



Prospectus

For the issue of up to 23,063,002 New Options on the basis of one New Option for every one Expired Option at an issue price of \$0.01 exercisable at \$0.20 on or before 31 March 2017, to raise approximately \$230,630 (**Offer**).

The Offer is conditional upon Shareholders approving, at the General Meeting to be held on 23 October 2015, the issue of the New Options offered by this Prospectus.

ASX Code: KTA

This Prospectus provides important information about the Company. You should read the entire document including the personalised Application Form. If you have any questions about the New Options being offered under this Prospectus, or any other matter relating to an investment in the Company, you should consult your professional adviser. An investment in the New Options offered under this Prospectus is highly speculative.

This Prospectus is not for publication or distribution, directly or indirectly, in or into the United States of America (including its territories and possessions, any state of the US and the District of Columbia). This Prospectus is not an offer of securities for sale into the United States or to, or for the account or benefit of, US Persons. The securities referred to herein have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons. No public offering of securities is being made in the United States.

Important Notice

This Prospectus is dated 25 September 2015 and was lodged with ASIC on that date. Application will be made to ASX for quotation of the New Options offered under this Prospectus within 7 days of this date.

Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. No securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Nature of this Prospectus

The New Options which will be issued pursuant to this Prospectus will, upon exercise, entitle the holder to the same class of Shares that have been quoted on the Official List of the ASX during the 12 months prior to the date of this Prospectus.

This Prospectus is a 'transaction specific prospectus' to which the special content rules under section 713 of the Corporations Act apply. That provision allows the issue of a more concise prospectus in relation to an offer of securities, or options over securities in a class which has been continuously quoted by ASX in the 3 months prior to the date of the prospectus. In general terms 'transaction specific prospectuses' must contain all information investors and their professional advisers would reasonably require to make an informed assessment of the effect of the offer on the issuing company, the rights and liabilities attaching to the securities offered, or if options are offered, the rights and liabilities attaching to the options themselves and the underlying securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

Prospectus availability

Expired Optionholders can obtain a copy of this Prospectus during the Offer period on the Company's website at www.krakatoaresources.com or by contacting the Company. If you access an electronic copy of this Prospectus, you should ensure that you download and read the entire Prospectus.

The electronic copy of this Prospectus available from the Company's website will not include a personalised Application Form. Expired Optionholders will only be able to accept the Offer by completing the personalised Application Form which accompanies this Prospectus or by making payment using BPAY® (refer to section 7.5 of this Prospectus for further information).

Foreign jurisdictions

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are residents in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed. This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Disclaimer of representations

No person is authorised to provide any information or make any representation in connection with the Offer which is not contained in this Prospectus.

Forward looking statements

This Prospectus contains forward looking statements that, despite being based on the Company's current expectations about future events, are subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and the Directors. These known and unknown risks, uncertainties and assumptions, could cause actual results, performance or achievements to materially differ from future results, performance or achievements expressed or implied by forward-looking statements in this Prospectus. These risks, uncertainties and assumptions include, but are not limited to, the risks outlined in section 6 of this Prospectus. Forward-looking statements include those containing such words as 'anticipate', 'estimate', 'believe', 'should', 'will', 'may' and similar expressions.

Privacy

Please read the privacy information located in section 8.12 of this Prospectus. By submitting an Application Form for the Offer, you consent to the matters outlined in that section.

Definitions

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary.

Enquiries

If you have any questions please call the Company Secretary on 08 9481 0389 or Computershare Investor Services Pty Limited (the Company's Share Register) on 1300 787 272 at any time between 9.00am and 5.00pm (WST) Monday to Friday until the Closing Date. Alternatively, consult your broker, accountant or other professional advisor.

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Corporate Directory

Directors

Mr Colin Locke	(Executive Chairman)
Mr Aryo Bimo	(Non Exec. Director)
Mr Brian Varndell	(Non Exec. Director)

Company Secretary

Mr David Palumbo

Registered and Business Office

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216 St George’s Terrace
PERTH WA 6000

Tel: 08 9481 0389

Fax: 08 9463 6103

Email: admin@krakatoaresources.com

Share Registry

Computershare Investor Services Pty Limited

Tel: 1300 787 272

Fax: 08 9323 2033

Auditor*

RSM Bird Cameron Partners
8 St Georges Terrace
PERTH WA 6000

Solicitors to the Offer

Kings Park Corporate Lawyers
Level 2, 45 Richardson Street
West Perth WA 6005

Website

www.krakatoaresources.com

*This party is named for informational purposes only and was not involved in the preparation of this Prospectus

1 TIMETABLE TO THE OFFER

Lodge Prospectus with ASIC (Lodgment Date)	25 September 2015
Announce Prospectus and Appendix 3B to ASX	
Dispatch of Prospectus and personalised Acceptance Form	25 September 2015
Opening of the Offer	28 September 2015
Shareholder Meeting to approve the issue of New Options	23 October 2015
Close of the Offer	30 October 2015
Issue of New Options	3 November 2015
Latest date to place Shortfall Options	3 months following the Meeting

Note:

This timetable is indicative only and subject to change. The Company reserves the right to vary the above dates, subject to the Listing Rules and Corporations Act.

2 KEY OFFER TERMS AND CAPITAL STRUCTURE

Shares currently on issue	46,259,735
Options currently on issue	nil
New Options offered under this Prospectus exercisable at \$0.20 on or before 31 March 2017	23,063,002
Amount to be raised under this Prospectus (before costs)	\$230,630

3 CHAIRMAN'S LETTER

Dear Expired Optionholder

On behalf of Krakatoa, I am pleased to invite you to participate in the offer of 1 New Option exercisable at \$0.20 on or before 31 March 2017 for every Expired Option you held on the Expiry Date subject to Shareholder approval on 23 October 2015 (**Offer**). The issue price for each New Option is \$0.01.

The Offer will raise approximately \$230,630 if fully subscribed.

Funds raised from the issue of the New Options will be used to meet the costs of the Offer and for general working capital.

The Offer will allow Expired Optionholders that have been very supportive of the Company to replace their Expired Options with New Options. The Prospectus and personalised Application Form should be read carefully and in its entirety before deciding whether or not to participate in the Offer. In particular Expired Optionholders should consider the key risk factors outlined in Section 6 of this Prospectus.

On behalf of your Board, I invite you to consider this investment opportunity and thank you for your ongoing support of our Company.

Yours faithfully,

Colin Locke
Executive Director

4 INVESTMENT OVERVIEW AND KEY RISKS

This information is a selective overview only. Expired Optionholders should read the Prospectus in full before deciding to invest in the New Options.

