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KRAKATOA

RESOURCES LTD.

ABN: 39 155 231 575

Interim Financial Report
For the Half-Year Ended December 2021

KRAKATOA RESOURCES LIMITED
INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2021

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KRAKATOA RESOURCES LIMITED

CORPORATE DIRECTORY

EXECUTIVE CHAIRMAN

Colin Locke

NON-EXECUTIVE DIRECTORS

Timothy Hogan

David Palumbo

CHIEF EXECUTIVE OFFICER

Mark Major

COMPANY SECRETARY

David Palumbo

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STOCK EXCHANGE CODE

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KRAKATOA RESOURCES LIMITED

DIRECTORS' REPORT

Your directors submit the financial report of the Krakatoa Resources Limited and controlled entities (referred to hereafter as “the Group”) for the half-year ended 31 December 2021.

DIRECTORS

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

Colin Locke Executive Chairman
Timothy Hogan Non-Executive Director
David Palumbo Non-Executive Director

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial period was mineral exploration and evaluation of acquisition opportunities.

RESULTS

The loss after tax for the half-year ended 31 December 2021 was \$2,108,305 (2020: \$2,065,279).

REVIEW OF OPERATIONS

During the reporting period, the Company continued systematic exploration on its NSW and WA assets. The Company was granted several new tenements at Mt Clere project (in the Gascoyne region of WA) and applied for additional ground around Rand project (in southern NSW).

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

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

During the half year, the Mt Clere Project tenements were systematically explored for rare earth element, heavy mineral sands and nickel-copper metal sulphides.

The project is located approximately 200km northwest of Meekatharra, within the Narrayer terrane, Gascoyne Region of Western Australia. The Narrayer 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 (REE), 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.

The Company currently controls more than 2,300km² of prospective land separated over 12 tenements, 1 of which is still under application.

**KRAKATOA RESOURCES LIMITED
DIRECTORS' REPORT**

The initial activities focused on following up geochemical exploration work over the prospective areas of interest (AOI) identified by the extensive stream sediment survey and rock sampling program undertaken during April and May 2021. These AOI recorded highly anomalous rare earth elements, base metals and pathfinder elements associated with platinum group mineralisation systems.

Stream sediment assays highlight the vast saprolite clay zones overlain by residual laterite cap, all lying above the alkaline granitic basement sequences creating strong potential for clay hosted ionic REE development. In the later part of the reporting period the Company completed a maiden 3,383m (95 hole) reconnaissance air core (AC) drilling program, of which 39 holes for 1,047m were drilled around the Tower area, (clay hosted REE mineralisation), 7 holes for 242m to test deeply-weathered regolith profiles across the erosional plain, testing for possible clay hosted REE, and 49 holes for 2,094m across the alluvial plain, testing for heavy mineral sands (HMS) including monazite and zircon, and the potential for any secondary ionic weathered clay hosted REE (Figure 1 and 2).

