KRAKATOA

Resources Limited

ABN 39 155 231 575

And Controlled Entities

Interim Financial Report
For the Half-Year Ended December 2015

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2015

COMPANY DIRECTORY

EXECUTIVE CHAIRMAN
Colin Locke

NON-EXECUTIVE DIRECTORS
Timothy Hogan
Aryo Bimo

COMPANY SECRETARY
David Palumbo

REGISTERED OFFICE
Level 11, 216 St Georges Terrace
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AUDITORS
RSM Australia Partners
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SHARE REGISTRAR
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STOCK EXCHANGE CODE
KTA

DIRECTORS' REPORT

Your directors submit the financial report of the Krakatoa Resources Limited and controlled entities (referred to hereafter as "the Consolidated Entity") for the half-year ended 31 December 2015.

DIRECTORS

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

Colin Locke	Executive Chairman (appointed 6 August 2015)
Aryo Bimo	Non–Executive Director (appointed 6 August 2015, previously Executive Director)
Timothy Hogan	Non–Executive Director (appointed 7 October 2015)
Brian Varndell	Non–Executive Director (resigned 7 October 2015)

PRINCIPAL ACTIVITIES

The principal activity of the Consolidated Entity during the financial period was the acquisition and exploration of precious and base metal projects in Indonesia.

RESULTS

The loss after tax for the half-year ended 31 December 2015 was $706,354 (2014: $751,144).

REVIEW OF OPERATIONS

The Company has continued to maintain its Donggala (gold) and BCS (Iron Ore) projects in good standing while completing due diligence on the Bone Bay and Laeya River (Graphite) tenements and reviewing other projects for acquisition.

SUBSEQUENT EVENTS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial half-year.

AUDITOR’S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the half-year ended 31 December 2015 is set out on page 17.

This report is signed in accordance with a resolution of the Board of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors

Colin Locke
Executive Chairman

Perth
Dated: 26 February 2016

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Half-Year Ended 31 December 2015

	Consolidated 31 December 2015 $	Consolidated 31 December 2014 $
Revenue	2,660	209
Administration expenses	(86,875)	(92,333)
Compliance and regulatory expenses	(144,627)	(39,065)
Consultancy fees	(30,000)	(89,618)
Employee benefits expense	(97,626)	(93,817)
Exploration expenditure and project evaluation costs	(126,195)	(199,802)
Impairment expense	-	(204,563)
Share based payments expense	(168,000)	-
Travel and accommodation	(55,691)	(32,155)
Loss before income tax expense	**(706,354)**	**(751,144)**
Income tax expense	-	-
Loss after income tax expense for the half-year	(706,354)	(751,144)
Other comprehensive loss		
Item that may be reclassified subsequently to profit or loss		
Foreign currency translation	(4,354)	(26,113)
Total comprehensive loss for the half year	(4,354)	(26,113)
Total comprehensive loss for the half year	**(710,708)**	**(777,257)**
Net loss for the half-year is attributable to:		
Members of the parent entity	(710,708)	(751,144)
Non-controlling interest	-	-
	(710,708)	(751,144)
Total comprehensive loss for the half year is attributable to:		
Members of the parent entity	(710,708)	(777,257)
Non-controlling interest	-	-
	(710,708)	(777,257)
Basic and diluted loss per share (cents per share)	(1.53)	(2.06)

The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	Consolidated 31 December 2015 $	Consolidated 30 June 2015 $
CURRENT ASSETS			
Cash and cash equivalents		140,524	23,098
Trade and other receivables		19,631	6,698
Other financial assets		3,806	1,211
TOTAL CURRENT ASSETS		163,961	31,007
NON-CURRENT ASSETS			
Exploration and evaluation expenditure		-	-
TOTAL NON-CURRENT ASSETS		-	-
TOTAL ASSETS		163,961	31,007
CURRENT LIABILITIES			
Trade and other payables		203,135	304,465
TOTAL CURRENT LIABILITIES		203,135	304,465
TOTAL LIABILITIES		203,135	304,465
NET LIABILITES		(39,174)	(273,458)
EQUITY			
Issued capital	2	5,556,325	5,009,963
Reserves		562,772	168,496
Accumulated losses		(6,158,271)	(5,451,917)
TOTAL DEFICIENCY IN EQUITY		(39,174)	(273,458)