Question	Response	Where to find more information
What is being offered?	Under this Prospectus up to 23,063,002 New Options are being offered, subject to Shareholder approval at the Meeting, to investors who held listed and unlisted options expiring on 30 June 2015 (Expired Optionholders). The New Options will be issued at an issue price of \$0.01 with an exercise price of \$0.20 and expire on or before 31 March 2017. One New Option is offered for every Expired Option held at the Expiry Date.	Section 5
Can I apply for Shortfall Options?	Expired Optionholders may apply for Shortfall Options in excess of their Entitlement.	Section 8.3
Who is the Offer made to?	The Offer is made to Expired Optionholders.	
How will the proceeds of the Offer be used?	The Company intends to use the funds raised from the Offer broadly as follows: <ul style="list-style-type: none">• \$200,630 for general working capital; and• \$30,000 to pay the costs of the Offer.	Section 5.2
What are the key risks of a subscription under the Offer?	An investment in the Company has risks that you should consider before making a decision to invest. These risks include: <ul style="list-style-type: none">• The Company's Share price is currently \$0.15 and the New Options are out of the money. There is a risk that the Company's Share price may remain below the exercise price of the New Options.• The Company's Donggala Tenement is currently not on the clean and clear list administered by the Ministry of Energy and Mineral Resources in	Section 6

Indonesia. As a result, there is a risk that the Company may be required to negotiate with the holders of all overlapping tenements, and in the worst case scenario, may lose some of the territory of its licence.

- The Company signed a Memorandum of Understanding for the acquisition of 80% of the Shares in PT. Rio Jaya Persada in April 2014. The Company is currently assessing the prospectivity of the exploration licences in light of current market conditions. Should the Company elect to not to extend the Memorandum of Understanding prior to October 2015, it is likely the Company will lose title to the Rio Jaya Project.
- The Company signed a Heads of Agreement with Carbon Carbon Pte Ltd on 18 June 2015, providing the Company with an option to acquire 75% of the total number of issued shares in PT Trans Jawa Sulawesi, an Indonesian domiciled company which holds two graphite projects. The acquisition is subject to due diligence, execution of a sale, purchase and assignment of option agreement and any ASX or other regulatory approvals. While the Company anticipates satisfaction of the due diligence within the specified time frame, it cannot guarantee that this will occur. If the Company fails to execute a sale, purchase and assignment of option agreement and obtain any ASX or other regulatory approvals, the Heads of Agreement may lapse and the Company will lose its option to acquire the 75% interest in PT Trans Jawa Sulawesi.
- The Company holds an IUP Exploration Licence in respect to the Donggala Project expiring 7 April 2016. As at the date of this Prospectus, the Company has not paid the licence fees in respect to the Donggala Project for the years ending April 2015 and April 2016. Should the Company elect not to pay the licence fees prior to 7 April 2016, it is likely the Company will lose

title to the Donggala Project.

- Future capital needs and additional funding may be required to complete the proposed exploration program.
- As a junior explorer with no production or income, the Company is exposed to general market and economic condition risks as well as sovereign risks associated with operating in Indonesia.

Please carefully consider these risks and additional risks contained in section 6 and the information contained in other sections of this Prospectus before deciding whether or not to apply for New Options.

Is the Offer underwritten?	The Offer is not underwritten.	
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What will be the effect of the Offer on control of the Company?	No person will acquire voting power of over 20% as a result of the Offer.	
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How do I apply for New Options under the Offer?	Applications can be made by Expired Optionholders completing the personalised Application Form and sending it to the Share Registry.	Section 7.2
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How will the Shortfall Options be allocated?	The Directors may allocate any Shortfall Options at their discretion, including to Expired Optionholders who apply for Shortfall Options.	Section 8.3
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How can I obtain further information?	Contact the Company Secretary on 08 9481 0389 or the Share Registry on 1300 787 272 at any time between 8.00am and 5.00pm (WST) Monday to Friday until the Closing Date.	
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How can I obtain further advice?	Consult your broker, accountant or other professional advisor.	
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5 PURPOSE AND EFFECT OF THE OFFER

5.1 Introduction

The Company is seeking to make a placement of up to 23,063,002 New Options on the basis of one new option for every one Expired Option held which expired at 5:00pm (WST) on 30 June 2015 at an issue price of \$0.01 exercisable at \$0.20 on or before 31 March 2017, to raise approximately \$230,630 (subject to Shareholder approval at the Meeting).

5.2 Purpose of the Offer

Assuming the Offer is taken up in full, the Directors intend to apply the proceeds from the Offer as follows:

Use of funds	\$
Working Capital	200,630
Costs of the Offer ¹	30,000
Total	230,630

¹ See section 10.5 for details.

This table is a statement of current intentions as at the date of this Prospectus. As with any budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the way funds will be applied. The Board reserves the right to vary the way funds are applied on this basis.

Funds raised on the exercise of New Options will be used to fund exploration and for general working capital.

5.3 Effect of the Offer

The effect of the Offer will, assuming that Entitlements are taken up in full, be that:

- (a) cash reserves will increase by approximately \$200,630 (after costs);
- (b) the number of Shares on issue will remain the same at 46,259,735; and
- (c) the number of listed Options on issue will increase from nil to up to 23,063,002.

5.4 Statement of audited financial position

Set out in schedule 1 is the audited Consolidated Statement of Financial Position of the Company and the unaudited Consolidated Pro-Forma Statement of Financial Position, as at 30 June 2015 and on the basis that the Offer was effective on 30 June 2015.

The significant accounting policies upon which the Statement of Financial Position and the Pro-Forma Statement of Financial Position are based are contained in the audited financial report for year ended 30 June 2015.

5.5 Consolidated capital structure

Assuming that Entitlements are taken up in full at the close of the Offer, the capital structure of the Company will be:

Shares	Number
Existing Shares	46,259,735
New Shares offered under this Prospectus	nil
Total Shares	46,259,735
Options	
Existing Options	nil
New Options offered under this Prospectus	23,063,002
Total Options	23,063,002

5.6 Effect on control

There will be no effect on control of the Company if all Expired Optionholders take up their Entitlement.

Holders may only exercise their New Options in circumstances that do not breach the prohibition under the Corporations Act of a person and their associates acquiring a relevant interest in 20% or more of a public company.

6 RISK FACTORS

An investment in the New Options the subject of this Prospectus is highly speculative as the Company is a resource exploration company. Please consider the risks described below and the information contained in other sections of this Prospectus. You should also consider consulting with your professional advisers before deciding whether or not to apply for the New Options.

The following is a list of the material risks that may affect the financial position of the Company, the value of an investment in the Company, as well as the Company's operations.

