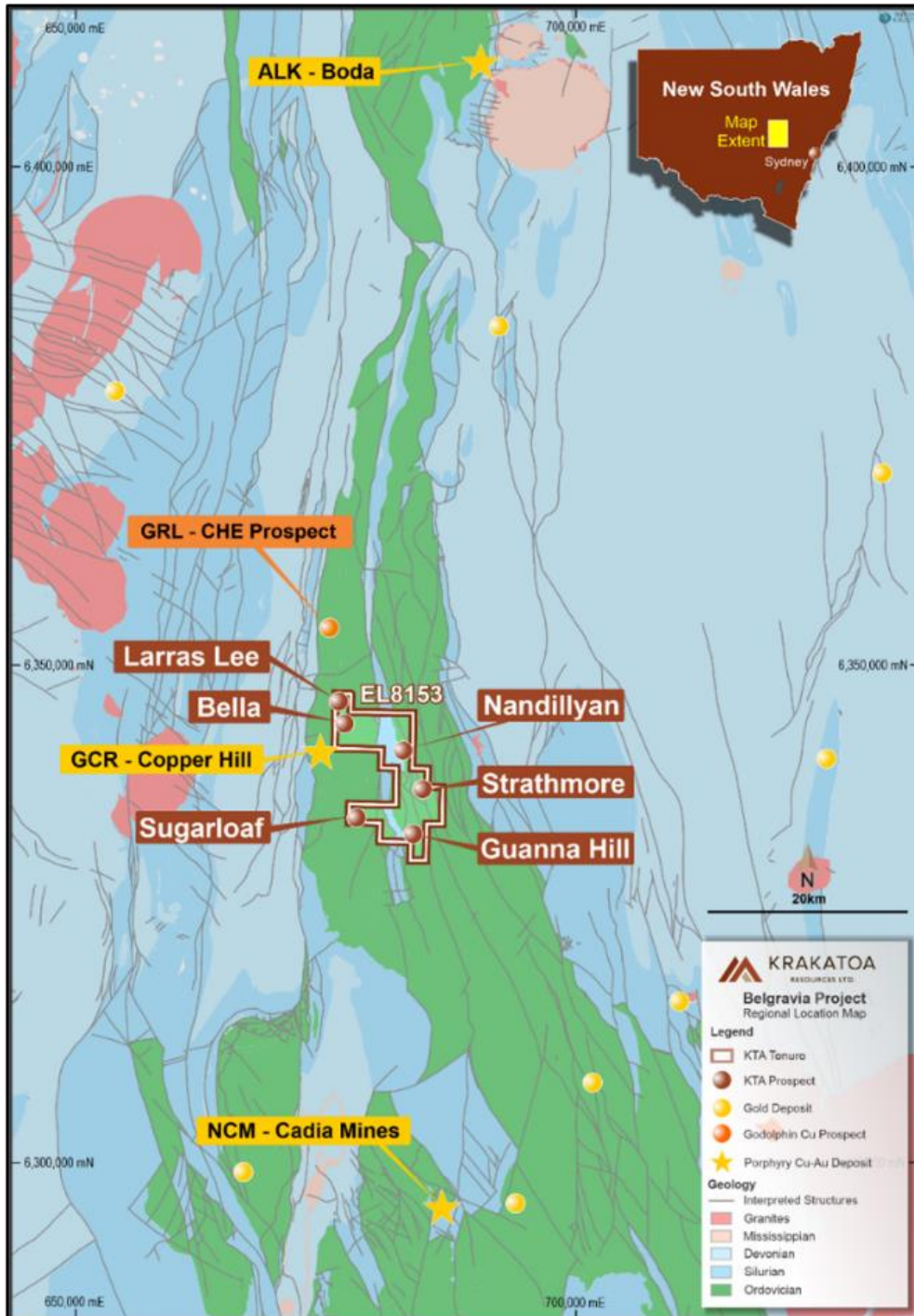


Figure 2 Belgravia project location map, prospects and major copper & gold mines and deposits on regional bedrock geology.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

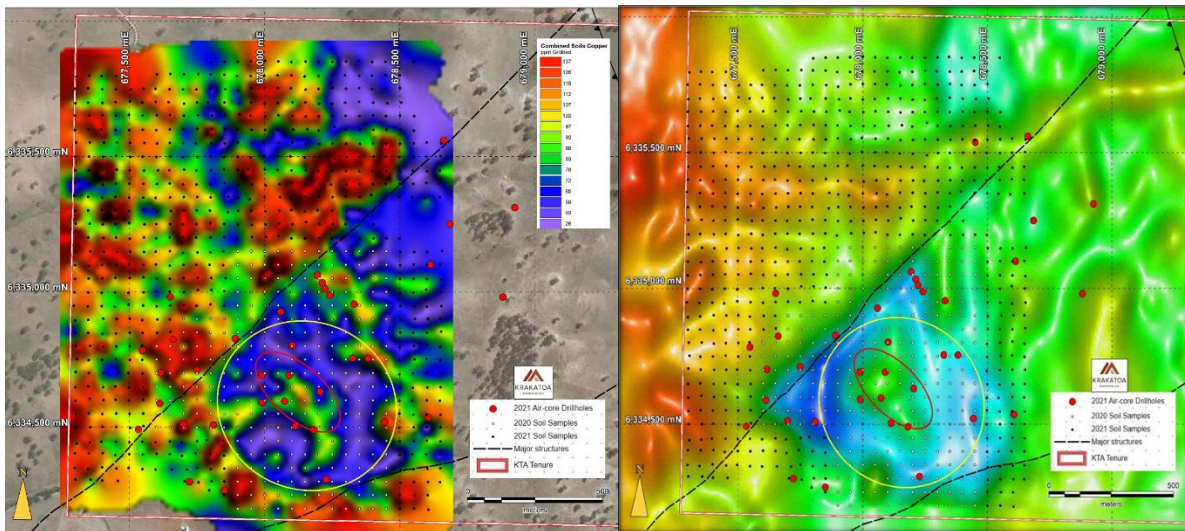


Figure 3 Maps showing recent air-core drillholes and soil samples. Background image on left is gridded (combined 2020-2021) Cu soil geochemistry and, on right RTP magnetics. Note the distinctive ring feature defined by both the Cu geochemistry and magnetics. The red ellipse marks the central core of multi-element geochemical anomalism (left) which is coincident with a magnetic high (right), and the yellow circle the approximate outer extent of the geochemical depletion zone.

The Company considers the economic potential for copper-gold mineralisation associated with a porphyry may lie at depth (>200m) and the DGPR supports high-grade copper-gold veins potentially extending upwards from a porphyry source forming a secondary target at shallower levels.

Work programs are ongoing with deep drilling of the Sugarloaf target the current focus on this tenement.

Rand Project- IRGS (Au) and granite hosted Sn

In October 2020, the Company was granted EL9000, after submitting four applications back in June 2020. The Project covers a combined area of 580km², which is centred approximately 60km NNW of Albury in southern NSW and contains a 40km structural corridor with the prospective geology largely masked by colluvium. Gold mineralisation is associated with emplacement of the I-type Jindera granite.

