

Krakatoa signs Heads of Agreement to acquire 2 Graphite Projects

Key Highlights:

- Independent Geologist has observed outcrops of graphite
- High graphite quality potential
- Excellent infrastructure with location next to the ocean and sealed provincial roads
- Favourable deal structure with no cash payments

The Board of Krakatoa Resources Limited (“**Krakatoa**” or the “**Company**”) is pleased to announce that it has signed a Heads of Agreement (“**HOA**”) with Carbon Carbon Pte Ltd (**Carbon**), providing Krakatoa with an option to acquire a 75% controlling interest in two graphite projects:

- the Bone Bay Graphite Project, a 99.48 ha exploration IUP (‘Mining Business Licence’) located on the coastal road in the strategic mining region and port city of Kolaka, South East Sulawesi, Indonesia.
- the Laeya River Graphite Project, a 98 ha exploration IUP situated within the graphite prospective “Mekongga” geological formation close to the provincial city of Kendari.

Both projects are on the Indonesian Department of Energy and Mineral Resources’ Clean and Clear registry, strategically located and considered prospective for graphite based on visual outcrops and early stage exploration work.

Transaction Background

Carbon, a Singapore domiciled private company, holds an option to purchase 75% of the total number of issued shares (“**Option**”) in PT Trans Jawa Sulawesi (“**PT TJS**”), an Indonesian domiciled company which has exploration rights over the Bone Bay Graphite and Laeya River Graphite Projects.

Carbon also has an off take agreement (“**Off-Take**”) with PT TJS whereby Carbon has agreed to buy all graphite powder from the Bone Bay and the Laeya River projects.

Pursuant to the HOA, Krakatoa intends to acquire the Option and Off-Take from Carbon subject to due diligence, execution of a sale, purchase and assignment of option agreement and any ASX and/or regulatory approvals.

Project Details - Bone Bay Graphite

The Bone Bay Graphite Project is held under Exploration IUP No. 188.45/101/2014 issued on March 17, 2014 for a three (3) year period by the Regent of Kolaka. It encompasses an area of 99.48 Ha, with all land being privately-owned.

Location

The Bone Bay Graphite Project is located in Southeast Sulawesi Island, Indonesia. The project is situated within 3 km from the Regency's administrative capital of Kolaka, 15km via a sealed provincial road from the mining city of Pomala and 153 km from the provincial capital of Kendari. By air travel its is 1,625 km ENE from Indonesia's capital, Jakarta.