6.1 Company specific risks

(a) Liquidity risk

The Company's Share price is currently less than the issue price for New Options, and the New Options are out of the money. There is a risk that the Company's Share price may remain below the exercise price of the New Options

Furthermore, there may be relatively few potential buyers or sellers of the New Options on ASX at any time, particularly given the prevailing Share price. This may increase the volatility of the market price of the New Options and affect the prevailing market price at which the Optionholders are able to sell their New Options.

(b) Overlapping interest

The Clean and Clear list administered by the Ministry of Energy and Mineral Resources is a list of mining permits issued by the various local authorities that are considered by the Ministry of Energy and Mineral Resources not to be overlapping with any other mining permits. A very small percentage of all mining permits issued in Indonesia are listed in the Clean and Clear list.

The Company's Donggala Tenement is currently not on the clean and clear list. As a result, there is risk that the Company may be required to negotiate with the holders of any overlapping tenements, and in the worst case scenario, may lose some of the territory of its licence.

(c) Contractual Risk - MOU with PT. Rio Jaya Persada

The Company signed a Memorandum of Understanding (**MOU**) for the acquisition of 80% of the Shares in PT. Rio Jaya Persada (**PT. Rio Jaya**) in April 2014. PT Rio Jaya holds two granted and prospective gold exploration licenses, being:

- IUP 188.45/0517/DESDM/2013 covering an area of 9,000 ha and with validity through June 30, 2016; and

- IUP 188.45/0581/DESDM/2013 covering an area of 5,627 ha and with validity through June 30, 2016.

The Company may acquire the 80% interest in PT. Rio Jaya through payment of Rp2,400,000,000 and executing a share sale agreement by 16 October 2015. As at the date of this Prospectus, the Company is currently assessing the prospectivity of the exploration licenses in light of current market conditions. Should the Company elect not to extend the MOU prior to 16 October 2015, it is likely the Company will lose title to the Rio Jaya Project.

(d) Contractual Risk - HOA with Carbon Carbon Pte Ltd

On 18 June 2015, the Company signed a Heads of Agreement (HOA) with Carbon Carbon Pte Ltd (Carbon), providing Krakatoa with an option to acquire 75% of the total number of issued shares in PT Trans Jawa Sulawesi (PT TJS), an Indonesian domiciled company which holds 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.

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

The Company's ability to acquire the 75% interest is dependent on PT TJS honouring its obligations under the HOA and not creating any encumbrances over the Tenement that would affect the Company's rights.

While the Company anticipates satisfaction of the due diligence within the specified time frame, it cannot guarantee that this will occur. If the Company fails to execute a sale, purchase and assignment of option agreement and obtain any ASX and/or regulatory approvals, the HOA may lapse and the Company will lose its Option to acquire the 75% interest PT TJS.

(e) Title risk

Once an interest in the tenement is acquired, there are a number of conditions that the Company must satisfy with respect to the tenement to keep it in good standing. These include but are not limited to licence fee payments, annual reporting requirements (exploration, safety and environmental), annual plan filing requirements (exploration and environmental) and the deposit of an environmental reclamation bond (required when applying for a production operation IUP).

The Company holds an IUP Exploration in respect to the Donggala Project expiring 7 April 2016. As at the date of this Prospectus, the Company has not paid the licence fees in respect to the Donggala Project for the years ending April 2015 and April 2016. Should the Company elect not to pay the licence fees prior to 7 April 2016, it is likely the Company will lose title to the Donggala Project.

(f) Domestic processing & refining obligation (**DP&RO**)

Regulation No. 7 of 2012 of the Minister of Energy and Mineral Resources issued 6 February 2012 prohibits the export of unprocessed raw materials/ore by IUP/IUPK holders. Thus, holders of Production IUP/IUPK are obliged to carry out processing and refining within the country.

The DP&RO is applicable to IUP production licenses only. As the Company's tenements are currently exploration IUP's, the DP&RO does not currently apply. Should Krakatoa later achieve exploration success (warranting a mining operation) through, amongst other things, the granting of an IUP production, the DP&RO will take effect.

In the event that the Company achieves exploration success on its projects in the future, there is a potential risk to the viability of a mining operation due to these economic constraints.

(g) Divestiture of shares requirement under the New Mining Law

After 5 years of production, a PMA Mining Company must divest some of its shares (**Divestiture Shares**) to Indonesian parties, so that the Indonesian parties (being the Government, Regional Governments, BUMN, BUMD or BUMS National), hold not less than 20% of the PMA Company's issued shares (**Divestment Requirement**). The Company must also divest no less than 30% after 6 years of production, 37% after 7 years of production, 44% after 8 years of production and 51% after 9 years of production.

At this stage the divestment rules are not applicable as a foreign owned entity must start divesting to Indonesian interests only after production has taken place and only after 5 years.

In the event that the Company reaches production in the future, there is a potential risk to the Company's potential future cash flows from production.

(h) Domestic supply obligation

In January 2009 the Indonesian Government enacted Ministerial Regulation No. 34 of 2009 regarding Prioritisation of Domestic Mineral and Coal Supplies (Regulation No. 34). Regulation No. 34 requires producers of coal and minerals in Indonesia to allocate a proportion of their annual production output to the domestic Indonesian market. The annual production output required for the domestic Indonesian market will be set

by the Minister of Energy and Mineral Resources (**Minister**) based on the estimate of annual demand proposed by potential domestic buyers in the previous year. Further, the price of metals and coal allocated for the domestic market will refer to a prescribed mineral benchmark price and a prescribed coal benchmark price.

As at the date of this Prospectus the Minister is yet to determine the benchmark price or percentage of production to be allocated to the domestic market. In the event that the Company reaches production in the future, there is a potential risk to the Company's potential future cash flows from production.

(i) Legal risks associated with operating in Indonesia

The Company has tenements located in Indonesia which is subject to a number of risks, including:

- (i) potential difficulties in enforcing agreements and collecting receivables through foreign and local systems;
- (ii) potential difficulties in protecting rights and interest in assets;
- (iii) increases in costs for mining, transportation and shipping;
- (iv) changes in governmental policies, restrictive governmental actions, such as imposition of trade quotas, proposed legislation seeking to ban the export of low rank coal from 2014, tariffs and other taxes; and
- (v) economic, social and political volatility.

Any of these factors could materially and adversely affect the Company's business, results of operations and financial condition.

In addition, the Company's future operations may be impacted by currency fluctuations, political reforms, changes in Indonesian government policies and procedures, civil unrest, social and religious conflict and deterioration of economic conditions. The likelihood of any of these changes, and their possible effects, if any, cannot be determined by the Company with any certainty at the present time. However they may include disruption, increased costs and, in some cases, total inability to establish or to continue to operate mining exploration or development activities.