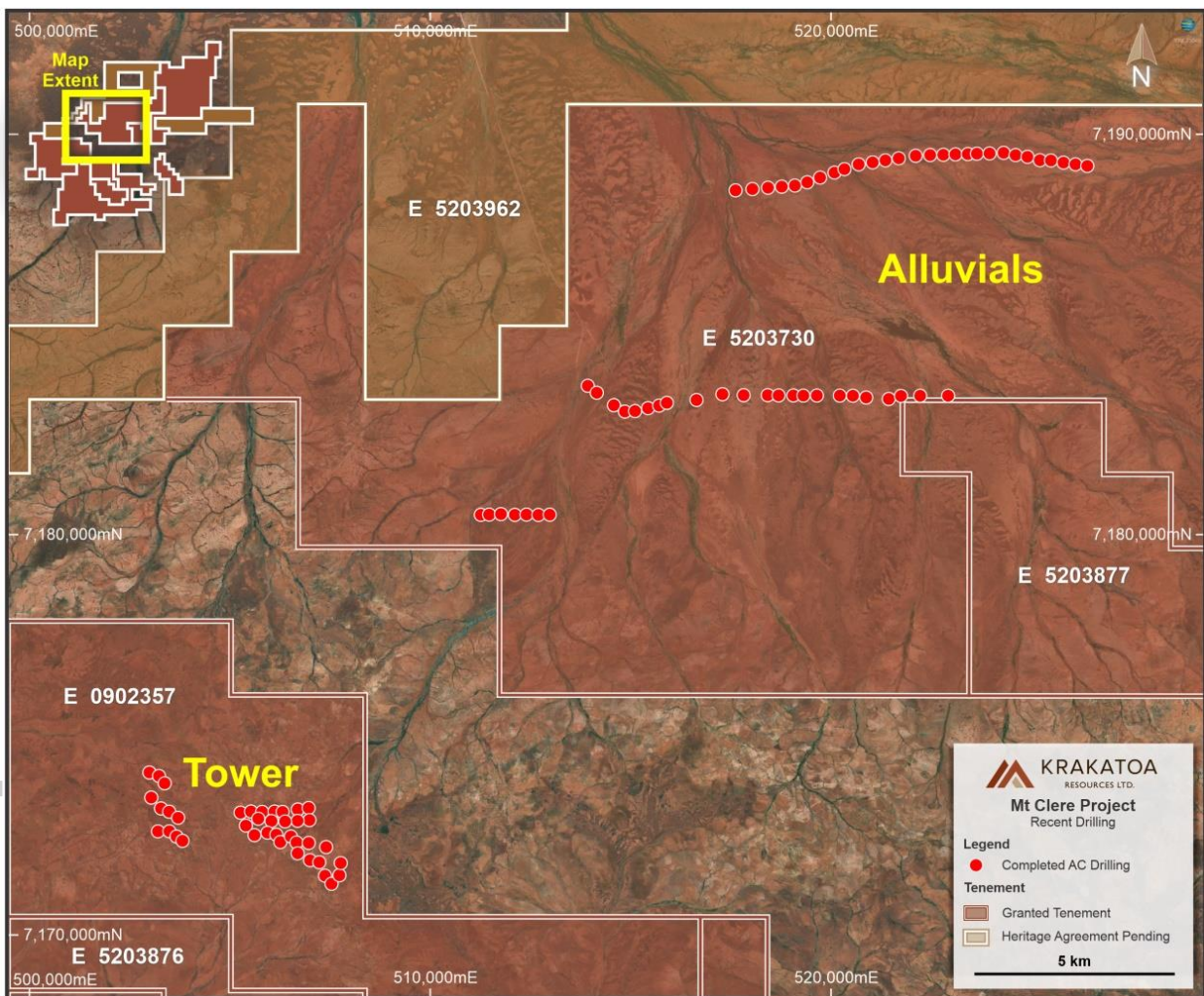


Figure 1 Location of the drill holes within the Krakatoa Resources exploration licenses.

The Tower area drilling was to test for well-developed clay-rich regolith profiles that could be prospective for ion adsorption REE mineralisation (Figure 2). Most of the holes intersected the expected bedrock of alkaline granitic and gneissic basement rocks, which are typical precursor rocks for this style of mineralisation. Samples are currently in the laboratory for analysis.

**KRAKATOA RESOURCES LIMITED
DIRECTORS' REPORT**



Figure 2 Photographs of typical drill soil from aircore holes drilled in the Tower area (21MAC021 and 21MAC029)

In November 2021, the Company completed an extensive helicopter-borne Versatile Time Domain Electromagnetic (VTEMTM Max) geophysical survey system over a large proportion of the southern tenements and three discrete targets in the north at the Mt Clere project. VTEM is an effective first-pass screening tool for detecting shallow conductive sources such as accumulations of sulphides.

The results of the VTEM survey were reported January 25, 2022 and clearly outlines multiple extensive highly conductive targets which have the potential to host significant massive sulphide mineralisation (Figure 3). A total of 1,966 line-kilometres was flown over areas identified within the Narryer Terrane which show structural complexity, and where strong magnetic anomalies and surface nickel and chromium geochemical results indicate that these areas represent reworked remnants of greenstone sequences that are prospective for intrusion-hosted Ni-Cu-(Co)-(PGE's) and possible gold. There are mafic and ultramafic intrusive bodies identified within these areas.

**KRAKATOA RESOURCES LIMITED
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The data revealed a total of 52 VTEM conductive targets which were ranked according to various characteristics and are shown in Figure 3. Of these fifty-two targets twenty high-priority targets were defined as late time, with strong amplitude (late time Taus), appropriate late time cross over in the X component, highly coherent “z” component single and twin peak anomalies, pertinent wavelengths, strike limited and close to known or interpreted lineaments.

Sixteen medium-priority targets were defined as mid to late time anomalies generally without a magnetic anomaly association.