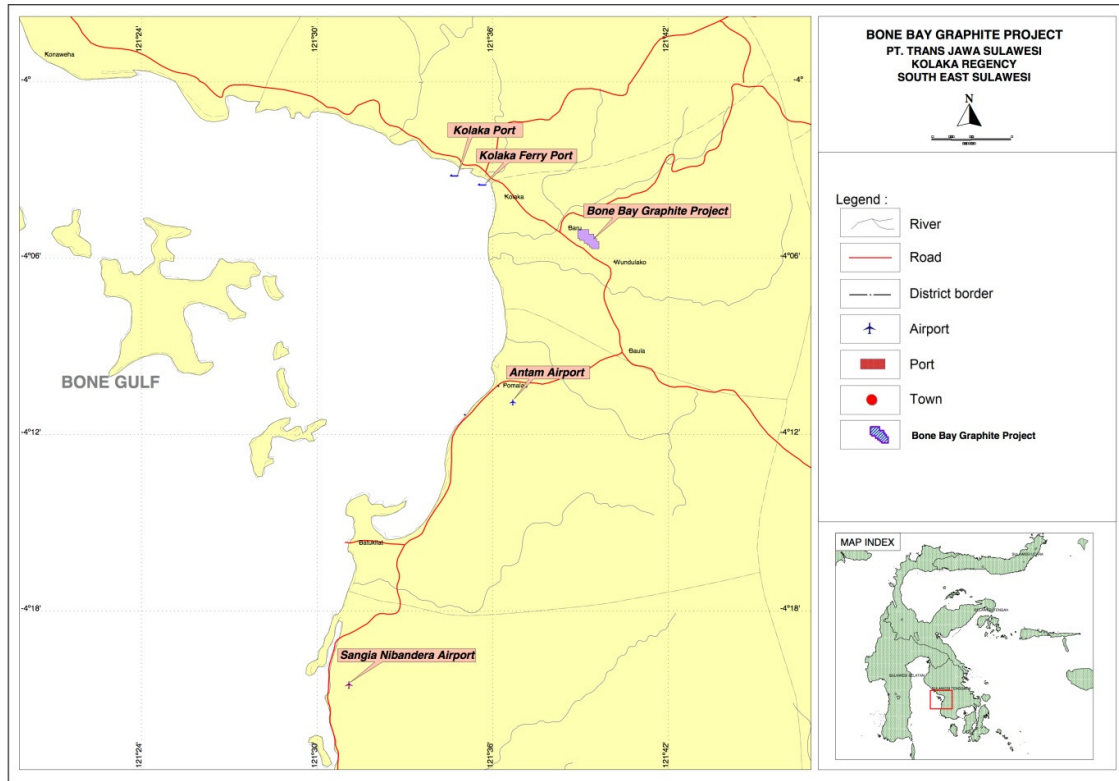


Figure 1: Map of Bone Bay Graphite Project location

Local Geology

The property is underlain principally by low grade metamorphic rocks of the Mekongga Formation comprising muscovite graphite phyllites, graphite-quartz-mica schist, chlorite schists, slates, quartzites, meta sandstone and marbles, unconformably overlain by Mesozoic clastic sediments (sandstone, shale, mudstone, and carbonate strata) of the Meluhu Formation. Pervasive schistosity exposed in outcrops trend ESE-WNW to NW-SE, following the trace of the bounding regional Kolaka strike-slip Fault. Small scale folding with superimposed crenulation cleavage (S2) is ubiquitous throughout the phyllite/schist member.

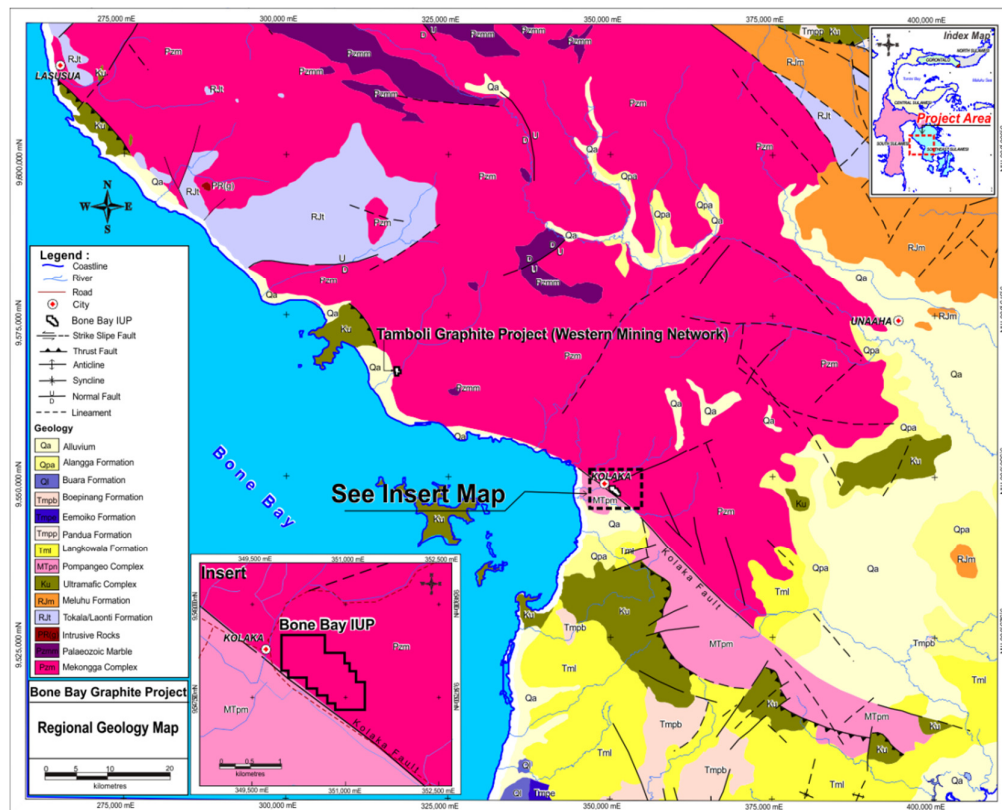


Figure 2: Regional Geology Map of the Bone Bay Graphite Project

Local Resources and Infrastructure

Since the start of nickel laterite mining at Pomala approximately 45 years ago, important infrastructure has been installed to service the exploitation of a number of mines in the area.