Within the tenement lies the historical Bulgandry Goldfield which is prospective for shear-hosted and intrusion-related gold. Production records from several of the mines within this goldfield such as the Show Day and Welcome Find reefs show substantial gold grades, including 512oz from 60 tons and 70oz from 74 tons, being extracted from the exposed quartz veins.

Very limited exploration had been undertaken prior to the Company's involvement. Initially the Company had Thomson Aviation undertake collection of high-resolution aeromagnetic data over the entire tenement to commence the greenfields exploration effort at Rand. Following this the Company completed rock chip sampling and mapping over the historical Bulgandry area which was followed by the maiden regional soil geochemical survey. Rock chip assays confirmed the potential for economic grades with gold levels of up to 80.6g/t, 21.7g/t, 17.7g/t and 14.5g/t being reported. The soil survey resulted in defining multiple large (1-3km) coherent and robust gold anomalies and over twenty extensive high tenor pathfinder multielement IRGS anomalies (figure 4).

The Company also completed gradient array and dipole-dipole Induced Polarization surveys over the bullseye area, which assisted with the planning a 2,762-metre air core (AC) drilling program. The AC drilling returned moderately to strongly anomalous IRGS-pathfinder elements with anomalous gold in

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

several holes within the weathered intrusive units, confirming the IRGS model. In particular, anomalous gold zones were intersected immediately above robust dipole-dipole IP (chargeable) anomalies within the intrusive host units, which remain untested.

In addition to the AC drilling a highly successful 1,275 metre reverse circulation (RC) drill program was undertaken as a reconnaissance first-pass assessment on a small selection of known historical mine workings within the Bulgandry Goldfields. Nine RC holes were drilled; 8 tested for widths and gold grades beneath surface workings and one hole tested a new zone of veins mapped and sampled by the company earlier. Assay results showed significant shallow gold mineralisation including a 40m intersection grading 0.22g/t gold from 60m (including a 12m section grading 0.52g/t gold). Multiple subparallel gold zones were encountered at the Goodwood reef mine which remains open down dip and along strike.

The Company applied for additional exploration licenses within and surrounding the existing Rand licence. Both applications (ELA6299 and ELA6300) were applied for in early June 2021.

The Company will continue its exploration efforts and expand the soil geochemical survey to close off several anomalies and infill certain areas in coming period. It will also undertake regional targeting exploration over several other priority exploration targets which were identified from the magnetic survey and collation and review of the exploration data. A series of significant magnetic lineaments, totalling around 8 kilometres and trending East- Northeast were identified over corresponding historical gold workings at Bulgandry goldfield, with over 90% under some cover. A major drilling campaign is envisaged over the soil and air core anomalies already identified.

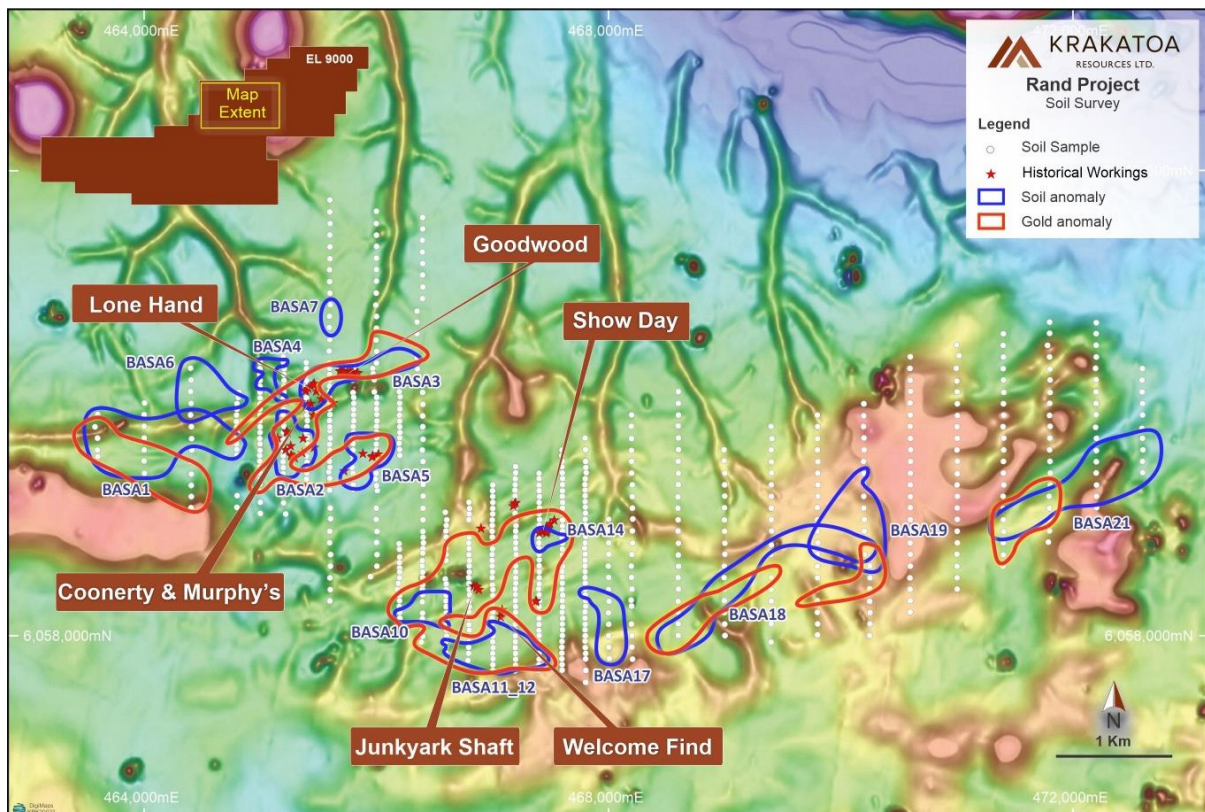


Figure 4 Location of Multi-element and gold soil geochemistry anomalies, with prospect/mine locations over magnetic image.

Krakatoa Resources Limited

& Controlled Entities

DIRECTORS' REPORT (CONT.)

Turon Project – Au, +/-Cu

The Turon Project covers an area of 120km². It is situated approximately 50km east of the Company's Belgravia Project and 60km northeast of Newcrest Mining's Cadia Valley Operations, in the Hill End Synclinal Zone, NSW. The geology at Turon bears many similarities in terms of host-rocks, structural and mineralisation-style to other high-grade turbidite-hosted gold deposits, including Fosterville in the Bendigo-Ballarat zone, central Victoria.

Past explorers report numerous significant gold grades from chip and mullock sampling along the length of the gold workings, including 1,535g/t, 135g/t, 26g/t, 14.6g/t, 12.55g/t and 11.3 g/t Au.

A diamond drill program commenced in August 2020 over several identified targets within the Turon project. The drilling was designed to test several shallow gold targets situated within the Box Ridge (Britannia Mine) and Quartz Ridge line of workings which strike over 2.4km and 1.6km respectively.

The two holes were drilled at the Britannia Mine prospects, and intersected multiply and board zones of significant quartz veining, pervasive sericite alteration and disseminated pyrite-arsenopyrite. Anomalous gold was intersected in both holes with the peak intersection coming from hole BD002 at for 1m with 4.82g/t gold from 56m.