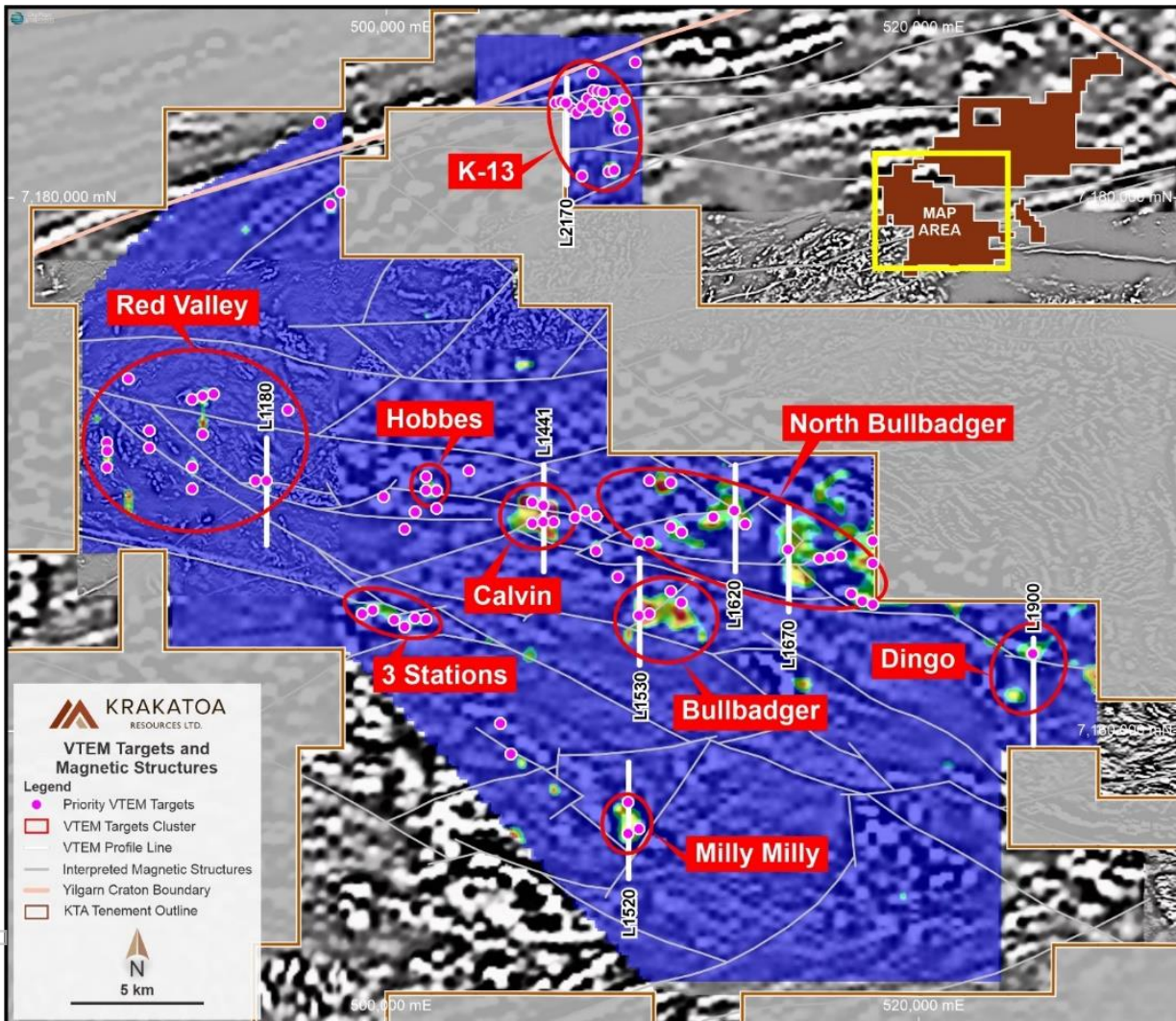


Figure 3 Area of VTEM Max Survey showing the residual late time Tau image, priority EM targets with subsequent refined regional cluster groups, over RTP magnetics.

Follow up exploration is continuing over these areas of interest and the extensive alluvial terraces. The Company will undertake moving loop electromagnetic (MLEM) surveys over the priority VTEM targets and advance to drill testing in the following reporting period. Results of the drilling will determine the exploration development over the clay hosted REE. We will continue to expand the regional geochemical surveys over the newly granted tenure during the next reporting period.

KRAKATOA RESOURCES LIMITED DIRECTORS' REPORT

Rand Project- Prospective of IRGS (Au) and granite hosted Sn

During the period, the Company was granted two exploration licenses within and surrounding the existing Rand licence and applied for additional exploration licences in the area (Figure 4).

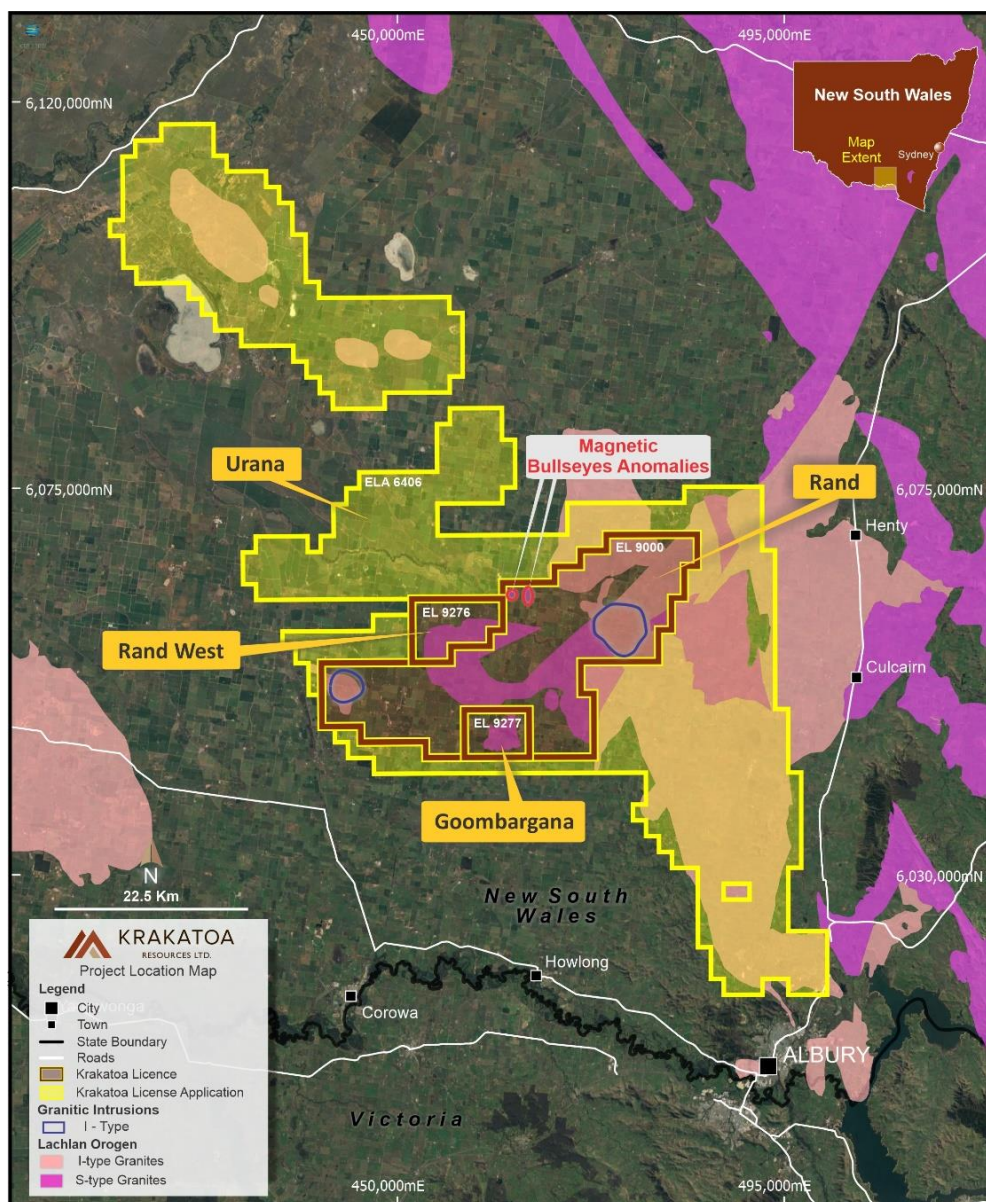


Figure 4 Map showing location of KTA exploration licences, granted and under application.