The Sangia Nibandera airport is the nearest point for scheduled and chartered flights from Makassar with two scheduled airlines operating daily flights.

Approximately 8 km from the western property boundary is the port of Kolaka, the primary transportation link via ferry across the Gulf of Bone to Watampone (Bone) in South Sulawesi. A new container port is currently being constructed and should be operational later this year.

Currently power in the area is supplied from the local State Electricity Company PLN using diesel gensets. Infrastructure for alternative power supplies from hydro-electric plants in Poso – Central Sulawesi are currently in progress.

Outcrops

Based on limited exploration work to date there appears to be at least one distinctive graphite-bearing quartz-micaceous schist/phyllite interval that is exposed in the western part of the property. Only the upper part of this zone is exposed and based on surface measurements it is at least 8-10+ metres in thickness. Graphite occurs as lenses and disseminated flakes up to about 0.15 mm across and can make up to 10-15 % of the rock.



Figure 3: Geology team on an outcrop at the Bone Bay Graphite Project

Previous Exploration

Since grant of the IUP Exploration licence a limited exploration program of ground geophysical surveys, geological mapping, petrographic analysis, environmental baseline measurements and sampling has been undertaken.

Loss on Ignition (LOI) values for outcrop samples collected within or peripheral to the west property range from 12.2-30.0%. These values represent total Carbon + organics + volatiles of which calcite based on visual identification is also a significant component (the LOI result includes CO₂). Petrographic studies and XRD analysis suggest that volatiles including a contribution from primary calcite may make up to 40- 50% of this value. LOI values from independent samples are comparable to those of TJS however full Leica analysis to identify pure graphite content are awaited.

A detailed dipole-dipole IP-resistivity ground survey over outcropping graphite exposures in the western part of the property returned moderate conductivity responses of 280-340 msec, with the modelled graphite body increasing in intensity and size with depth.

Forestry Borrow and Use Permits

The Bone Bay property has no designated forestry zones within its boundaries. It is classified as Land for other Uses or APL (*Areal Penggunaan Lainnya*). As such no Borrow and Use permits issued by Ministry of Environment and Forestry are required.

Project Details – Laeya River Graphite

The Laeya River Graphite Project is held under Exploration No. 540/257 Tahun 2014 issued on March 12, 2014 for a three (3) period by the Regent of South Konawe. The concession covers an area of 98 ha.

Location

The Laeya River Graphite Project is located within the village of Lamong Jaya, sub-district Laeya, Konawe South Regency, South East Sulawesi Province – Indonesia. It is situated close to a bitumen road linking the provincial capital Kendari to the Toroboeloe ferry port, some 53 km to the south.