Six diamond holes (totalling 1294.5m) were drilled along the 1.6km long line of the historical Quartz Ridge workings. Drilling intersected multiple zones of significant quartz veining with associated mineralisation within all holes, including arsenopyrite, pyrite, with chalcopyrite and gold locally developed. Best results included 2m @ 2.42g/t Au from 101.8m (QRD002), 1m @ 2.68g/t Au from 29.7m (QRD002) and 1m @ 3.1g/t Au from 76m (QRD003) (Figure 5).

Vein widths intersected were to 20m, but commonly around 3m. Veins vary between massive to strongly laminated typically associated with the reactivating shear zones and commonly characteristic of nuggety gold systems. Broad arsenic haloes, up to 36m wide, envelop the mineralisation and quartz veining supporting the presence of deep mantle tapping structures.

Dalgaranga Project – Ta, Rb, Nb, Sn, W, Li, +/- Base metals

The Dalgaranga Project is located 80km northwest of Mount Magnet in Western Australia and lies within the Dalgaranga Greenstone Belt. The Dalgaranga Greenstone Belt is about 50km long and up to 20km wide and contains gold mineralisation (Dalgaranga gold mine), a zinc deposit (Lasoda), graphite deposits, and occurrences of tantalum, beryllium, tin, tungsten, lithium and molybdenum related to LCT pegmatites.

The presence of Zinnwaldite and Lepidolite, both lithium-bearing micas, has been recognised during field mapping and confirmed further by assay in several rock chip sampling and drilling programmes completed by the Company previously. The presence of anomalous rubidium in the mined waste rock and supported with the drilling highlighted by the discovery of a rubidium, tin and tantalum enriched 71 metre interval with peak Rb values just shy of 5,000ppm support the prospectivity.

During the year, the Company was granted additional tenure and was successful on securing the rights for the application over additional tenure surrounding the company's current land holding. A review of the associated areas and a full compilation of the project available public data on the Dalgaranga Project Tantalum project was initiated during the reporting period.

Mac Well Project - Au

The Mac Well Project has a land area of 66.9km² and is located 10km west of the Company's Dalgaranga Project. The Project contains a 7.5km strike along the prospective Warda Warra greenstone belt, mostly untested due to a thick transported cover. The Company considers favourable structural conditions for gold mineralisation are likely within the Mac Well tenement, acknowledging the significance and prospectivity of the western granite-greenstone contact, as evidenced by the Western Queen Mine.

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' REPORT (CONT.)

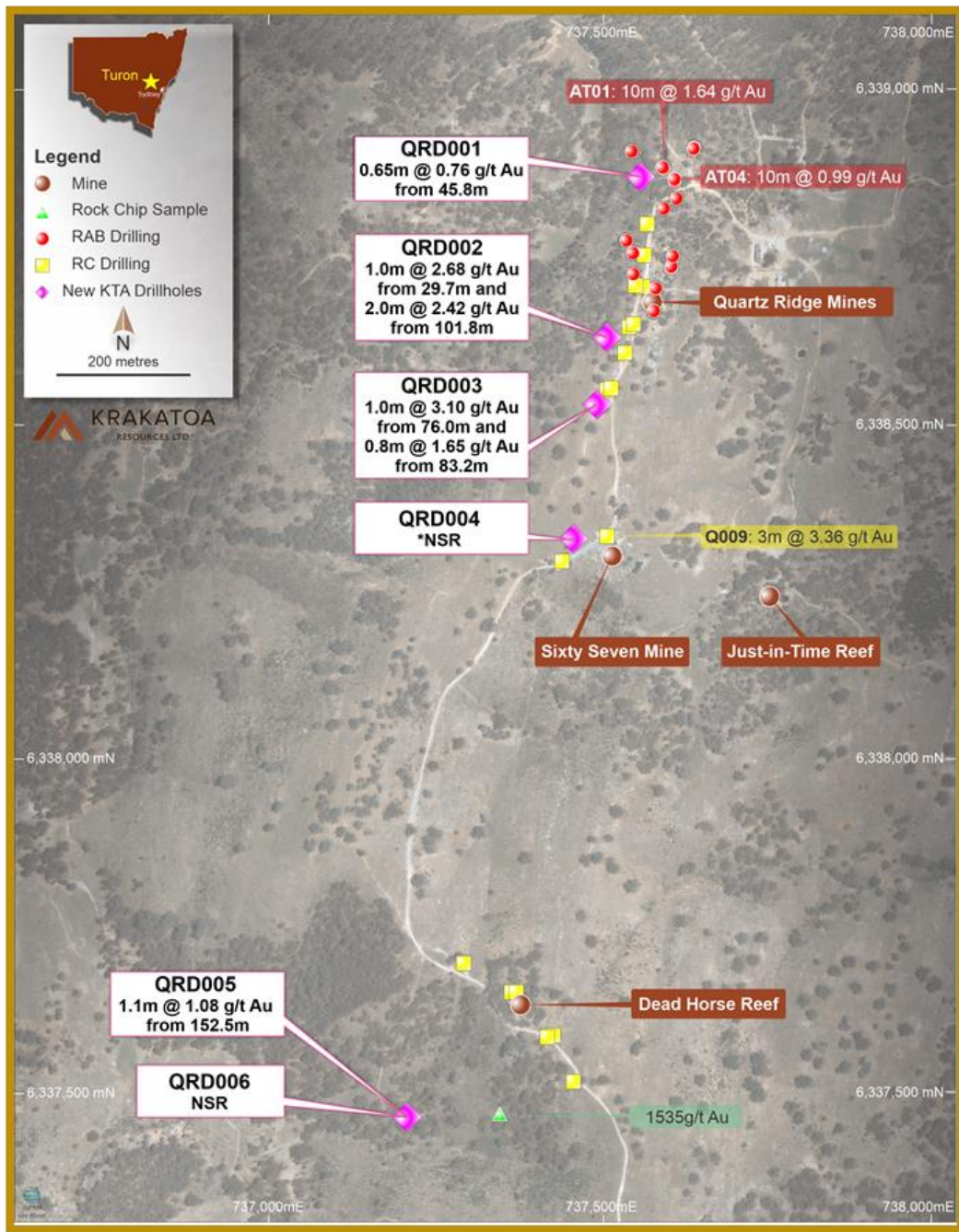


Figure 5 Quartz Ridge Line of workings, historical mines with drilling and rock chip results.

Competent Persons Statement

The information in this announcement is based on and fairly represents information compiled by Mr Mark Major, Chief Executive Officer and Senior Geologist, who is a Member of the Australian Institute of Geoscientists and employed by the Group, and is an accurate representation of the available data and studies for the Project. Mr Major has sufficient experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity which he has undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Major consents to the inclusion in this announcement of the matters based on this information in the form and context in which it appears.

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 Aston Minerals Limited, ASO) 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. He currently serves on the board of Albion Resources Limited (ASX: ALB).