EL9276 known as West Rand was chosen due to the newly discovered significant gold and pathfinder auger soil anomaly revealed in the corner of EL9000, where the anomaly is positioned on the margin of the large regionally identified geophysical (magnetic) intrusive body which continues west into the new tenement. This intrusive is not known to outcrop and has never been explored.

A second tenement was granted (EL9277) within EL9000 for group 2 minerals over the well-known Goombargana granite area. This is a historical mining area which was active prior to 1949 for the industrial mineral feldspar. More recent exploration and metallurgical studies were undertaken on the commercialisation of potash and soda feldspars, in the late 1990's by Wallarah Minerals Pty Ltd (Walarah). This project was abandoned due to the Asian economic crisis in late 1990's. The price for Soda Ash has fluctuated around \$250-\$300/t within the last 5 years to \$700/t more recently.

KRAKATOA RESOURCES LIMITED DIRECTORS' REPORT

Late in the reporting period, the Company applied for additional licences after discovering ionic type rare earth elements within the maiden AC drillholes at the Bullseye targets.

Results revealed significant total rare earth oxide (TREO) intersections including:

- 11m @ 1,223ppm TREO from 43m (HAC020)
- 7m @ 1,285ppm TREO from 42m; within 28m @ 598ppm TREO from 38m to EOH (HAC023)
- 4m @ 1,424ppm TREO from 35m; within 12m @ 633ppm TREO from 31m (HAC029)
- 8m @ 1,230ppm TREO from 9m; within 35m @ 579ppm TREO from 1m to EOH (HAC043)

Analysis using weak acid solution (WAR) displays weakly bound, highly soluble REEs, characteristic of ionic absorption clay REE deposits with up to 86% recovery using WAR over the intrusive basement samples and up to 77% recovery within metasediments samples.

Detailed studies into the basement rock, as well mineral identification along with salt solution (pH 4-5, slightly acidic) leach test work will be undertaken on REE rich samples. Additional air core drilling is being planned over the granted tenements in 2022 subject to regulatory approvals and land access, where more extensive exploration over the various intrusives within the granted landholding will be tested.

The Company also completed a significant infill and extensional auger soil geochemical survey over the Bulgandry Goldfield area which is prospective for shear-hosted and intrusion-related gold. This program comprised of 833 samples taken across an area of over 35 km². It was designed to better resolve the numerous gold and multi-element anomalies defined by the Phase 1 survey of 2021 (Figure 5).

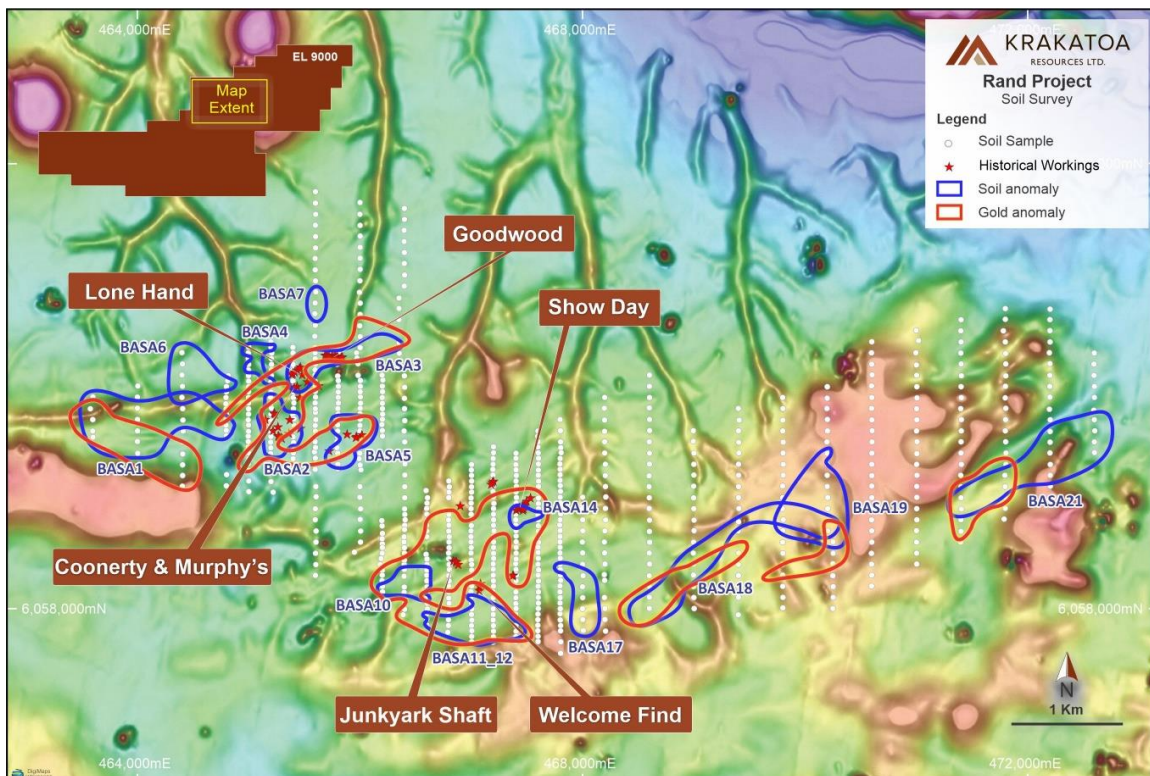


Figure 5 Location of soil geochemistry anomalies, with prospect/mine locations over magnetic image.