(j) Forest zoning

Approximately 25% of the Donggala Project occupies land which is zoned by The Ministry of Forestry of Indonesia as a protection forest. If the Company elects to conduct any part of its exploration program in the protection forest, it will need to apply to the Ministry of Forestry for a Forest Utilisation License which will permit the holder to carry out exploration activities in the protection forest area.

Even if the Forest Utilisation License is not granted, there is nothing to prevent the Company from carrying out exploration activities on the remaining area of the Donggala Project.

(k) Sovereign risk

The Company's activities are subject to the risks associated in operating in a foreign country. These risks may include economic, social or political instability or change, hyperinflation, currency non-convertibility or instability and changes of law affecting foreign ownership, government participation, taxation, working conditions, rates of exchange control, exploration licensing, export duties, repatriation of income or return of capital, environmental protection, mine safety, labour relations as well as government control over mineral properties or government regulations that require the employment of local staff or contractors or require other benefits to be provided to local residents.

The risk of terrorism activities in Indonesia and the resulting impact upon any future projects is also a relevant risk factor.

(l) Exploration risk

There can be no assurance that exploration of the Company's tenements or other exploration properties that may be acquired by the Company in the future will result in the discovery of an economic resource. Even if an economic resource is discovered, there is no guarantee that the resource will be able to be commercially exploited by the Company.

(m) Regulatory Risk

The Company will need to obtain regulatory approvals and licences to undertake its operations in Indonesia. There is no guarantee that such approvals and licences will be granted. In addition, various conditions may be imposed on the grants of such regulatory approvals and licences which may impact on the cost or the ability of the Company to exploit the tenements.

While there is currently a strong relationship between Australia and Indonesia, there can be no assurance that Indonesia's regulatory requirements will not change, which may affect the Company's operations. Changes may include, but are not limited to, foreign ownership of licences, taxation and royalties and land access.

(n) Additional Requirements for Capital

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised pursuant to this Prospectus. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on

financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration program as the case may be.

6.2 Industry specific risks

(a) Changes in Indonesian law

Changes to the mining law or to the other government legislation and regulations in Indonesia, or to the division of regulatory powers between the Central Government in Jakarta and local and provisional bodies, may materially impact on the ability of the Company to operate in Indonesia and on the ultimate profitability of any potential projects to be developed in Indonesia. In the event that an economic resource is identified in any of the Company's projects there can be no assurance that all or any of the relevant approvals and permits necessary to conduct mining operations will be granted.

(b) Operating risks

The operations of the Company may be affected by various factors, including failure to locate or identify mineral deposits; failure to achieve predicted grades in exploration and mining; operational and technical difficulties encountered in mining; difficulties in commissioning and operating plant and equipment; mechanical failure or plant breakdown; unanticipated metallurgical problems which may affect extraction costs; adverse weather conditions; industrial and environmental accidents; industrial disputes; and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment. No assurances can be given that the Company will achieve commercial viability through the successful exploration and/or mining of its tenement interests.

(c) Resource estimates

The Company's projects do not have JORC Code identified resources. Even if a resource is identified, resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and mining plans which may, in turn, adversely affect the Company's operations.

(d) Community relations and landowners

The Company's ability to undertake exploration on its tenements will depend in part on its ability to maintain good relations with the relevant local communities. Any failure to adequately manage community expectations with respect to compensation for land access, artisanal mining activity, employment opportunities, impact on local business and any other expectations may lead to local dissatisfaction, disruptions in the exploration program and potential losses to the Company.

(e) Reliance on key management and personnel

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment. More generally, in the event that the Company progresses the development and commercialisation of any of its assets toward production, it is likely to require a large number of personnel for these operations. There is a risk that the Company may not be able to procure the required number of skilled workers for any of its future operations which could have an adverse impact on the Company.

(f) Economic risks

General economic conditions, movements in interest and inflation rates, the prevailing global commodity prices and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

As with any mining project, the economics are sensitive to metal and commodity prices. Commodity prices fluctuate and are affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations for oil and gas, technological advances, forward selling activities and other macro-economic factors. These prices may fluctuate to a level where the proposed mining operations are not profitable. Should the Company achieve success leading to mineral production, the revenue it will derive through the sale of commodities also exposes potential income of the Company to commodity price and exchange rate risks.

Further, share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment;

- (v) the demand for, and supply of, capital; and
 - (vi) terrorism or other hostilities
- (g) Commercial risk

The mining industry is competitive and there is no assurance that, even if commercial quantities are discovered, a profitable market will exist for sales of such commodities. There can be no assurance that the quality of the commodity will be such that the properties in which the Company holds and interest can be mined at a profit.
- (h) Environmental impact constraints

The Company's exploration programs will, in general, be subject to approval by governmental authorities. Development of any of the Company's properties will be dependent on the project meeting environmental guidelines and, where required, being approved by governmental and other relevant authorities. Resource activities can be environmentally sensitive and can give rise to substantial costs for environmental rehabilitation, damage control and losses.
- (i) Commodity price volatility and exchange rate risks

The price for commodities will depend on available markets at acceptable prices and transmission and distribution costs. Any substantial decline in the price of gold, iron ore and graphite or an increase in transmission or distribution costs could have a material adverse effect on the Company.

Furthermore, international prices of various commodities are denominated in United States dollars, whereas the income and expenditure of the Company are and will be taken into account in Australian dollar and Indonesian Rupiah currency, exposing the Company to the fluctuations and volatility of the rate of exchange between the United States dollar, Indonesian Rupiah and the Australian dollar as determined in international markets.
- (j) Insurance risks

Insurance coverage of all risks associated with minerals exploration, development and production is not always available and, where available, the cost can be high. The Company will have insurance in place considered appropriate for the Company's needs. The Company will not be insured against all possible losses, either because of the unavailability of cover or because the Directors believe the premiums are excessive relative to the benefits that would accrue. The Directors believe that the insurance they have in place is appropriate. The Directors will continue to review the insurance cover in place to ensure that it is adequate.
- (k) Competition risk

The industry in which the Company will be involved is subject to domestic and global competition. Although the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

(l) Investment speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Options offered pursuant to this Prospectus. Therefore, the New Options to be issued pursuant to this Prospectus carry no guarantee with respect to the returns of capital or the market value of those securities.

Potential investors should consider that an investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for the New Options pursuant to this Prospectus.

7 ACTIONS REQUIRED BY EXPIRED OPTIONHOLDERS

7.1 What you may do

As an Expired Optionholder, you may:

- (a) subscribe for all of your Entitlement (see section 7.2); and
- (b) apply for Shortfall Options (see section 7.3); or
- (c) allow all or part of your Entitlement to lapse (see section 7.4).