Interest in Securities

1,129,000 Fully paid ordinary shares
4,000,000 options exercisable at \$0.075 on or before 29 November 2023
2,500,000 share performance rights vesting at \$0.20 on or before 29 November 2023
2,500,000 share performance rights vesting at \$0.30 on or before 29 November 2023
2,500,000 share performance rights vesting at \$0.40 on or before 29 November 2023

Directorships held in other listed entities

Albion Resources Limited

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

400,000 Fully paid ordinary shares
3,000,000 options exercisable at \$0.075 on or before 29 November 2023

Directorships held in other listed entities

None

David Palumbo

Non-Executive Director & Company Secretary

Mr Palumbo is a Chartered Accountant and graduate of the Australian Institute of Company Directors with over fourteen years' experience across company secretarial, corporate advisory and financial management and reporting of ASX listed companies. Mr Palumbo is an employee of Mining Corporate Pty Ltd, where he has been actively involved in numerous corporate transactions. Mr Palumbo is currently a Non-Executive Director of Albion Resources Limited (ASX: ALB).

Interest in Securities

3,601,500 Fully paid ordinary shares
2,100,000 options exercisable at \$0.075 on or before 29 November 2023

Directorships held in other listed entities

Albion Resources Limited

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.

Krakatoa Resources Limited

& Controlled Entities

DIRECTORS' REPORT (CONT.)

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 his executive agreement, Mr Locke is entitled to receive \$144,000 (plus superannuation) per annum, which is subject to annual review. Under the terms of his agreement, Mr Locke received reimbursements for travel and other expenses related to his employment during the financial year. The executive agreement may be terminated by either party with 3 months' written notice.

Mark Major was appointed as Chief Executive Officer, effective from 14 October 2020. Under the terms of the executive agreement, Mr Major is entitled to receive a base salary of \$220,000 per annum (inclusive of superannuation), which is subject to annual review. The executive agreement may be terminated by either party with 3 months' written notice.

Appointments of non-executive directors Timothy Hogan and David Palumbo 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 \$30,000 plus superannuation and Mr Palumbo is currently entitled to receive directors' fees of \$60,000 per annum.

2. Remuneration policy

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

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

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

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

Executives are also entitled to participate in the employee share and option arrangements. All remuneration paid to directors and executives is valued at the cost to the Group and expensed, or capitalised to exploration expenditure if appropriate. Options, if given to directors and executives in lieu of remuneration, are valued using the Black-Scholes methodology. The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' REPORT (CONT.)

The maximum aggregate amount of fees that can be paid to directors is \$300,000. 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

During the financial year, non-executive director David Palumbo received 3,000,000 shares at \$0.056 per share (equivalent to \$168,000) in bonus consideration for his contribution in identifying the Rand, Turon and Mt Clere Projects for direct application by the Group. Additionally, 15,000,000 options were issued to Key Management Personnel (KMP's) as performance based remuneration following approval at the Group's Annual General Meeting (AGM). Options were issued to KMP's on the following basis: Colin Locke 4,000,000, David Palumbo 3,000,000, Tim Hogan 3,000,000 and Mark Major 5,000,000. Colin Locke and Mark Major also received 7,500,000 share performance rights each during the reporting period.

4. Details of remuneration for the year ended 30 June 2021

The remuneration for each key management personnel of the Group during the financial year ended 30 June 2021 and 30 June 2020 was as follows:

2021	Short-term Benefits	Post- employment Benefits	Other Long-term Benefits	Share based Payment		Total	Perfor- mance Related	Value of Options / Rights Re- munerati on
Key Management Person Directors	Cash, salary & commissions \$	Super- annuation \$	Other \$	Shares \$	Options / Rights \$	\$	%	%
Colin Locke	144,000	5,700	-	-	407,577	557,277	-	73
Timothy Hogan	30,000	2,850	-	-	93,440	126,290	-	74
David Palumbo	60,000	-	-	168,000	93,440	321,440	52	29
Mark Major	143,664	13,648	-	-	356,540	513,852	-	69
	377,664	22,198	-	168,000	950,997	1,518,859	11	63

2020	Short-term Benefits	Post- employment Benefits	Other Long-term Benefits	Share based Payment		Total	Perfor- mance Related	Value of Options / Rights Re- muneration
Key Management Person Directors	Cash, salary & commissions \$	Super- annuation \$	Other \$	Shares \$	Options \$	\$	%	%
Colin Locke	152,000	-	-	-	-	152,000	-	-
Timothy Hogan	47,500	4,513	-	-	-	52,013	-	-
David Palumbo	60,000	-	-	-	-	60,000	-	-
	259,500	4,513	-	-	-	264,013	-	-

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' REPORT (CONT.)

5. Equity holdings of key management personnel

Shareholdings

Number of shares held by key management personnel during the financial year ended 30 June 2021 was as follows:

2021	Balance 1.7.2020 No.	Received as Compensation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2021 No.
Directors					
Colin Locke	129,000	-	-	-	129,000
Timothy Hogan	-	-	-	-	-
David Palumbo*	501,500	2,100,000	-	-	2,601,500
Mark Major	-	-	-	-	-
Total	630,500	2,100,000	-	-	2,730,500

Option holdings

Number of options held by key management personnel during the financial year ended 30 June 2021 was as follows:

2021	Balance 1.7.2020 No.	Received as Compensation No.	Options Expired No.	Net Change Other No.	Balance 30.6.2021 No.
Directors					
Colin Locke	11,000,000	4,000,000	(4,000,000)	-	11,000,000
Timothy Hogan	10,000,000	3,000,000	(4,000,000)	-	9,000,000
David Palumbo*	4,539,389	2,100,000	(2,000,000)	-	4,639,389
Mark Major	-	5,000,000	-	-	5,000,000
Total	25,539,389	14,100,000	(10,000,000)	-	29,639,389

Share performance rights

Number of performance rights held by key management personnel during the financial year ended 30 June 2021 was as follows:

2021	Balance 1.7.2020 No.	Received as Compensation No.	Rights Expired No.	Net Change Other No.	Balance 30.6.2021 No.
Directors					
Colin Locke	-	7,500,000	-	-	7,500,000
Timothy Hogan	-	-	-	-	-
David Palumbo	-	-	-	-	-
Mark Major	-	7,500,000	-	-	7,500,000
Total	-	15,000,000	-	-	15,000,000

*900,000 shares and 900,000 options were issued to a nominee, which has been reflected in the disclosure above.

6. Other transactions with key management personnel

During the year ended 30 June 2021, Barclay Wells Limited, an entity which Timothy Hogan is a director, invoiced for brokerage of \$14,220 plus GST on \$237,000 (2020: \$16,451 plus GST on \$267,500) raised in share placements completed in the 2021 financial year. The services were provided on arm's length terms.

There were no other transactions with key management personnel during the 2021 financial year.

**Krakatoa Resources Limited
& Controlled Entities**

DIRECTORS' REPORT (CONT.)