The Company is awaiting the results of the auger soil geochemical survey to close off several anomalies. 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 geophysical exploration methods and a major drilling campaign is envisaged over the soil and air core anomalies already identified in the next twelve months.

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DIRECTORS' REPORT**

Dalgaranga Project – Prospective for 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 critical metal minerals such as tapiolite, tantalite, columbite, zinnwaldite and lepidolite (lithium-bearing micas) were recognised during field mapping and confirmed anomalous critical metals during the rock chip sampling programmes completed in late 2016 to mid-2017.

Opportunistic rock sampling over this period was previously reported in ASX announcement (16 June 2017 and 17 August 2017) revealed the presence of anomalous rubidium (peak values of >5,000ppm (sample AD004) and 3463.9ppm Rb (sample 17D022)) Tantalum (1,854ppm Ta₂O₅ (sample 16D016), and Niobium (725ppm Nb in sample 16D005) within the mine and southern pegmatite area.

During the period the Company completed a review of all historical drilling and announced a maiden Exploration Target estimated at between 1,470,000 to 3,185,000 tonnes with estimated grades of Rubidium, Lithium and Niobium, Tantalum, Tin and Tungsten as shown in Table 1 below.

Table 1: Exploration Target Estimate (grades in ppm)

Tonnes	Rb	Li	Nb	Ta	Sn	W
1,470,000 – 3,185,000	500 - 2,000	50- 300	100- 500	25-100	50-700	10-100

The potential quantity and grade of the Exploration Target is conceptual in nature and is therefore an approximation. There has been insufficient exploration to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource. See ASX Announcement 8 November 2021 for further details of the Target estimation.

The Company has completed additional site reconnaissance and target generation work over the extended area and intends to undertake drilling over the main modelled pegmatite (Figure 6) during the first half of 2022 to test the historical zones for rubidium and lithium.