7.2 To subscribe for all or part of your Entitlement

Applicants should read this Prospectus in its entirety in order to make an informed decision on the prospects of the Company and the rights attaching to the New Options offered by this Prospectus before deciding to apply for New Options. If you do not understand this Prospectus you should consult your broker, accountant or other professional adviser in order to satisfy yourself as to the contents of this Prospectus.

If you wish to subscribe for all of your Entitlement, complete the accompanying Application Form in accordance with the instructions set out on that form. The Application Form sets out the number of New Options you are entitled to subscribe for.

7.3 To subscribe for all your Entitlement and apply for Shortfall Options

Expired Optionholders may, in addition to their Entitlement, apply for Shortfall Options by completing the accompanying Application Form in accordance with the instructions set out on that form. Refer to section 8.3 for details of the manner in which Shortfall Options will be allocated.

A single cheque should be used for the application money for your Entitlement and the number of Shortfall Options you wish to apply for as stated on the Application Form.

Surplus application moneys will be returned without interest to Applicants as soon as practicable following the issue of all Shortfall Options.

7.4 To allow all or part of your Entitlement to lapse

If you are an Expired Optionholder and do not wish to accept all (or part) of your Entitlement, you are not obliged to do anything.

If you take no action, your Entitlement will lapse. You will receive no benefit or New Options and your Entitlement will become Shortfall Options.

If you wish to receive a benefit, you must take action to accept your Entitlement in accordance with the instructions above and on the accompanying Application Form.

7.5 Payment methods

Cheque, bank draft or money order

The completed Application Form must be accompanied by a cheque, bank draft or money order made payable to 'Krakatoa Resources Limited' and crossed 'Not Negotiable' for the appropriate application money in Australian dollars calculated at \$0.01 per New Option accepted. Your cheque, bank draft or money order must be paid in Australian currency and be drawn on an Australian branch of an Australian financial institution. The Company will present the cheque or bank draft on or around the day of receipt of the Application Form. You must ensure that your cheque account has sufficient funds to cover your payment, as your cheque will be presented for payment on receipt. If your bank dishonours your cheque your application will be rejected. Dishonoured cheques will not be represented.

If the amount of your cheque(s), bank draft(s) or money order(s) for application money (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is insufficient to pay for the number of New Options you have applied for in your Application Form, you may be taken to have applied for such lower number of New Options as your cleared application money will pay for (and to have specified that number of New Options in your Application Form) or your Application may be rejected.

The Application Form must be received at the following addresses by no later than 5pm AEDT (2pm WST) on the Closing Date:

By Post To:

Computershare Investor Services Pty Limited
GPO Box 505
Melbourne Victoria 3001

BPAY®

Alternatively, if you are paying by BPAY, refer to your personalised instructions on your Application Form. Expired Optionholders who wish to pay by BPAY® must ensure that payment is received by no later than 5pm AEDT (2pm WST) on the Closing Date.

You should be aware that your own financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment. It is your responsibility to ensure that funds submitted through BPAY are received by 5pm AEDT (2pm WST) on the Closing Date.

If you have more than one shareholding and consequently receive more than one Application Form, when taking up your Entitlement in respect of one of those shareholdings only use the Customer Reference Number specific to that shareholding as set out in the applicable Application Form. Do not use the same

Customer Reference Number for more than one of your shareholdings. This can result in your application moneys being applied to your Entitlement in respect of only one of your shareholdings (with the result that any application in respect of your remaining shareholdings will not be recognised as valid).

The Company shall not be responsible for any postal or delivery delays or delay in the receipt of the BPAY payment.

7.6 Application Form is binding

Receipt of a completed and lodged Application Form together with a cheque, bank draft or money order for the application moneys, or by making a payment in respect of an Application by BPay®, constitutes a binding offer to acquire New Options on the terms and conditions set out in this Prospectus and, once lodged, cannot be withdrawn.

By completing and returning your Application Form with the requisite application monies, or by making a payment in respect of an Application by BPay®, you will be deemed to have represented that you are an Expired Optionholder. In addition, you will also be deemed to have represented and warranted on behalf of yourself or each person on whose account you are acting that the law in your place of residence and/or where you have been given the Prospectus, does not prohibit you from being given the Prospectus and that you:

- (a) agree to be bound by the terms of the Offer;
- (b) declare that all details and statements in the Application Form are complete and accurate;
- (c) declare that you are over 18 years of age and have full legal capacity and power to perform all your rights and obligations under the Application Form;
- (d) authorise the Company and its respective officers or agents, to do anything on your behalf necessary for the New Options to be issued to you, including to act on instructions of the Company's share registry upon using the contact details set out in the Application Form;
- (e) declare that you are an Expired Optionholder and you are not in the United States or a US Person, or acting for the account or benefit of a US Person;
- (f) acknowledge that the information contained in, or accompanying, the Prospectus is not investment or financial product advice or a recommendation that New Options are suitable for you given your investment objectives, financial situation or particular needs; and
- (g) acknowledge that the New Options have not, and will not be, registered under the securities laws in any other jurisdictions outside Australia and New Zealand and accordingly, the New Options may not be offered, sold or otherwise transferred except in accordance with an available exemption

from, or in a transaction not subject to, the registration requirements of applicable securities laws in particular the US Securities Act.

The Application Form does not need to be signed to be a valid application. An Application will be deemed to have been accepted by the Company upon issue of the New Options.

If the Application Form is not completed correctly or if the accompanying payment of the application moneys is for the wrong amount, it may still be treated as a valid application for New Options. The Directors' decision whether to treat an acceptance as valid and how to construe, amend or complete the Application Form is final. However, an Applicant will not be treated as having applied for more New Options than is indicated by the amount of the cheque for the application moneys.

8 DETAILS OF THE OFFER

8.1 Options offered for subscription

By this Prospectus the Company, subject to Shareholder approval, offers up to 23,063,002 New Options to Expired Optionholders on the basis of one New Option exercisable at \$0.20 on or before 31 March 2017 for each Expired Option held on 30 June 2015 at a price of \$0.01.

The Offer will raise approximately \$230,630 before issue costs.

The Offer is only open to Expired Optionholders, being holders of Expired Options.

Details of how to apply for New Options are set out at section 7.

A Share acquired through the exercise of any New Options issued under this Prospectus, will rank equally with existing Shares. The rights and liabilities of the New Options and the underlying Shares offered under this Prospectus are summarised in section 9.

8.2 Entitlement to Offer

The Offer is made to Expired Optionholders who were the registered holder of Expired Options as at 5pm (WST) on the Expiry Date.

8.3 Minimum subscription and other conditions

The Offer is not subject to a minimum subscription.

The Offer is subject to Shareholder approval, to be sought at a meeting of Shareholders to be held on 23 October 2015. Any application moneys received will, in the event Shareholders do not approve the Offer, be returned to applicants without interest.