7. Equity instruments granted as compensation

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

8. Group Performance

The earnings of the consolidated entity for the five years to 30 June 2021 are summarised below:

	2021	2020	2019	2018 restated	2017 restated
	\$	\$	\$	\$	\$
Sales revenue	-	-	-	-	-
EBITDA	(3,719,276)	(2,650,603)	(739,390)	(1,122,558)	(1,712,265)
EBIT	(3,719,276)	(2,650,603)	(739,390)	(1,122,558)	(1,712,265)
(Loss) after income tax	(3,719,276)	(2,650,603)	(739,390)	(1,122,558)	(1,712,265)

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

	2021	2020	2019	2018 restated	2017**
Share price at financial year end (\$)	0.048	0.038	0.022	0.027	0.04
Dividends declared (cents per share)	-	-	-	-	-
Basic loss per share (cents per share)	(1.38)	(1.47)	(0.63)	(1.08)	(2.61)

** Figures have not been restated

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	2	2
Timothy Hogan	2	2
David Palumbo	2	2

EVENTS AFTER THE REPORTING PERIOD

Between 1 July 2021 and 3 August 2021, the Company issued 15,759,917 fully paid ordinary shares arising from the exercise of \$0.05 options to raise \$787,996. As a result, the remaining 67,040,083 options exercisable at \$0.05 expired on 31 July 2021, along with 5,000,000 options exercisable at \$0.075.

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

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

INDEMNITY AND INSURANCE OF AUDITOR

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

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

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.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' REPORT (CONT.)

NON-AUDIT SERVICES

The following fees were paid or payable to the auditor for non-audit services provided during the year ended 30 June 2021:

—	taxation services	\$ 2,410
---	-------------------	-------------

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.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF RSM AUSTRALIA PARTNERS

There are no officers of the Group who are former partners of RSM Australia partners.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2021 has been received and can be found on the next page of the directors' report.

Auditor

RSM Australia Partners continues in office in accordance with section 327C of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001



Colin Locke
Executive Chairman
Dated: 30 September 2021

RSM Australia Partners

Level 32, Exchange Tower, 2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +618 92619100

F +618 92619111

www.rsm.com.au

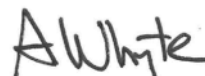
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Krakatoa Resources Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

RSM

RSM AUSTRALIA PARTNERS

A handwritten signature in black ink that reads 'A Whyte'.

ALASDAIR WHYTE

Partner

Perth, WA
Dated: 30 September 2021

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

**Krakatoa Resources Limited
& Controlled Entities**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021**

	Note	2021 \$	2020 \$
Revenue	2	13,428	14,352
Administration expense		(131,335)	(201,095)
Compliance and regulatory expense		(280,152)	(311,450)
Employee benefits expense		(282,945)	(264,013)
Exploration expenditure and project evaluation costs		(1,901,839)	(1,888,397)
Share based payment expense	12	(1,136,433)	-
Loss before income tax expense		(3,719,276)	(2,650,603)
Income tax expense	3	-	-
Loss from continuing operations after tax		(3,719,276)	(2,650,603)
Loss attributable to members of the parent entity		(3,719,276)	(2,650,603)
Other comprehensive income, net of tax			
<i>Reclassification adjustments</i>			
Reclassification to profit or loss on loss of control of subsidiary			
Other comprehensive income/(loss)		-	-
Total comprehensive (loss) attributable to members of the parent entity		(3,719,276)	(2,650,603)
Basic and diluted loss per share (cents per share)	4	(1.38)	(1.47)

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021**

	Note	2021 \$	2020 \$
CURRENT ASSETS			
Cash and cash equivalents	5	2,341,691	686,170
Trade and other receivables	6	122,561	43,811
TOTAL CURRENT ASSETS		2,464,252	729,981
TOTAL ASSETS		2,464,252	729,981
CURRENT LIABILITIES			
Trade and other payables	8	244,827	250,995
Provisions	9	16,704	-
TOTAL CURRENT LIABILITIES		261,531	250,995
TOTAL LIABILITIES		261,531	250,995
NET ASSETS		2,202,721	478,986
EQUITY			
Issued capital	10	16,525,965	12,057,138
Reserves	11	2,794,069	1,819,885
Accumulated losses		(17,117,313)	(13,398,037)
TOTAL EQUITY		2,202,721	478,986

The accompanying notes form part of these financial statements.

**Krakatoa Resources Limited
& Controlled Entities**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021**

	Note	Issued Capital \$	Accumulated Losses \$	Option Premium Reserve \$	Total \$
Balance at 1 July 2019		9,453,316	(10,747,434)	1,544,885	250,767
Loss for the year					
Other comprehensive income		-	(2,650,603)		(2,650,603)
Total comprehensive loss		-	(2,650,603)		(2,650,603)
<i>Transactions with owner directly recorded in equity</i>					
Shares issued during the year	10	2,792,500	-	-	2,792,500
Less: transaction costs arising from issue of shares	10	(188,678)	-	-	(188,678)
Options issued during the year		-	-	275,000	275,000
Balance at 30 June 2020		12,057,138	(13,398,037)	1,819,885	478,986
Balance at 1 July 2020		12,057,138	(13,398,037)	1,819,885	478,986
Loss for the year					
Other comprehensive income		-	(3,719,276)	-	(3,719,276)
Total comprehensive loss		-	(3,719,276)	-	(3,719,276)
<i>Transactions with owner directly recorded in equity</i>					
Shares issued during the year	10	4,803,000	-	-	4,803,000
Less: transaction costs arising from issue of shares	10	(334,173)	-	-	(334,173)
Options issued during the year		-	-	974,184	974,184
Balance at 30 June 2021		16,525,965	(17,117,313)	2,794,069	2,202,721

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 2021**

	Note	2021 \$	2020 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Other income		13,428	14,352
Payments to suppliers and employees		(665,427)	(735,164)
Payment for exploration and evaluation expenditure and project evaluation costs		(1,999,058)	(1,257,404)
Net cash used in operating activities	13	<u>(2,651,057)</u>	<u>(1,978,216)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration assets		-	-
Net cash used in investing activities		<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		4,640,750	2,467,500
Payment of transaction costs associated with capital raising		(334,172)	(210,399)
Net cash provided by financing activities		<u>4,306,578</u>	<u>2,257,101</u>
Net increase / (decrease) in cash held		1,655,521	278,885
Cash at beginning of financial year		<u>686,170</u>	<u>407,285</u>
Cash at end of financial year	5	<u><u>2,341,691</u></u>	<u><u>686,170</u></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 2021

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 30 September 2021 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.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1 (p).

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.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australia Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Group has adopted the revised Conceptual Framework from 1 July 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Group's financial statements.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 20.

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.

Krakatoa Resources Limited

& Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

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

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

c) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure, including the costs of acquiring tenements, are expensed as incurred. Expensing exploration and evaluation expenditure as incurred is irrespective of whether or not the Board believe expenditure could be recouped from either a successful development and commercial exploitation or sale of the respective assets.

d) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

e) Foreign Currencies

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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

& Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

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

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

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

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

f) Impairment of Assets

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

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

g) Cash and Cash Equivalents

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

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

h) Revenue

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

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

i) Goods and Services Tax

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

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

j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off.

k) Trade and other payables

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

l) Employee Benefits

Provision is made for the Group’s obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group’s obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group’s obligations for employees’ annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Defined contribution superannuation expense

Contributions to defined contributions superannuation plans are in the period in which they are incurred.