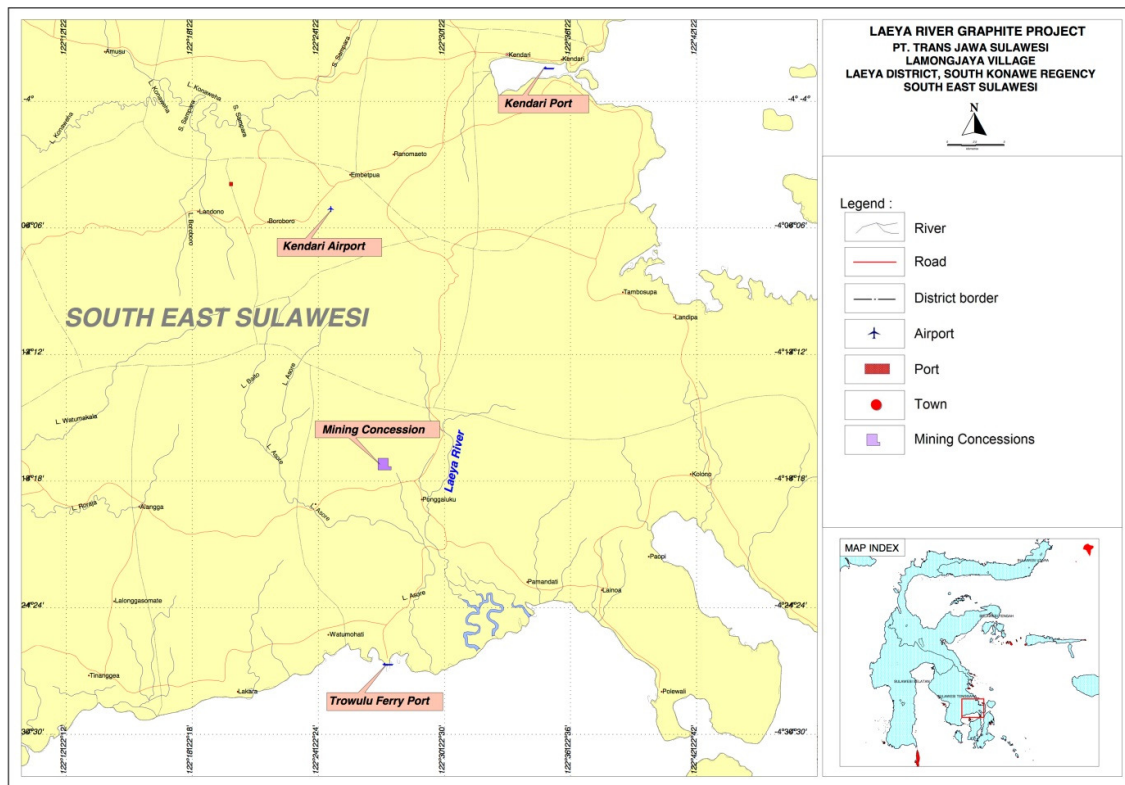


Figure 4: Map of Laeya River Graphite Project location

Previous Exploration

Since granting of the IUP Exploration licence a limited exploration program comprising reconnaissance geologic mapping has been undertaken. A number of graphite-bearing schist outcrops have been documented within the property.

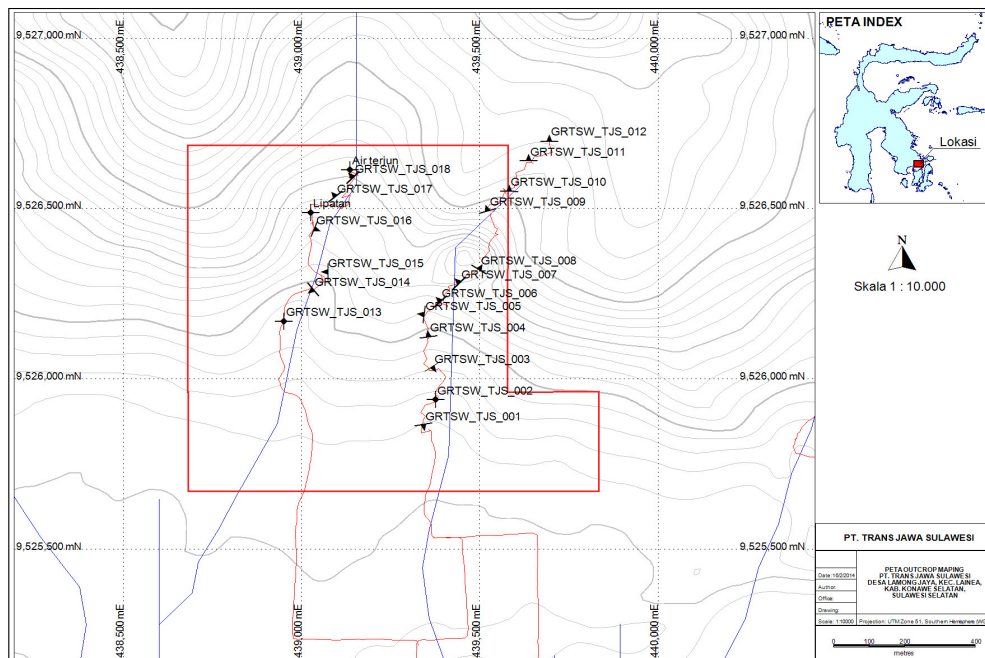


Figure 5: Map of the Laeya River Graphite Project with visual outcrops identified



Figure 6: Outcrops identified at the Laeya River Graphite Project

Exploration Strategy

Initial exploration is proposed at the Bone Bay Project comprising a 4 to 5 month program of rock channel and bulk sampling, trenching (where required), extension of ground geophysical coverage, and widely spaced drilling including downhole Mise-a-la-masse array electromagnetic (EM)/resistivity downhole surveys.