KRAKATOA RESOURCES LIMITED
DIRECTORS' REPORT

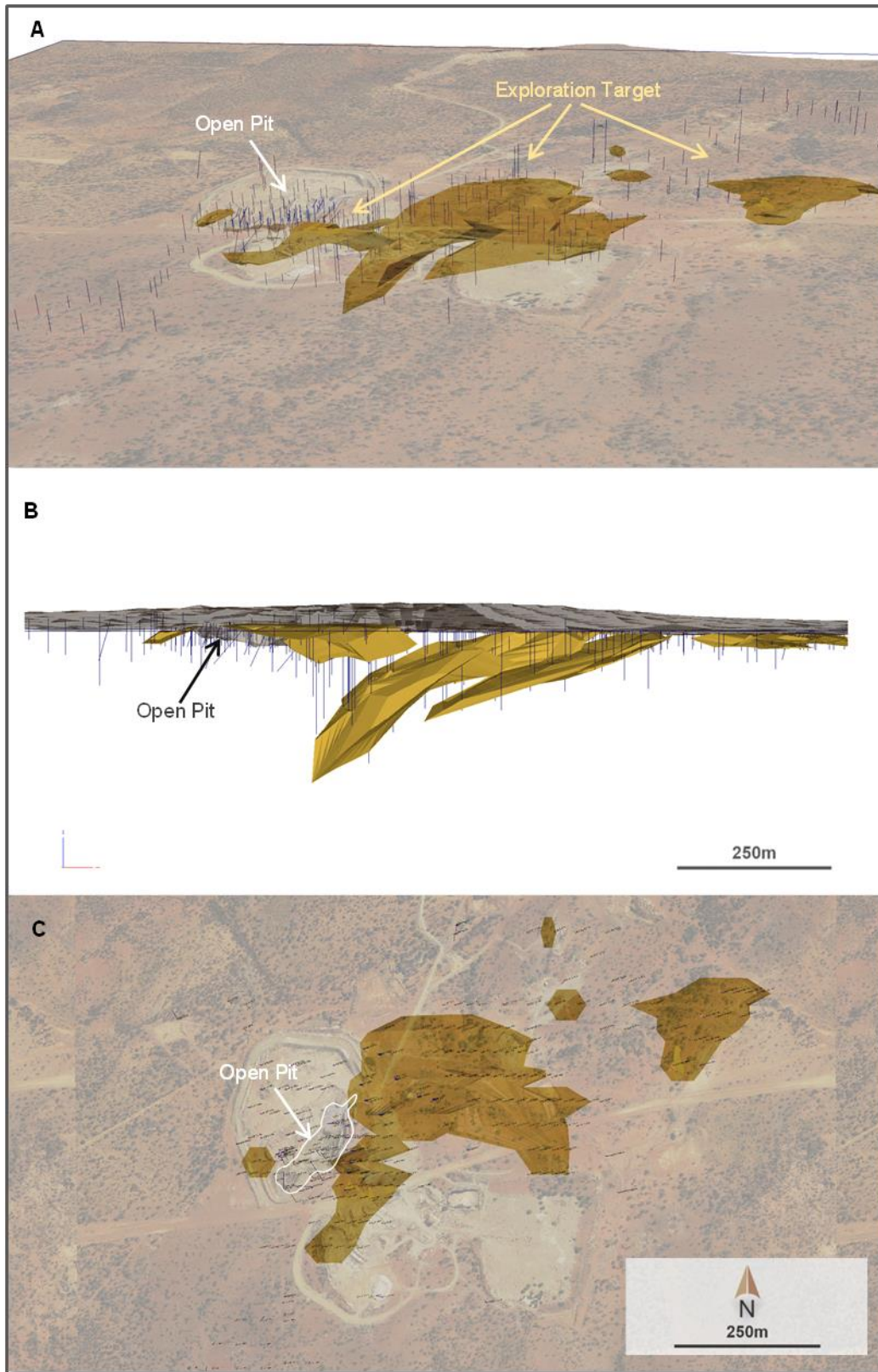


Figure 6 Geological model of pegmatite shown with transparent satellite image. A) Oblique view looking NNE indicating historical Open pit area and modelled Exploration Target. B) Cross section looking North showing drill trace, Exploration Target and area of open pit. C) Plan view showing aerial extent of Exploration Target and historical mine infrastructure.

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Belgravia Project – Prospective for 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 (Figure 7) with considerable exploration potential for porphyry Cu-Au and associated skarn mineralisation.

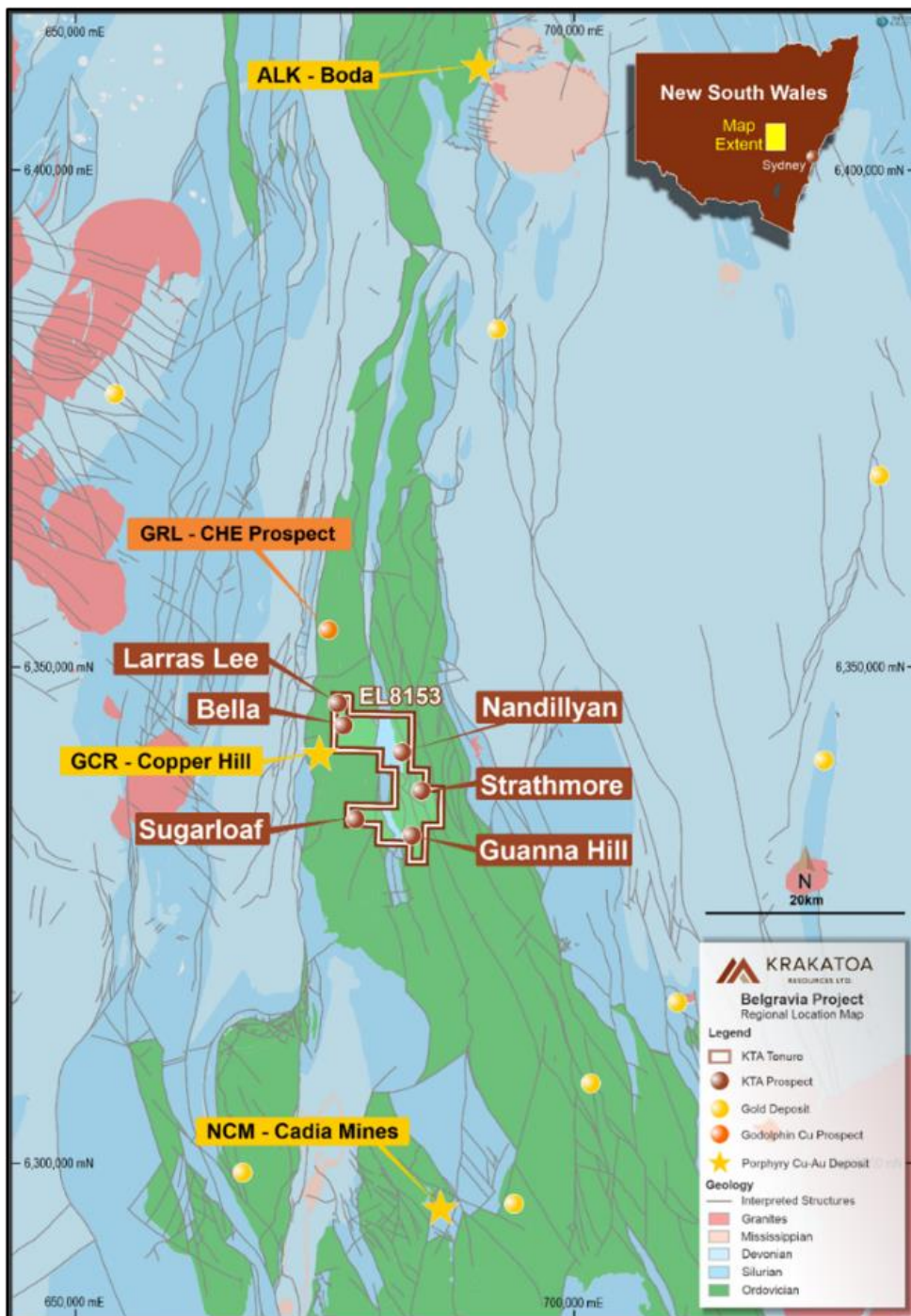


Figure 7 Project location map, prospects and major copper & gold mines and deposits on regional bedrock geology.

KRAKATOA RESOURCES LIMITED DIRECTORS' REPORT

During the reporting period the Company completed a 2 hole diamond drilling program to test the prominent structurally bound magnetic low Sugarloaf target and completed a Dipole Dipole Induced Polarisation (DDIP) survey along the western tenement anomalies.