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 Group, 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.

Krakatoa Resources Limited & Controlled Entities

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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.

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

q) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

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

r) Accounting Standards that are mandatorily effective for the current reporting year

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period.

The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the Group's accounting policies.

The adoption of the new Conceptual Framework for Financial Reporting from 1 July 2020 has not led to any changes in accounting or disclosure for the Group, but the new Conceptual Framework may be referred to if accounting matters arise that are not addressed by accounting standards.

The adoption of the new definition of Material included in AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material from 1 July 2020 provides a new definition of material, which now extends materiality consideration to obscurity and clarifies that materiality now depends on the nature or magnitude of information.

Future effects of the implementation of these standards will depend on future details.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

	2021	2020
	\$	\$
NOTE 2: REVENUE		
Other Income	13,428	14,352
	13,428	14,352

	2021	2020
	\$	\$
NOTE 3: INCOME TAX EXPENSE		
a. Reconciliation of income tax expense to prima facie tax payable:		
Loss from ordinary activities before income tax expense	(3,719,276)	(2,650,603)
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2020: 30%)	(1,115,783)	(795,181)
Increase/(decrease) in income tax due to:		
- Capital raising costs	(132,495)	(112,445)
- Losses and temporary differences not recognised	1,248,278	907,626
Income tax attributable to the Group	-	-
b. Unused tax losses and temporary differences for which no deferred tax asset has been recognised at 30% (2020: 30%):		
Deferred tax assets have not been recognised in respect of the following:		
Tax revenue losses	14,398,759	11,396,646

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2021 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
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

	2021	2020
	\$	\$
NOTE 4: EARNINGS PER SHARE		
Loss used to calculate basic EPS	(3,719,276)	(2,650,603)
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	268,683,699	179,897,260
	Cents	Cents
Basic and diluted loss per share	(1.38)	(1.47)

	2021	2020
	\$	\$
NOTE 5: CASH AND CASH EQUIVALENTS		
Cash at bank	2,341,691	686,170
	<u>2,341,691</u>	<u>686,170</u>

NOTE 6: TRADE AND OTHER RECEIVABLES

GST receivable	57,957	40,894
Other receivables	61,600	-
Other assets	3,004	2,917
	<u>122,561</u>	<u>43,811</u>

Allowance for expected credit losses

The consolidated entity has not recognised a loss in respect of the expected credit losses for the year ended 30 June 2021.

NOTE 7: REMUNERATION OF AUDITORS

Audit Services – RSM Australia Partners	33,000	27,760
	<u>33,000</u>	<u>27,760</u>

NOTE 8: TRADE AND OTHER PAYABLES

Trade payables and accrued expenses	244,827	250,995
	<u>244,827</u>	<u>250,995</u>

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

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

NOTE 9: PROVISIONS

CURRENT	2021	2020
	\$	\$
Employee benefits	16,704	-
	<u>16,704</u>	<u>-</u>

NOTE 10: ISSUED CAPITAL

	2021	2021	2020	2020
	No.	\$	No.	\$
Fully paid ordinary shares with no par value	218,750,000	16,525,965	218,750,000	12,057,138
a) Ordinary shares				
At the beginning of reporting period	218,750,000	12,057,138	135,000,000	9,453,316
Shares issued during the year:				
- 27 September 2019	-	-	15,000,000	330,000
- 23 October 2019	-	-	15,000,000	750,000
- 5 December 2019	-	-	10,000,000	400,000
- 5 February 2020	-	-	43,750,000	1,312,500
- 14 July 2020 (i)	30,000,000	2,400,000	-	-
- 10 August 2020 (ii)	2,200,000	110,000	-	-
- 19 October 2020 (iii)	25,000,000	2,125,000	-	-
- 30 November 2020 (12c)	3,000,000	168,000	-	-
Less capital raising costs	-	(334,173)	-	(188,678)
Net share capital	<u>278,950,000</u>	<u>16,525,965</u>	<u>218,750,000</u>	<u>12,057,138</u>

(i) 30,000,000 shares were placed to investors on 14 July 2020 at an issue price of \$0.08 per share raising \$2,400,000 in cash before costs.

(ii) 2,200,000 shares were issued on 10 August 2020 after options exercisable at \$0.05 per share were exercised raising \$110,000.

(iii) 25,000,000 shares were issued on 19 October 2020 at an issue price of \$0.085 per share raising \$2,125,000 in cash before costs.

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 2021**

	2021 \$	2020 \$
Cash and cash equivalents	2,341,691	686,170
Trade and other receivables	122,561	43,811
Trade and other payables	(244,827)	(250,995)
Provisions	(16,704)	-
	<u>2,202,721</u>	<u>478,986</u>
Working capital position		

NOTE 11: RESERVES

	2021 \$	2020 \$
(a) Share based payment reserve	<u>2,794,069</u>	<u>1,819,885</u>
(b) Movement in share based payment reserve	<i>No.</i>	<i>\$</i>
Balance at 1 July 2020	102,000,000	1,819,885
KMP options (refer to note 12a)	15,000,000	467,200
Employee options (refer to note 12a)	1,200,000	17,437
Options exercised during period (i)	(2,200,000)	-
Options lapsed during period (ii)	(12,000,000)	-
Performance Rights Issue (refer to note 12b)	15,000,000	483,796
Options exercised not yet converted (iii)	-	5,751
Balance at 30 June 2021	<u>119,000,000</u>	<u>2,794,069</u>

- (i) On 10 August 2020, 2,200,000 listed options with an exercise price of \$0.05 were exercised. Refer to note 10(aii).
- (ii) On 24 October 2020, 12,000,000 unlisted options with an exercise price of \$0.10 expired unexercised.
- (iii) On 25 June 2021, \$5,751 was received for options exercised for shares not yet converted at the balance date.

NOTE 12: SHARE BASED PAYMENTS

a) Options

Options were issued to Key Management Personnel (KMP), Colin Locke (4,000,000 options), Timothy Hogan (3,000,000 options), David Palumbo (3,000,000 options) and Mark Major (5,000,000 options) as performance based remuneration. The options were issued on 1 December 2020 following shareholder approval at the Group's AGM. Additionally, the Group issued employee incentive options (1,200,000) on 15 January 2021.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

Class	Number of Instruments	Grant Date	Expiry Date	Exercise Price	Fair value per instrument \$	Total Value \$
KMP Options ¹	15,000,000	30/11/2020	29/11/2023	\$0.075	0.031	467,200
Employee Options ²	1,200,000	15/01/2021	29/11/2023	\$0.075	0.045	54,336

¹ KMP Options were fully vested at the balance date 30 June 2021. 10,000,000 Director Options vested immediately and 5,000,000 options issued to CEO Mark Major vested on 14 April 2021 (6 months after commencement).

² Options were issued to employees in tranches of 500,000 (tranche 1) and 700,000 (tranche 2). Options were recognised on a pro-rata basis at the balance date 30 June 2021, as service vesting conditions associated with the employment agreement will not be completed until 15 January 2022 (tranche 1) and 15 January 2023 (tranche 2). At the balance date 30 June 2021 a total value of \$17,437 has been recognised on a pro-rata basis in the consolidated statement of profit and loss.

