KRAKATOA

Resources Limited

ABN 39 155 231 575

And Controlled Entities

Interim Financial Report
For the Half-Year Ended December 2013

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2013

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

COMPANY DIRECTORY

MANAGING DIRECTOR
Kevin Kwok

EXECUTIVE DIRECTOR
Aryo Bimo

NON-EXECUTIVE DIRECTORS
Roger Pooley
Brian Varndell

COMPANY SECRETARY
David Palumbo

REGISTERED OFFICE
Level 11, 216 St Georges Terrace
PERTH WA 6000
Telephone: (08) 9481 0389
Facsimile: (08) 9481 6103

AUDITORS
RSM Bird Cameron Partners
8 St Georges Terrace
PERTH WA 6000

SHARE REGISTRAR
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

STOCK EXCHANGE CODE
KTA

DIRECTORS' REPORT

Your directors submit the financial report of the Company for the half-year ended 31 December 2013.

DIRECTORS

The names of Directors who held office during or since the end of the half-year are:

Kevin Kwok	Managing Director
Aryo Bimo	Executive Director (Appointed on 18 December 2013)
Roger Pooley	Non–Executive Director (Appointed on 30 July 2013)
Brian Varndell	Non–Executive Director (Appointed on 5 December 2013)
Kent Hunter	Non–Executive Director (Resigned on 5 December 2013)
Stephen Brockhurst	Non–Executive Director (Resigned on 15 November 2013)

RESULTS

The loss after tax for the half-year ended 31 December 2013 was $580,348 (2012: $51,398).

REVIEW OF OPERATIONS

On 20 November 2013, Krakatoa Resources Limited announced that the exploration license covering Krakatoa's 80% owned Donggala Project has been extended by the Regency of Donggala until 8 April 2016.

On 10 December 2013, Krakatoa Resources Limited signed a Share Purchase and Sale Agreement ("Purchase Agreement") with PT. Sitasa Resources to acquire 99.8% of the issued shares of PT. Bina Citra Sawita, which holds a 100% interest in Izin Usaha Pertambangan Eksplorasi No. 540/23/IUP/DESDM/Bup-2010, dated 7 July 2010, issued by the Regent of South Solok ("BCS Tenement").

PT. Sitasa Resources, is a holding company for the Sitasa Group of Companies ("Sitasa Group"), a well-established and highly successful exploration and mining company with a proven track record of success in Indonesian resource projects. Specifically, Sitasa Group is one of Indonesia's largest high grade iron ore producers.

Krakatoa will gain exclusive access to Sitasa Group's pipeline of iron ore projects over the next two years.

The consideration payable under the Share Purchase and Sale Agreement is as follows:

- USD$150,000 upon signing of the Purchase Agreement (paid); and
- 5 million fully paid Krakatoa shares to Sitasa Group upon closing of transaction and transfer of shares of PT. Bina Citra Sawita to Krakatoa's subsidiary.

The Company also secured up to AUD$5 million in funds to progress the development of its exploration projects in Indonesia. The funding arrangement consists of a AUD$5 million Standby Subscription Agreement ("the Facility") from Gurney Capital Nominees Pty Ltd ("Investor"), a Melbourne based Investment Company.

SUBSEQUENT EVENTS

On 7 March 2014, shareholders approved the remaining consideration payable of 5 million fully paid shares to PT. Sitasa Resources pursuant to the Share Purchase and Sale Agreement.

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

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the half-year ended 31 December 2013 is set out on page 14.

This report is signed in accordance with a resolution of the Board of Directors.

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Kevin Kwok
Executive Director

Perth
Dated: 10 March 2014

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF COMPREHENSIVE INCOME
For the Half-Year Ended 31 December 2013

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
Interest income	19,993	15
Administration expenses	(132,185)	(13,445)
Compliance and regulatory expenses	(28,738)	(16,172)
Employee benefits expense	(157,454)	(13,625)
Consultancy fees	(191,066)	-
Travel and accommodation	(90,898)	(8,171)
Loss before income tax expense	**(580,348)**	**(51,398)**
Income tax expense	-	-
Loss from continuing operations	(580,348)	(51,398)
Other comprehensive loss		
Item that may be reclassified subsequently to operating result		
Foreign currency translation	(7,135)	-
Total comprehensive loss	(7,135)	-
Total comprehensive loss for the year	**(587,483)**	**(51,398)**
Net loss attributable to:		
Members of the parent entity	(580,348)	(51,398)
Non-controlling interest	-	-
	(580,348)	(51,398)
Total comprehensive loss attributable to:		
Members of the parent entity	(587,483)	(51,398)
Non-controlling interest	-	-
	(587,483)	(51,398)
Basic and diluted loss per share (cents per share)	(2.00)	(0.39)

The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Note	**Consolidated 31 December 2013 $**	**Consolidated 30 June 2013 $**
CURRENT ASSETS			
Cash and cash equivalents		834,057	1,773,444
Trade and other receivables		180,650	16,629
Other financial assets		23,420	37,490
Other assets		83,257	122,684
TOTAL CURRENT ASSETS		1,121,384	1,950,247
NON-CURRENT ASSETS			
Other assets		172,216	40,190
Exploration and evaluation expenditure		623,009	543,687
TOTAL NON-CURRENT ASSETS		795,225	583,877
TOTAL ASSETS		**1,916,609**	**2,534,124**
CURRENT LIABILITIES			
Trade and other payables		59,135	89,167
TOTAL CURRENT LIABILITIES		59,135	89,167
TOTAL LIABILITIES		**59,135**	**89,167**
NET ASSETS		**1,857,474**	**2,444,957**
EQUITY			
Issued capital	2	2,914,730	2,914,730
Reserves		138,311	145,446
Accumulated losses		(1,283,067)	(702,719)
Non-controlling interest		87,500	87,500
TOTAL EQUITY		**1,857,474**	**2,444,957**