The two core holes (SDD001 and SDD002) totalling 1039.3 metres tested a coincident annular soil geochemical anomaly and magnetic feature. The holes intersected predominantly massive volcanoclastic sandstones, conglomerates and fine breccias and basalts with minor jaspers and laminated and pyritic siltstones and mudstones. The core assay results were finalized after the reporting period and were considered to be subdued with no significant intersections returned. The Company is still waiting for the report from 23 petrography samples and completion of the interpretation of hyperspectral and whole rock analysis results. On completion of the outstanding work full interpretation of the system and further targeting will be undertaken.

A DDIP survey was completed over the Sugarloaf and Bella-Larras Lee target areas in November-December 2021 for a total of 25.2 line kms. The survey was designed to look for large, potentially buried porphyry mineralisation. Three main anomalies were defined over the Sugarloaf target. These range from moderately to strongly chargeable and moderately conductive to strongly chargeable and highly conductive. Each anomaly requires future ground-checking.

Results from the Bella-Larras Lee target area show that the most significant feature is a moderately chargeable-strongly resistive feature, 200 metres wide and approximately 300 m below surface. Further infill DDIP work will be required to help better define this feature and then if warranted, a small drilling program.

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 undertaken in August 2020 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 confirmed a nuggetty gold system was present.

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. The project underwent exploration license renewal during the period.

**KRAKATOA RESOURCES LIMITED
DIRECTORS' REPORT**

SUBSEQUENT EVENTS

No other 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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the half-year ended 31 December 2021 is set out on page 28.

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: 15 March 2022

KRAKATOA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
For the Half-Year Ended 31 December 2021

	Note	31 December 2021 \$	31 December 2020 \$
Revenue		-	13,430
Administration expenses		(66,391)	(62,706)
Compliance and regulatory expenses		(121,834)	(176,778)
Employee benefits and consulting expense		(203,879)	(122,530)
Share based payments expense		(237,195)	(828,785)
Exploration expenditure, project evaluation and acquisition costs	2	(1,479,006)	(887,910)
Loss before income tax expense		(2,108,305)	(2,065,279)
Income tax expense		-	-
Loss after income tax expense for the half-year		(2,108,305)	(2,065,279)
Other comprehensive loss		-	-
Total comprehensive loss for the half year		(2,108,305)	(2,065,279)
Total comprehensive loss for the half year is attributable to:			
Members of the parent entity		(2,108,305)	(2,065,279)
		(2,108,305)	(2,065,279)
Basic and diluted loss per share (cents per share)		(0.72)	(0.74)

The accompanying notes form part of this financial report

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KRAKATOA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Note	31 December 2021 \$	30 June 2021 \$
CURRENT ASSETS			
Cash and cash equivalents		1,363,662	2,341,691
Trade and other receivables		138,271	57,957
Other Assets		141,915	64,604
TOTAL CURRENT ASSETS		1,643,848	2,464,252
NON CURRENT ASSETS			
Property, Plant, and Equipment		16,980	-
TOTAL NON CURRENT ASSETS		16,980	-
TOTAL ASSETS		1,660,828	2,464,252
CURRENT LIABILITIES			
Trade and other payables		325,929	114,218
Accruals		190,149	130,609
Provisions		30,894	16,704
TOTAL CURRENT LIABILITIES		546,972	261,531
TOTAL LIABILITIES		546,972	261,531
NET ASSETS		1,113,856	2,202,721
EQUITY			
Issued capital	3	17,313,961	16,525,965
Reserves	4	3,025,513	2,794,069
Accumulated losses		(19,225,618)	(17,117,313)
TOTAL EQUITY		1,113,856	2,202,721

The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Half-Year Ended 31 December 2021

	Issued Capital \$	Share based Payment Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2020	12,057,138	1,819,885	(13,398,037)	478,986
Loss for the period	-	-	(2,065,279)	(2,065,279)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(2,065,279)	(2,065,279)
<i>Transactions with owner directly recorded in equity:</i>				
Shares issued during the period	4,803,000	-	-	4,803,000
Options and Performance rights issued during the period	-	660,785	-	660,785
Less: Transaction costs arising from issue of shares	(334,173)	-	-	(334,173)
Balance at 31 December 2020	16,525,965	2,480,670	(15,463,316)	3,543,319
Balance at 1 July 2021	16,525,965	2,794,069	(17,117,313)	2,202,721
Loss for the period	-	-	(2,108,305)	(2,108,305)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(2,108,305)	(2,108,305)
<i>Transactions with owner directly recorded in equity:</i>				
Shares issued during the period	787,996	(5,751)	-	782,245
Options and Performance Rights issued during the period	-	237,195	-	237,195
Less: Transaction costs arising from issue of shares	-	-	-	-
Balance at 31 December 2021	17,313,961	3,025,513	(19,225,618)	1,113,856

The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Half-Year Ended 31 December 2021

	31 December 2021 \$	31 December 2020 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(464,013)	(386,174)
Exploration expenditure and project evaluation costs	(1,279,282)	(985,549)
Interest received	-	13,430
	<hr/>	<hr/>
Net cash used in operating activities	(1,743,295)	(1,358,293)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Plant and Equipment	(16,980)	-
	<hr/>	<hr/>
Net cash used in investing activities	(16,980)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	782,246	4,635,000
Payments for capital raising costs	-	(334,172)
	<hr/>	<hr/>
Net cash from financing activities	782,246	4,300,828
	<hr/>	<hr/>
Net decrease in cash held	(978,029)	2,942,535
Cash and cash equivalents at beginning of period	2,341,691	686,170
	<hr/>	<hr/>
Cash and cash equivalents at end of reporting period	1,363,662	3,628,705
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The accompanying notes form part of this financial report

KRAKATOA RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Half-Year Ended 31 December 2021

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 2021 has been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The Group 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 2021 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.