8.4 Shortfall Options

Any Entitlements not taken up may become available as Shortfall Options. The Directors reserve the right to, under this Prospectus, offer for issue Shortfall Options at their discretion within 3 months after the Meeting, including to those Expired Optionholders who apply for Shortfall Options in addition to their Entitlement.

Expired Optionholders may, in addition to their Entitlement, apply for additional Shortfall Options regardless of the size of their previous holding of Expired Options. It is possible that there may be few or no Shortfall Options available for issue, depending on the level of take up of Entitlements by Expired Optionholders. There is also no guarantee that in the event Shortfall Options are available for issue, they will be allocated to all or any of the Expired Optionholders who have applied for them.

The Company reserves the right to scale back any applications for Shortfall Options in its absolute discretion and it is an express term of the Offer that applicants for Shortfall Options will be bound to accept a lesser number of Shortfall Options allocated to them than applied for. If a lesser number is allocated to them, excess application money will be refunded without interest as soon as practicable after all Shortfall Options have been issued.

8.5 Overseas applicants

This offer does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This document is not for publication or distribution, directly or indirectly, in or into the United States of America (including its territories and possessions, any state of the US and the District of Columbia). This document is not an offer of securities for sale into the United States or to, or for the account or benefit of, US Persons. The securities referred to herein have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons. No public offering of securities is being made in the United States.

No action has been taken to permit the offer of New Options under this Prospectus in any jurisdiction other than Australia.

Persons resident in Australia who held Expired Options on behalf of persons who are resident overseas are responsible for ensuring that subscribing for New Options under the Offer does not breach the regulations in the relevant overseas jurisdiction. Return of a duly completed Application Form will be taken by the Company to constitute a representation that there has been no breach of those regulations.

8.6 Beneficial holders, nominees, trustees and custodians

Nominees and custodians that held Expired Options should note that the Offer is available only to Expired Optionholders. The Company is not required to determine whether or not any registered holder is acting as a nominee or the identity or residence of any beneficial owners of securities. If any nominee or custodian is acting on behalf of a foreign person, that holder, in dealing with its beneficiary, will need to assess whether indirect participation by the beneficiary in the Offer is compatible with applicable foreign laws.

8.7 Issue of New Options and application money

New Options will be issued only after all application money has been received and ASX has granted permission for the New Options to be quoted. It is expected that New Options will be issued on 3 November 2015.

All application moneys will be deposited into a separate bank account of the Company and held in trust for Applicants until the New Options are issued or application moneys returned. Any interest that accrues will be retained by the Company and will not be paid to Applicants.

8.8 Quotation

The Company will apply to ASX within 7 days after the date of this Prospectus for quotation of the New Options offered by this Prospectus on ASX. If ASX does not grant permission for the quotation of the New Options offered under this Prospectus within 3 months after the date of this Prospectus, or such longer period as modified by ASIC, none of the New Options offered by this Prospectus will be allotted or issued. In these circumstances, all Applications will be dealt with in accordance with the Corporations Act including the return of all application moneys without interest.

A decision by ASX to grant official quotation of the New Options is not to be taken in any way as an indication of ASX's view as to the merits of the Company or of the New Options.

Quotation, if granted, of the New Options offered by this Prospectus will commence as soon as practicable after statements of holdings of the New Options are dispatched.

8.9 Market price of Shares on ASX

The highest and lowest market sale price of the Shares during the 3 months immediately preceding the lodgment of this Prospectus with the ASIC and the last market sale price on the date before the lodgment date of this Prospectus are set out below.

	3 month high	3 month low	Last market sale price
Price	\$0.21	\$0.12	\$0.15
Date	25 June 2015	2 July 2015	24 September 2015

8.10 CHESS

The Company participates in the Clearing House Electronic Subregister System (CHESS). CHESS is operated by ASX Settlement Pty Ltd (ASPL), a wholly owned subsidiary of ASX.

Under CHESS, the Company does not issue certificates to investors. Instead, security holders will receive a statement of their holdings in the Company,

including New Options issued under this Prospectus. If an investor is broker sponsored, ASPL will send a CHESS statement.

The CHESS statement will set out the number of New Options issued under the Prospectus, provide details of your holder identification number and give the participation identification number of the sponsor.

If you are registered on the issuer sponsored sub register, your statement will be dispatched by the Company's share registrar and will contain the number of New Shares issued to you under the Prospectus and your security holder reference number.

A CHESS statement or issuer sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders may request a statement at any other time, however, a charge may be made for additional statements.

8.11 Taxation and duty implications

The Directors do not consider that it is appropriate to give Shareholders advice regarding the taxation consequences of the Company conducting the Offer or Expired Optionholders applying for New Options under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation positions of Expired Optionholders. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Expired Optionholders that participate in the Offer. Expired Optionholders should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Offer.

No brokerage or stamp duty is payable by Applicants in respect of Applications for New Options under this Prospectus.

8.12 Privacy

The Company collects information about each Applicant provided on an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related body corporates, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

The Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a Shareholder. Information contained in the

Company's register is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application. An Applicant has the right to gain access to the information that the Company holds about that person subject to certain exceptions under law. A fee may be charged for access. Such requests must be made in writing to the Company's registered office.

8.13 Enquiries

Any queries regarding the Offer should be directed to David Palumbo, Company Secretary on 08 9481 0389.

Any queries regarding the Application Form should be directed to the Share Registry on 1300 731 469 (within Australia) or +61 3 9415 4674 (outside Australia), from 8.30am to 5.00pm (WST), Monday to Friday.

You can also contact your broker or professional adviser with any queries in relation to the Offer.

9 RIGHTS AND LIABILITIES ATTACHING TO SHARES AND NEW OPTIONS

Full details of the rights and liabilities attaching to Shares and New Options in the Company are:

- detailed in the Constitution, a copy of which can be inspected, free of charge, at the registered office of the Company during normal business hours; and
- in certain circumstances, regulated by the Corporations Act, the Listing Rules and the general law.

The following is a summary of the more significant rights and liabilities attaching to the Shares and New Options. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

9.1 Rights attaching to Shares

(a) Voting rights

Subject to any rights or restrictions attached to any class of shares, whether by their issue, the Constitution, the Listing Rules or the Corporations Act, at a general meeting each Shareholder present in person or by proxy, company representative or attorney, is entitled to one vote on a show of hands. Upon a poll, every Shareholder present in person or by proxy, company representative or attorney, is entitled to one vote for each Share that the Shareholder holds.

(b) General meetings

Each Shareholder is entitled to receive notice of and to be present, to vote and to speak at a general meeting of the Company. Further, each Shareholder is entitled to receive all notices, accounts and other documents required to be furnished to Shareholders under the constitution of the Company, the Listing Rules or the Corporations Act.