The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF CHANGES IN EQUITY
For the Half-Year Ended 31 December 2013

Consolidated	**Issued Capital**	**Option Premium Reserve**	**Foreign Currency Translation Reserve**	**Non-Controlling Interest**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Balance at 1 July 2012	**270,253**	**-**	**-**	**-**	**(83,455)**	**186,798**
Loss for the period	-	-	-	-	(51,398)	(51,398)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(51,398)	(51,398)
Transactions with owner directly recorded in equity:						
Shares issued during the period	3,200,000	-	-	-	-	3,200,000
Recognition of minority interest of PT. Dana Ramakala	-	-	-	87,500	-	87,500
Less: Transaction costs arising from issue of shares	(532,233)	-	-	-	-	(532,233)
Balance at 31 December 2012	**2,938,020**	**-**	**-**	**87,500**	**(134,853)**	**2,890,667**
Balance at 1 July 2013	**2,914,730**	**145,000**	**446**	**87,500**	**(702,719)**	**2,444,957**
Loss for the period	-	-	-	-	(580,348)	(580,348)
Other comprehensive loss	-	-	(7,135)	-	-	(7,135)
Total comprehensive loss for the period	-	-	(7,135)	-	(580,348)	(587,483)
Balance at 31 December 2013	**2,914,730**	**145,000**	**(6,689)**	**87,500**	**(1,283,067)**	**1,857,474**

The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF CASH FLOWS
For the Half-Year Ended 31 December 2013

	Consolidated 31 December 2013 $	Consolidated 31 December 2012 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(409,913)	(83,995)
Exploration expenditure	(389,009)	-
Interest received	24,535	15
Net cash used in operating activities	(774,387)	(83,980)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to other entities	(165,000)	-
Payments for exploration assets	-	(150,000)
Net cash used in investing activities	(165,000)	(150,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	3,000,000
Payments for capital raising costs	-	(452,813)
Net cash provided by financing activities	-	2,547,187
Net increase/(decrease) in cash held	**(939,387)**	**2,313,207**
Cash and cash equivalents at beginning of period	1,773,444	187,267
Cash and cash equivalents at end of reporting period	**834,057**	**2,500,474**

The accompanying notes form part of this financial report

Note 1: Summary of Significant Accounting Policies

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2013 has been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by Krakatoa Resources Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies have been consistently applied with those of the previous financial year, except in relation to the matters disclosed below.

New and Revised Accounting Standards

The consolidated entity 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 consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the consolidated entity.

2. ISSUED CAPITAL

	31 December 2013 $	30 June 2013 $
(a) Issued and paid up capital		
Ordinary shares fully paid	2,914,730	2,914,730

	Number	$
(b) Movement in ordinary shares on issue		
Balance at 1 July 2013	29,000,003	2,914,730
Shares issued during the period	-	-
Transaction costs arising from issue of shares	-	-
Balance at 31 December 2013	29,000,003	2,914,730

3. DIVIDENDS

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

4. SEGMENT INFORMATION

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

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

- Development assets
- 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 half-year ended 31 December 2013, the consolidated entity had no development assets. The Board considers that it has only operated in one segment, being mineral exploration within Indonesia.

The consolidated entity is domiciled in Australia. All revenue from external customers are only generated from Australia and Indonesia.

No revenues were derived from a single external customer.

5. EVENTS SUBSEQUENT TO REPORTING PERIOD

On 7 March 2014, shareholders approved the remaining consideration payable of 5 million fully paid shares to PT. Sitasa Resources pursuant to the Share Purchase and Sale Agreement.

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

6. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There has been no change in contingent liabilities or contingent assets since the last annual reporting date.

7. COMMITMENTS

On 10 December 2013, the Company signed a Share Purchase and Sale Agreement with PT. Sitasa Resources to acquire 99.8% of the issued shares of PT. Bina Citra Sawita, which holds a 100% interest in Izin Usaha Pertambangan Eksplorasi No. 540/23/IUP/DESDM/Bup-2010, dated 7 July 2010, issued by the Regent of South Solok.

The remaining consideration payable under the Purchase Agreement at 31 December 2013 is 5 million fully paid shares to the vendor upon closing of transaction.

The transaction was approved by shareholders on 7 March 2014.

8. FUNDING FACILITIES

As announced on the ASX on 10 December 2013, the Company secured up to AUD$5 million in funds to progress the development of its exploration projects in Indonesia. The funding arrangement is through a Standby Subscription Agreement from Gurney Capital Nominees Pty Ltd. No funds have been drawn at 31 December 2013 or at the date of this report.

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION
For the Half-Year Ended 31 December 2013

In the opinion of the Directors of Krakatoa Resources Limited ('the Company'):

1. The financial statements and notes thereto of the consolidated entity, as set out within this financial report, are in accordance with the *Corporations Act 2001* including:

   (a) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year then ended.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

____
Kevin Kwok
Executive Director

Perth
Dated: 10 March 2014

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

We have reviewed the accompanying half-year financial report of Krakatoa Resources Limited which comprises the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Krakatoa Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

RSM Bird Cameron Partners

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Krakatoa Resources Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Rsm Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 10 March 2014

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Krakatoa Resources Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

Perth, WA
Dated: 10 March 2014

TUTU PHONG
Partner