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 2015

Consolidated	**Issued Capital**	**Option Premium Reserve**	**Foreign Currency Translation Reserve**	**Non-Controlling Interest**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Balance at 1 July 2014	**4,234,730**	**145,000**	**2,438**	**87,500**	**(2,586,833)**	**1,882,835**
Loss for the period	-	-	-	-	(751,144)	(751,144)
Other comprehensive income	-	-	(26,113)	-	-	(26,113)
Total comprehensive loss for the period	-	-	(26,113)	-	(751,144)	(777,257)
Transactions with owner directly recorded in equity:						
Shares issued during the period	601,000	-	-	-	-	601,000
Options issued during the period	-	6,550	-	-	-	6,550
Less: Transaction costs arising from issue of shares	(51,846)	-	-	-	-	(51,846)
Balance at 31 December 2014	**4,783,884**	**151,550**	**(23,675)**	**87,500**	**(3,337,977)**	**1,661,282**
Balance at 1 July 2015	**5,009,963**	**188,340**	**(19,844)**	**-**	**(5,451,917)**	**(273,458)**
Loss for the period	-	-	-	-	(706,354)	(706,354)
Other comprehensive income	-	-	(4,354)	-	-	(4,354)
Total comprehensive loss for the period	-	-	(4,354)	-	(706,354)	(710,708)
Transactions with owner directly recorded in equity:						
Shares issued during the period	636,010	-	-	-	-	636,010
Options issued during the period	-	398,630	-	-	-	398,630
Less: Transaction costs arising from issue of shares	(89,648)	-	-	-	-	(89,648)
Balance at 31 December 2015	**5,556,325**	**586,970**	**(24,198)**	**-**	**(6,158,271)**	**(39,174)**

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 2015

	Consolidated 31 December 2015 $	**Consolidated 31 December 2014 $**
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(525,466)	(245,684)
Exploration expenditure	(133,987)	(149,763)
Interest received	65	209
Net cash used in operating activities	(659,388)	(395,238)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	857,704	601,000
Payments for capital raising costs	(80,890)	(45,296)
Net cash provided by financing activities	776,814	555,704
Net increase in cash held	**117,426**	**160,466**
Cash and cash equivalents at beginning of period	23,098	61,796
Cash and cash equivalents at end of reporting period	**140,524**	**222,262**

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 2015 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 2015 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.

Going Concern

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

The Consolidated Entity incurred a loss of $706,354 and had net cash outflows from operating activities of $659,388 for the half-year ended 31 December 2015. As at that date, the Consolidated Entity had net current liabilities and net liabilities of $39,174.

The ability of the Consolidated Entity to continue as a going concern is principally dependent upon the ability of the Consolidated Entity to secure funds by raising additional capital from equity markets and managing cashflow in line with available funds. If the Consolidated Entity is not successful in raising sufficient additional capital, there is significant uncertainty about the ability of the Consolidated Entity to continue as a going concern.

The directors have prepared a cash flow forecast, which indicates that the Consolidated Entity will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this half-year financial report.

Note 1: Summary of Significant Accounting Policies (cont'd)

Going Concern (cont'd)

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

Should the Consolidated Entity be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the half-year financial report. The financial report does not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Consolidated Entity be unable to continue as a going concern and meet its debts as and when they fall due.

2. ISSUED CAPITAL

	31 December 2015 $	30 June 2015 $
(a) Issued and paid up capital		
Ordinary shares fully paid	5,556,325	5,009,963

	Number	$
(b) Movement in ordinary shares on issue		
Balance at 1 July 2015	43,773,003	5,009,963
Shares issued during the period	4,240,065	636,010
Transaction costs arising from issue of shares	-	(89,648)
Balance at 31 December 2015	48,013,068	5,556,325

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 Consolidated Entity 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 2015, 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

No matters or circumstances have arisen since the end of the period which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity 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. FUNDING FACILITIES

As announced on the ASX on 10 December 2013, the Consolidated Entity 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 had been drawn at 31 December 2015 or at the date of this report.

KRAKATOA RESOURCES LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

For the Half-Year Ended 31 December 2015

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

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 2015 and its performance for the half-year then ended.

2. In the Directors' opinion there are reasonable grounds to believe that the Consolidated Entity 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 made pursuant to Section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Colin Locke
Executive Chairman

Perth
Dated: 26 February 2016

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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 2015, and the statement of profit or loss and other 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 internal 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 2015 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.

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RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

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 2015 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*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1 to the financial statements, which indicates that the consolidated entity incurred a loss of $706,354 and had net cash outflows from operating activities of $659,388 during the half-year ended 31 December 2015. As at that date, the consolidated entity had net current liabilities and net liabilities of $39,174. These financial conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

RSM

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 26 February 2016

TUTU PHONG
Partner

RSM Australia Partners

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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 2015, 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

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 26 February 2016

TUTU PHONG
Partner

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