Consideration

Upon completion of the sale and purchase of the Option and shareholder approval (if required), Krakatoa shall conduct the following actions:

- (i) issue fully paid ordinary shares in the capital of the Company such that Carbon (and/or its affiliates) will collectively own 20% of the issued capital of the Company on the settlement date;
- (ii) appoint a representative of Carbon to the Board of Krakatoa.

Krakatoa may exercise the Option by providing PT TJS 90 days' notice and paying the par value of the shares being acquired, being IDR 1.5 billion (approx. AUD\$145,336). The Option has no expiry date.

Deferred Consideration

Subject to achievement of the market capitalisation milestones detailed below and shareholder approval following satisfaction of the relevant milestone, Krakatoa shall conduct the following actions:

- (i) upon achievement of Krakatoa attaining a market capitalisation of AUD\$25,000,000 within 2 years of the settlement date, issue fully paid ordinary shares in the capital of the Company such that Carbon (and/or its affiliates) will collectively own an additional 5% of the issued capital of the Company on the settlement date;
- (ii) upon achievement of Krakatoa attaining a market capitalisation of AUD\$35,000,000 within 2 years of the settlement date, issue fully paid ordinary shares in the capital of the Company such that Carbon (and/or its affiliates) will collectively own an additional 9% of the issued capital of the Company on the settlement date;
- (iii) upon achievement of Krakatoa attaining a market capitalisation of AUD\$50,000,000 within 2 years of the settlement date, issue fully paid ordinary shares in the capital of the Company such that Carbon (and/or its affiliates) will collectively own an additional 15% of the issued capital of the Company on the settlement date;

Each market capitalisation milestone contemplated by the Deferred Consideration must be satisfied over a 30 day period by reference to the volume weighted average price.

Yours sincerely,



Aryo Bimo
Executive Director

Competent Person Statement

The information in this report which relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Brian Varndell, who is a corporate member of the Australasian Institute of Mining and Metallurgy and independent consultant to the Company. Mr Varndell is principal of Varndell and Associates and an associate of Al Maynard & Associates. He has over 40 years of exploration and mining experience in a variety of mineral deposit styles including gold, base metals, coal, precious stones and iron ore mineralisation. Mr Varndell has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Varndell consents to inclusion in the report of the matters based on his information in the form and context in which it appears.

Section 1 Sampling Techniques and Data

Criteria	JORC Code explanation	Commentary
Sampling techniques	<ul style="list-style-type: none"> Nature and quality of sampling (eg cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as down hole gamma sondes, or handheld XRF instruments, etc). These examples should not be taken as limiting the broad meaning of sampling. Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used. Aspects of the determination of mineralisation that are Material to the Public Report. In cases where 'industry standard' work has been done this would be relatively simple (eg 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (eg submarine nodules) may warrant disclosure of detailed information. 	<ul style="list-style-type: none"> Mapping completed via creek traverses 5 surface samples were taken by TJS 5 surface samples were taken by independent geologist Hamish Campbell
Drilling techniques	<ul style="list-style-type: none"> Drill type (eg core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc) and details (eg core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc). 	<ul style="list-style-type: none"> No drilling yet
Drill sample recovery	<ul style="list-style-type: none"> Method of recording and assessing core and chip sample recoveries and results assessed. Measures taken to maximise sample recovery and ensure representative nature of the samples. Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material. 	<ul style="list-style-type: none"> Not applicable
Logging	<ul style="list-style-type: none"> Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies. Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography. The total length and percentage of the relevant intersections logged. 	<ul style="list-style-type: none"> Not applicable
Sub-sampling techniques and sample preparation	<ul style="list-style-type: none"> If core, whether cut or sawn and whether quarter, half or all core taken. If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry. For all sample types, the nature, quality and appropriateness of the sample preparation technique. Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples. Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling. Whether sample sizes are appropriate to the grain size of the material being sampled. 	<ul style="list-style-type: none"> Not applicable