KMP options issued during the period were calculated using the Black-Scholes option pricing model with the following inputs:

	Options granted Range
Expected volatility (%)	100%
Risk free interest rate (%)	0.14%
Weighted average expected life of options (years)	3.00
Expected dividends	Nil
Option exercise price (\$)	\$0.075
Share price at grant date (\$)	\$0.056
Fair value of option (\$)	\$0.031

Employee options issued during the period were calculated using the Black-Scholes option pricing model with the following inputs:

	Options granted Range
Expected volatility (%)	100%
Risk free interest rate (%)	0.11%
Weighted average expected life of options (years)	2.87
Expected dividends	Nil
Option exercise price (\$)	\$0.075
Share price at grant date (\$)	\$0.075
Fair value of option (\$)	\$0.045

b) Performance Rights

On 30 November 2020, the Group issued 7,500,000 Performance Rights to the Group's CEO, Mark Major and 7,500,000 to Executive Chairman Colin Locke following shareholder approval at the Group's AGM. The Performance Rights were issued in 3 tranches:

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

Grant Date/entitlement	Number of Instruments	Grant Date	Vesting Date	Fair value per instrument \$	Value \$
Tranche 1 - SARs issued to Colin Locke at a strike price of \$0.20 expiring 29 November 2023	2,500,000	30/11/2020	30/11/2020	0.049	121,875
Tranche 2 - SARs issued to Colin Locke at a strike price of \$0.30 expiring 29 November 2023	2,500,000	30/11/2020	30/11/2020	0.035	85,742
Tranche 3 - SARs issued to Colin Locke at a strike price of \$0.40 expiring 29 November 2023	2,500,000	30/11/2020	30/11/2020	0.030	75,372
Total					282,989
Tranche 1 - SARs issued to Mark Major at a strike price of \$0.20 expiring 29 November 2023	2,500,000	30/11/2020	14/10/2021	0.049	121,875
Tranche 2 - SARs issued to Mark Major at a strike price of \$0.30 expiring 29 November 2023	2,500,000	30/11/2020	14/10/2021	0.035	85,742
Tranche 3 - SARs issued to Mark Major at a strike price of \$0.40 expiring 29 November 2023	2,500,000	30/11/2020	14/10/2021	0.030	75,372
Total					282,989

Performance Rights issued to Mark Major (7,500,000), vest 12 months after his employment commenced which will be on 14 October 2021. These Performance Rights have been recognised on pro-rata basis at the reporting date 30 June 2021 with a total value of \$200,807 recognised in the consolidated statement of profit or loss.

c) Shares

On 30 November 2020, the Group issued 3,000,000 at share price of \$0.056 for \$168,000 in bonus consideration to director David Palumbo for his contribution in identifying the Rand, Turon and Mt Clere Projects for direct application by the Group.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

	2021	2020
	\$	\$
NOTE 13: RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX		
Loss after income tax	(3,719,276)	(2,650,603)
Non cash-flows in loss:		
Share based payments	1,136,433	600,000
Changes in assets and liabilities:		
Trade and other receivables	(17,063)	(28,777)
Other assets	(61,686)	7,191
Trade payables and accruals	(6,169)	93,973
Provisions	16,704	-
	(2,651,057)	(1,978,216)

Non Cash Investing & Financing Activities:

There were no non-cash investing entered into by the Group during the year (2020: Nil).

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:

	2021	2020
	\$	\$
Short-term employee benefits	377,664	259,500
Post-employment benefits	22,198	4,513
Share based payments	1,118,997	-
	1,518,859	264,013

NOTE 15: RELATED PARTY TRANSACTIONS

During the year ended 30 June 2021, Barclay Wells Limited, an entity which Timothy Hogan is a director, invoiced for brokerage of \$14,220 plus GST on \$237,000 (2020: \$16,451 plus GST on \$267,500) raised in share placements completed in the 2021 financial year.

All related party transactions are made on normal commercial terms and condition and at market rates.

NOTE 16: CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 June 2021 (2020: Nil).

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

NOTE 17: EVENTS AFTER THE REPORTING PERIOD

Between 1 July 2021 and 3 August 2021, the Company issued 15,759,917 fully paid ordinary shares arising from the exercise of \$0.05 options to raise \$787,996. As a result, the remaining 67,040,083 options exercisable at \$0.05 expired on 31 July 2021, along with 5,000,000 options exercisable at \$0.075

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 18: 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 \$402,440 (2020: \$53,440).

In order to maintain current rights of tenure to the New South Wales exploration tenements, the Group is required to perform minimum exploration requirements specified by the NSW Resources Regulator of \$390,000 (2020: \$255,000).

The Group has no other commitments.

NOTE 19: CONTROLLED ENTITIES

	Country of Incorporation	Equity Holding	Equity Holding
		2021	2020
		%	%
Subsidiaries of Krakatoa Resources Ltd:			
Krakatoa Australia Pty Ltd	Australia	100	100
Krakatoa Minerals Pty Ltd	Australia	100	100
Krakatoa Minerals – SMC Limited	Uganda	100	100
2634501 Ontario Limited	Canada	100	100

NOTE 20: PARENT ENTITY DISCLOSURES

Financial position

	2021	2020
	\$	\$
Assets		
Current assets	2,365,005	729,981
Non-current assets	-	-
Total assets	<u>2,365,005</u>	<u>729,981</u>
Liabilities		
Current liabilities	163,893	250,995
Total liabilities	<u>163,893</u>	<u>250,995</u>
Equity		
Issued capital	16,525,965	12,057,138
Accumulated losses	(17,118,922)	(13,398,037)
Reserves	2,794,069	1,819,885
Total equity	<u>2,201,112</u>	<u>478,986</u>

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

Financial performance

	2021	2020
	\$	\$
(Loss) for the year	(3,720,885)	(2,650,603)
Total comprehensive (loss) for the year	<u>(3,720,885)</u>	<u>(2,650,603)</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 21: OPERATING SEGMENTS

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

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

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

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

During the year ended 30 June 2021, 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. No revenues were derived from a single external customer.

NOTE 22: 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.

**Krakatoa Resources Limited
& Controlled Entities**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

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 2021 is detailed below:

	2021	2020
	\$	\$
Financial assets:		
Cash and cash equivalents		
- AA rated counterparties	<u>2,341,691</u>	<u>686,170</u>

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

Liquidity risk

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

Market Risk

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

Interest rate risk

The Group does not have any exposure to interest rate risk as there were no external borrowings at 30 June 2021 (2020: 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.

Krakatoa Resources Limited & Controlled Entities

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Krakatoa Resources Limited, 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 2021 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 Group 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 2021.

On behalf of the Board



Colin Locke
Executive Chairman

Dated: 30 September 2021

RSM Australia Partners

Level 32 Exchange Tower, 2 The Esplanade Perth WA 6000

GPO Box R1253 Perth WA 6844

T +61 (0) 8 92619100

F +61 (0) 8 92619111

www.rsm.com.au

**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 consolidated statement of financial position as at 30 June 2021, 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 Group's financial position as at 30 June 2021 and of its 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.