(c) Dividend rights

The Company may in general meeting declare a dividend which shall not exceed the amount recommended by Directors. The Company does not expect to pay dividends in the short to medium term.

(d) Transfer of Shares

Subject to the constitution of the Company, the Corporations Act, the ASX Settlement Operating Rules and the Listing Rules, Shares are freely transferable. Shares may be transferred as set out in the Constitution, including by way of a market transfer. The Company may decline to register a transfer (other than a market transfer) where permitted by law, the Listing Rules or the ASX Settlement Operating Rules.

(e) Changes in capital

Subject to the Corporations Act, the constitution of the Company and the Listing Rules, the Directors may consolidate, or divide the Shares, allot, issue or otherwise dispose of new Shares on such terms and conditions as they determine.

(f) Variation of rights

The Company may only modify or vary the rights attaching to any class of Shares with the consent in writing of three quarters of the issued shares of that class or by a special resolution of the Company passed at a meeting of the holders of the issued Shares of that class.

(g) Rights on winding up

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, any shares classified as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

(h) Election of Directors

There must be a minimum of 3 but not more than 10 Directors. At every annual general meeting one third of the Directors (rounded to the nearest whole number) must retire from office. If the Company has less than 3 Directors, one Director must retire from office together with any Director who would have held office for more than 3 years if that Director remains in office until the next general meeting. These retirement rules do not apply to certain appointments including the managing director.

(i) Indemnities

To the extent permitted by law the Company must indemnify every officer, auditor or agent of the Company out of the property of the Company against any liability incurred by him or her in their capacity as officer, auditor or agent of the Company or any related corporation in respect of any act or

omission whatsoever and howsoever occurring or in defending any proceeding, whether civil or criminal.

(j) Shareholder liability

The New Options to be issued under the Prospectus entitle the holder to a fully paid Share. The right to exercise a New Option to obtain a Share will be forfeited upon expiry of the New Options.

(k) Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. At least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

(l) Listing Rules

If the Company is admitted to trading on the Official List, then despite anything in the Constitution, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision and it does not contain such a provision, the Constitution is deemed to contain that provision. If the Listing Rules require the Constitution not to contain a provision and it contains such a provision, the Constitution is deemed not to contain that provision. If a provision of the Constitution is inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

9.2 Rights attaching to New Options

The New Options are granted on the following terms and conditions:

- (a) Each New Option entitles the holder to acquire one Share in the Company.
- (b) The New Options may be exercised at any time on or before 5.00pm (WST) on 31 March 2017. Each New Option may be exercised by forwarding to the Company at its principal office the exercise notice, duly completed, together with payment of the sum of 20 cents (\$0.20) per New Option exercised. The New Options will lapse at 5.00pm (WST) on 31 March 2017.
- (c) The New Options may be transferred by an instrument (duly stamped where necessary) in the form commonly used for transfer of New Options at any time until 5.00pm (WST) on 31 March 2017, being the date the New Options expire. This right is subject to any restrictions on the transfer of a New Option that may be imposed by ASX.

- (d) New Optionholders can only participate in new issues of securities provided they have first exercised their New Options in which case the New Optionholders shall be afforded the period of at least four (4) business days prior to the record date (to determine entitlements to the issue) to exercise the New Options.
- (e) Shares issued on the exercise of New Options will be issued not more than fourteen (14) days after receipt of a properly executed exercise notice and application moneys. Shares allotted pursuant to the exercise of a New Option will rank equally with the then issued Shares of the Company in all respects. Pursuant to the exercise of an Option, the Company will apply to ASX for Quotation of the Shares issued as a result of the exercise, in accordance with the Corporations Act and the Listing Rules.
- (f) In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of the option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital at the time of the reconstruction.
- (g) If there is a bonus issue to shareholders, the number of Shares over which the New Option is exercisable may be increased by the number of Shares which the holder of the New Option would have received if the New Option had been exercised before the record date for the bonus issue.
- (h) In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the Options may be reduced in accordance with Listing Rule 6.22.

10 ADDITIONAL INFORMATION

10.1 Continuous disclosure obligations

The Company is a 'disclosing entity' (as defined in section 111AC of the Corporations Act) for the purposes of section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities. The underlying Shares of the New Options offered under this Prospectus are in the same class of Shares that have been quoted on the Official List during the 12 months prior to the issue of this Prospectus.

This Prospectus is a "transaction specific prospectus" to which the special content rules under section 713 of the Corporations Act apply. That provision allows the issue of a more concise prospectus in relation to an Offer of securities in a class which has been continuously quoted by ASX in the three months prior to the date of the prospectus. In general terms "transaction specific prospectuses" are only required to contain information in relation to the effect of the issue of New Shares on the Company and the rights attaching to the New Options and their underlying Shares. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the period from lodgment of the Company's annual financial statements of the Company for the financial year ended 30 June 2015 to the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the Lodgment Date and the Closing Date:
 - (i) the annual financial statements of the Company for the financial year ended 30 June 2015 being the last financial statements for a financial year, of the Company lodged with the ASIC before the issue of this Prospectus;
 - (ii) any half-year financial report lodged with ASIC by the Company after the lodgment of the annual financial report referred to in 10(c)(i) and before the Lodgment Date; and
 - (iii) any continuous disclosure notices given by the Company after the lodgment of the annual financial report referred to in 10(c)(i) and before the Lodgment Date.

Copies of all documents lodged with the ASIC in relation to the Company can be obtained free of charge from the Company's registered office during normal office hours.

The Company has lodged the following announcements with ASX since its 2015 annual financial report which was lodged with ASX on 22 September 2015:

Date	Description of Announcement
22/09/2015	Notice of General Meeting/Proxy Form
22/09/2015	Appendix 4G

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours or from www.asx.com.au.

10.2 Directors' interests

As at the date of this Prospectus, the Directors have a relevant interest in securities of the Company and remuneration as set out below.

Director	Existing Shares	Expired Option held on the Expiry Date
Colin Locke	86,000	nil
Aryo Bimo	1,000,000	nil
Brian Varndell	nil	nil

Remuneration paid to Directors in the two years prior to the date of this Prospectus ¹		
Director ²	2014	2015
Colin Locke ³	-	-
Aryo Bimo ⁴	\$272,500 ⁵	\$90,000
Brian Varndell	\$18,678	\$32,850

Notes:

1. Inclusive of superannuation and equity based payments.
2. The Executive Director and non-executive Directors are entitled to annual directors' fees of \$90,000 and \$30,000 (plus superannuation) respectively
3. Appointed 6 August 2015.
4. Aryo Bimo is also a director of PT. Geofirst Consulting which has completed exploration services on behalf of the Company. During the 24 months preceding lodgement of this Prospectus with the ASIC, PT. Geofirst Consulting has invoiced approx. \$410,719 in fees to the Company for exploration services rendered.
5. Comprised salary of \$52,500 and non-cash benefits valued at \$220,000 via the grant of 1,000,000 Shares approved by shareholders on 7 March 2014.