Going Concern

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

For the half year ended 31 December 2021 the Group incurred a loss of \$2,108,305 and net cash outflows from operating activities of \$1,743,295.

The ability of the Group to continue as a going concern is principally dependent on the Group raising capital. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

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

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

New and Revised Accounting Standards

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.

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

KRAKATOA RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Half-Year Ended 31 December 2021

2. EXPLORATION EXPENDITURE, PROJECT EVALUATION AND ACQUISITION COSTS

	31 December 2021	31 December 2020
	\$	\$
Exploration expenditure and project evaluation	1,479,006	887,910
	<u>1,479,006</u>	<u>887,910</u>

3. ISSUED CAPITAL

	31 December 2021	30 June 2021
	\$	\$
(a) Issued and paid up capital		
Ordinary shares fully paid	17,313,961	16,525,965
	<u>17,313,961</u>	<u>16,525,965</u>
(b) Movement in ordinary shares on issue	Number	\$
Balance at 1 July 2021	278,950,000	16,525,965
Option conversion – 13 July 2021	702,200	35,110
Option conversion – 22 July 2021	4,111,777	205,589
Option conversion – 29 July 2021	6,870,922	343,546
Option conversion – 3 August 2021	4,075,018	203,751
Balance at 31 December 2021	<u>294,709,917</u>	<u>17,313,961</u>

A total of 15,759,917 shares were issued during the period after options exercisable at \$0.05 were exercised on or before 31 July 2021, raising a total of \$787,996.

KRAKATOA RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Half-Year Ended 31 December 2021

4. RESERVES

(a) Share based payment reserve	3,025,513	<u>2,794,069</u>
(b) Movement in share based payment reserve	<i>No.</i>	<i>\$</i>
Balance at 1 July 2021	119,000,000	2,794,069
Options exercised during period – 13 July 2021 (i)	(702,200)	-
Options exercised during period – 22 July 2021 (i)	(4,111,777)	-
Options exercised during period – 29 July 2021 (i)	(6,870,922)	-
Options exercised during period – 3 August 2021 (i)	(4,075,018)	-
Options lapsed during the period (ii)	(67,040,083)	-
Options lapsed during the period (ii)	(5,000,000)	-
Corporate advisory options issued (Note 5a)	5,000,000	105,000
Employee options (Note 5a)	-	19,445
KMP performance rights (Note 5b)	-	112,750
Amounts received for exercise prior to 30 June 2021	-	(5,751)
Balance at 31 December 2021	<u>36,200,000</u>	<u>3,025,513</u>

- (i) A total of 15,759,917 listed options with an exercise price of \$0.05 were exercised during the period. Refer to note 3.
- (ii) On 31 July 2021, 67,040,083 listed options exercisable at \$0.05 per share and 5,000,000 unlisted options exercisable at \$0.075 per share expired unexercised.

5. SHARE BASED PAYMENTS

a) Options

5,000,000 Options were issued to unrelated parties for corporate advisory services performed during the period. Additionally, the Group issued 1,200,000 employee incentive options on 15 January 2021.

Class	Number of Instruments	Grant Date	Expiry Date	Exercise Price \$	Fair value per instrument \$	Value \$
Employee Options ¹	1,200,000	15/01/2021	29/11/2023	\$0.075	\$0.045	\$54,336
Corporate Advisory ² Options	5,000,000	02/08/2021	29/11/2023	\$0.075	\$0.021	\$105,000

¹ Options were issued to employees in tranches of 500,000 (tranche 1) and 700,000 (tranche 2) on 21 January 2021. Options were recognised on a pro-rata basis at a balance date 31 December 2021, as service 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 31 December 2021, a total of \$19,445 vested during the current reporting period.

² Options were issued to unrelated parties for corporate advisory services on 2 August 2021 with an exercisable price of \$0.075 and an expiry of 29 November 2023. Options were recognised in full on the grant date, as there were no attached vesting conditions.

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Employee options that vested 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

Corporate advisory options issued during the period were calculated using the Trinomial option pricing model with the following inputs:

	Options granted
	Range
Expected volatility (%)	100%
Risk free interest rate (%)	0.02%
Weighted average expected life of options (years)	2.32
Expected dividends	Nil
Option exercise price (\$)	\$0.075
Share price at grant date (\$)	\$0.049
Fair value of option (\$)	\$0.021

b) Performance Rights

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

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

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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

Performance Rights issued to Colin Locke vested in full on 14 October 2020. Performance rights issued to Mark Major (7,500,000), vested in full on 14 October 2021 during the reporting period. A total of \$112,750 vested during 31 December 2021 reporting period.

6. DIVIDENDS

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

7. SEGMENT INFORMATION

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
- 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 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.

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8. EVENTS SUBSEQUENT TO REPORTING PERIOD

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

9. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

10. COMMITMENTS

There has been no material change in commitments since the last annual reporting date.

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KRAKATOA RESOURCES LIMITED

DIRECTORS' DECLARATION


For the Half-Year Ended 31 December 2021

In the opinion of the Directors of Krakatoa Resources Limited (the Group):

1. The financial statements and notes thereto of the Group, 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 Group's financial position as at 31 December 2021 and its performance for the half-year then ended.
2. In the Directors' opinion there are reasonable grounds to believe that the Group 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: 15 March 2022

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 2021 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*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity incurred a net loss of \$2,108,305 and net cash outflows from operating activities of \$1,743,295 during the half-year ended 31 December 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

RSM
RSM AUSTRALIA PARTNERS

AL Whyte
ALASDAIR WHYTE
Partner

Perth, WA
Dated: 15 March 2022

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