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>Exploration expenditure and project evaluation costs Refer to statement of profit or loss and other comprehensive income</p>	
<p>The Group incurred exploration expenditure and project evaluation costs of \$1,901,839 during the year ended 30 June 2021. In accordance with its accounting policy, the Group expenses these costs as incurred.</p> <p>We considered this to be a key audit matter because it is the Group's most significant transaction category and a matter of significant audit attention in performing the audit.</p>	<p>Our audit procedures in relation to exploration expenditure and project evaluation costs included;</p> <ul style="list-style-type: none"> • Assessing whether the Group's accounting policy for exploration and evaluation expenditure is in compliance with Australia Accounting Standards; • Obtaining evidence that the right to tenure of the exploration areas of interests are valid; • Performing substantive testing on exploration expenditure on a sample basis with additional attention to any items identified as large or unusual; and • Assessing the adequacy of the disclosures in the financial report.
<p>Share based payments Refer to Note 12 in the financial statements</p>	
<p>During the year, the Company issued 16,200,000 unlisted options, 15,000,000 performance rights and 3,000,000 ordinary shares.</p> <p>Management has applied an option valuation model to value the options and performance rights issued during the year.</p> <p>We determined this to be a key audit matter due to the significant judgements involved in assessing the fair value of the options and performance rights issued during the year.</p>	<p>Our audit procedures in relation to share based payments included:</p> <ul style="list-style-type: none"> • Reviewing the key terms and conditions of the options issued; • Obtaining the valuation models prepared by management and assessing whether the models were appropriate for valuing the options granted during the year; • Challenging the reasonableness of key assumptions used by management to value the options; and • Reviewing the relevant disclosures in the financial statements to ensure compliance with Accounting Standards.

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 2021 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: https://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 2021.

In our opinion, the Remuneration Report of Krakatoa Resources Limited, for the year ended 30 June 2021, 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
RSM AUSTRALIA PARTNERS

A Whyte
ALASDAIR WHYTE
Partner

Perth, WA
Dated: 30 September 2021

**Krakatoa Resources Limited
& Controlled Entities**

**ASX INFORMATION
AS AT 28 SEPTEMBER 2021**

The following additional information is required by the ASX Limited in respect of listed public companies and was applicable at 28 September 2021.

1. Shareholder and Option holder information

a. Number of Shareholders and Option Holders

Shares

As at 28 September 2021, there were 1,777 shareholders holding a total of 294,709,917 fully paid ordinary shares.

Options

As at 28 September 2021, there were 21,200,000 Unquoted Options exercisable at \$0.075 on or before 29 November 2023 held by 8 holders.

Share Performance Rights

As at 28 September 2021, there were 5,000,000 Unquoted Share Performance Rights exercisable at \$0.20, 5,000,000 Unquoted Share Performance Rights exercisable at \$0.30, and 5,000,000 Unquoted Share Performance Rights exercisable at \$0.40 held by 2 holders. All Performance Rights expire on 29 November 2023.

b. Distribution of Equity Securities

Fully paid ordinary shares Category (size of holding)	Number (as at 28 September 2021)	
	Shareholders	Ordinary Shares
1 – 1,000	77	10,745
1,001 – 5,000	36	148,758
5,001 – 10,000	279	2,375,753
10,001 – 100,000	933	38,892,552
100,001 – and over	452	253,282,109
	1,777	294,709,917

The number of shareholdings held in less than marketable parcels is 192 shareholders amounting to 650,478 shares.

c. The names of substantial shareholders listed in the company's register as at 28 September 2021 are:

Shareholder	Ordinary Shares	%Held of Total Ordinary Shares
Lafras Luitingh	28,783,294	9.77%
Helmsdale Investments Pty Ltd	19,637,500	6.66%

**Krakatoa Resources Limited
& Controlled Entities**

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 28 September 2021 — Ordinary Shares

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	MR LAFRAS LUITINGH	28,783,294	9.77
2	HELMSDALE INVESTMENTS PTY LTD	19,637,500	6.66
3	CITICORP NOMINEES PTY LIMITED	6,145,670	2.09
4	MRS MEILY DAHLIA EVIANA	3,750,000	1.27
5	E C DAWSON SUPER PTY LTD <THE DAWSON SUPER FUND A/C>	3,300,000	1.12
6	PROF YEW KWANG NG	2,937,560	1.00
7	MR GRAHAM GEOFFREY WALKER + MRS THELMA JEAN WALKER	2,700,000	0.92
8	MR GURUMURTHY NIDIGAL + MRS PURNIMA NIDIGAL <SRI RAM SUPER FUND A/C>	2,500,000	0.85
9	JSR PROMOTIONS PTY LTD <JACK REDDEN FAMILY A/C>	2,411,000	0.82
10	KEBIN NOMINEES PTY LTD	2,334,118	0.79
11	MR JACQUES HUGHES LUCAS + MR PHILLIP GEORGE LUCAS <JACQUES HUGHES LUCAS S/F A/C>	2,250,000	0.76
12	MR DAVID PALUMBO <PALUMBO FAMILY A/C>	2,100,000	0.71
13	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,061,221	0.70
14	MR JOHN COLIN LOOSEMORE + MRS SUSAN MARJORY LOOSEMORE <LOOSEMORE S/F A/C>	2,000,001	0.68
15	ARCHFIELD HOLDINGS PTY LTD	2,000,000	0.68
15	MR KENNETH ERNEST CONWAY + MRS BARBARA ANN CONWAY	2,000,000	0.68
15	MR DOMINIC VIRGARA	2,000,000	0.68
18	MRS TING TING XUE LUU	1,904,600	0.65
19	MR DAVID GEORGE CRAGGS	1,890,299	0.64
20	MR ANH DUONG NGUYEN	1,725,000	0.59
		94,430,263	32.04

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

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

4. Registers of securities are held at the following address:
Computershare Investor Services Pty Ltd, Level 11, 172 St Georges Terrace, Perth WA 6000

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the ASX Limited.

**Krakatoa Resources Limited
& Controlled Entities**

**SCHEDULE OF MINERAL TENEMENTS
AS AT 28 SEPTEMBER 2021**

<i>Project</i>	<i>Tenement</i>	<i>Interest held by Krakatoa Resources Limited</i>
Belgravia	EL8153	100%
Turon	EL8942	100%
Rand	EL9000	100%
Rand	EL9276	100%
Rand	EL9277	100%
Mt Clere	E09/2357	100%
Mt Clere	E51/1994	100%
Mt Clere	E52/3730	100%
Mt Clere	E52/3731	100%
Mt Clere	E52/3836	100%
Mt Clere	E52/3873	100%
Mt Clere	E52/3876	100%
Mt Clere	E52/3877	100%
Mt Clere	E52/3938	-
Mt Clere	E52/3962	-
Mt Clere	E52/3972	-
Mac Well	E59/2175	100%
Dalgaranga	P59/2082	100%
Dalgaranga	P59/2140	100%
Dalgaranga	P59/2141	100%
Dalgaranga	P59/2142	100%
Dalgaranga	E59/2389	100%
Dalgaranga	E59/2503	-

All tenements not indicated as 100% owned are under application.