Criteria	JORC Code explanation	Commentary
Quality of assay data and laboratory tests	<ul style="list-style-type: none"> The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total. For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc. Nature of quality control procedures adopted (eg standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (ie lack of bias) and precision have been established. 	<ul style="list-style-type: none"> ISO accredited laboratory checks required
Verification of sampling and assaying	<ul style="list-style-type: none"> The verification of significant intersections by either independent or alternative company personnel. The use of twinned holes. Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols. Discuss any adjustment to assay data. 	<ul style="list-style-type: none"> No QA/QC yet
Location of data points	<ul style="list-style-type: none"> Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation. Specification of the grid system used. Quality and adequacy of topographic control. 	<ul style="list-style-type: none"> GPS survey
Data spacing and distribution	<ul style="list-style-type: none"> Data spacing for reporting of Exploration Results. Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied. Whether sample compositing has been applied. 	<ul style="list-style-type: none"> Not applicable
Orientation of data in relation to geological structure	<ul style="list-style-type: none"> Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type. If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material. 	<ul style="list-style-type: none"> Not applicable
Sample security	<ul style="list-style-type: none"> The measures taken to ensure sample security. 	<ul style="list-style-type: none"> Delivered by geologist
Audits or reviews	<ul style="list-style-type: none"> The results of any audits or reviews of sampling techniques and data. 	<ul style="list-style-type: none"> None undertaken yet

Section 2 Reporting of Exploration Results

Criteria	JORC Code explanation	Commentary
Mineral tenement and land tenure status	<ul style="list-style-type: none"> Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings. The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area. 	<ul style="list-style-type: none"> PT Trans Jawa Sulawesi holds the following clean and clear IUP Exploration Licenses with no impediments: <ol style="list-style-type: none"> 188.45/101/2014 expiring on March 17, 2017 540/257 Tahun 2014 expiring on March 12, 2017 Krakatoa has a HOA with PT Trans Jawa Sulawesi, with material terms included in the announcement.
Exploration done by other parties	<ul style="list-style-type: none"> Acknowledgment and appraisal of exploration by other parties. 	<ul style="list-style-type: none"> TJS sampling
Geology	<ul style="list-style-type: none"> Deposit type, geological setting and style of mineralisation. 	<ul style="list-style-type: none"> Schistose graphitic slate
Drill hole Information	<ul style="list-style-type: none"> A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes: <ul style="list-style-type: none"> easting and northing of the drill hole collar elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar dip and azimuth of the hole down hole length and interception depth hole length. If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case. 	<ul style="list-style-type: none"> No drilling yet
Data aggregation methods	<ul style="list-style-type: none"> In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg cutting of high grades) and cut-off grades are usually Material and should be stated. Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail. The assumptions used for any reporting of metal equivalent values should be clearly stated. 	<ul style="list-style-type: none"> Not applicable
Relationship between	<ul style="list-style-type: none"> These relationships are particularly important in the reporting of Exploration Results. 	<ul style="list-style-type: none"> Not applicable

Criteria	JORC Code explanation	Commentary
mineralisation widths and intercept lengths	<ul style="list-style-type: none"> • <i>If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported.</i> • <i>If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (eg 'down hole length, true width not known').</i> 	
Diagrams	<ul style="list-style-type: none"> • <i>Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported. These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views.</i> 	<ul style="list-style-type: none"> • Included in announcement
Balanced reporting	<ul style="list-style-type: none"> • <i>Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.</i> 	<ul style="list-style-type: none"> • Not applicable
Other substantive exploration data	<ul style="list-style-type: none"> • <i>Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.</i> 	<ul style="list-style-type: none"> • Embryonic exploration property
Further work	<ul style="list-style-type: none"> • <i>The nature and scale of planned further work (eg tests for lateral extensions or depth extensions or large-scale step-out drilling).</i> • <i>Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive.</i> 	<ul style="list-style-type: none"> • At planning stage