The Company has entered into indemnity, insurance and access deeds with each of the Directors (**Deeds**) to the extent permitted by the Corporations Act. Under the Deeds, the Company agrees to indemnify each of the Directors against all loss and liability incurred as an officer of the Company including all liability in defending any relevant proceeding. The Deeds also grant each Director a right of access to certain records of the Company for a period of up to 7 years after the Director ceases to be an officer of the Company.

The Deeds were entered into as part consideration for the Directors agreeing to hold office as directors of the Company.

The Constitution of the Company provides that the Directors may be paid for their services as Directors. Non-executive directors may only be paid a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the non-executive directors and in default of agreement then in equal shares.

The Company also pays premiums to insure all of the Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct whilst acting in the capacity as a Director of the Company other than conduct involving a willful breach of duty in relation to the Company.

Other than as set out above or elsewhere in this Prospectus, no Director or proposed Director holds at the date of this Prospectus, or held at any time during the last 2 years before the date of lodgment of this Prospectus with ASIC, any interest in:

- (a) the formation or promotion of the Company; or
- (b) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Company or the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given:

- (d) to a Director or proposed Director or to any firm which any such Director is a partner, to induce him or her to become, or to qualify as, a Director; or
- (e) for services provided by a Director or proposed Director or to any firm which any such Director is a partner, in connection with the formation or promotion of the Company or the Offer.

10.3 Interests of promoters and named persons

Except as disclosed in this Prospectus, no expert, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, has now, or has had, in the 2 year period ending on the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer.

Kings Park Corporate Lawyers has acted as solicitors to the Offer. In respect of this work, the Company will pay approximately \$5,000 exclusive of GST. Subsequently fees will be paid in accordance with normal hourly rates. Kings Park Corporate Lawyers have received fees for services to the Company in the 2 years prior to the date of this Prospectus of \$2,475 inclusive of GST.

10.4 Consents

Each of the persons referred to in this section:

- (a) has given and has not, before the date of lodgment of this Prospectus with ASIC withdrawn their written consent:
 - (i) to be named in the Prospectus in the form and context which it is named; and

- (ii) where applicable, to the inclusion in this Prospectus of the statement(s) and/or reports (if any) by that person in the form and context in which it appears in this Prospectus;
- (b) has not caused or authorised the issue of this Prospectus;
- (c) has not made any statement in this Prospectus or any statement on which a statement in this Prospectus is based, other than specified below;
- (d) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Prospectus, other than the references to their name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with the consent of that person.

Name	Role
Kings Park Corporate Lawyers	Lawyers
Computershare Investor Services Pty Limited	Share Registry
RSM Bird Cameron Partners	Auditor

10.5 Expenses of the Offer

On the basis that the Offer is fully subscribed, the total expenses of the Offer consists of the following:

Cost	\$
Legal fees	5,000
ASX fees	12,086
ASIC and other expenses	12,914
Total	30,000

These expenses have or will be paid by the Company.

10.6 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings of a material nature and the Directors are not aware of any legal proceedings pending or threatened against the Company.

11 DIRECTORS' RESPONSIBILITY AND CONSENT

Each Director has consented to the lodgment of this Prospectus with the ASIC and has not withdrawn that consent.

Dated: 25 September 2015



.....

Signed for and on behalf of
Krakatoa Resources Limited by
Mr David Palumbo

12 GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

\$, A\$ or Dollars	Australian dollars unless otherwise stated.
AEDT	Australian Eastern Standard Time.
Applicant	a person who submits a valid Application Form pursuant to this Prospectus.
Application	a valid application made on an Application Form to subscribe for New Options pursuant to this Prospectus.
Application Form	the personalised application form attached to this Prospectus.
ASIC	the Australian Securities & Investments Commission.
ASX	ASX Limited ACN 008 624 691 and where the context permits the Australian Securities Exchange operated by ASX Limited.
Board	the board of Directors.
Closing Date	the date set out in section 1.
Company or KTA or Krakatoa	Krakatoa Resources Limited (ABN: 39 155 231 575).
Constitution	the constitution of the Company.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Deeds	the indemnity, insurance and access deeds between the Company and each of the Directors.
Director	a director of the Company.
Entitlement	an Expired Optionholder's entitlement to subscribe for New Options offered by this Prospectus.
Expired Option	an Option in the Company with an exercise price of \$0.20 expired on 30 June 2015.
Expired Optionholder	a person who held Expired Options as at 5pm WST on the Expiry Date.

Expiry Date	30 June 2015.
Listing Rules	the listing rules of the ASX.
Lodgment Date	the date set out in section 1.
Meeting	the general meeting of the Company to be held on 9 October 2015 to approve Resolutions 1 and 2.
New Option	Options issued pursuant to this Prospectus.
Offer	an invitation made in this Prospectus to subscribe for New Options.
Official List	the official list of the ASX.
Option	an option to purchase a Share.
Prospectus	this Prospectus and includes the electronic prospectus.
Resolution 1	the first resolution put to Shareholders at the Meeting pursuant to which Shareholder approval is sought for the Company to issue up to 23,063,002 New Options to Expired Optionholders.
Resolution 2	the second resolution put to Shareholders at the Meeting pursuant to which shareholder approval, subject to Resolution 1, is sought for a Related Party who is an Expired Optionholder to participate in the Offer.
Share	a fully paid ordinary share in the Company.
Share Registry	Computershare Limited (ACN 005 485 825).
Shareholder	the registered holder of Shares in the Company.
Shortfall Options	New Options for which valid Applications have not been received by the Closing Date.
US Person	has the meaning given to that term in Regulation S under the US Securities Act.
US Securities Act	the United States Securities Act of 1933, as amended.
WST	Western Standard Time, Western Australia.

SCHEDULE 1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited 30 June 2015 \$	Unaudited Pro forma 30 June 2015 \$
Current Assets		
Cash and cash equivalents	23,098	574,357
Trade and other receivables	6,698	6,698
Other current assets	1,211	1,211
Total Current Assets	31,007	582,266
Non-Current Assets		
Capitalised tenement acquisition costs	-	-
Total Non-Current Assets	-	-
TOTAL ASSETS	31,007	582,266
Current Liabilities		
Trade and other payables	304,465	304,465
Total Current Liabilities	304,465	304,465
TOTAL LIABILITIES	304,465	304,465
NET ASSETS/(LIABILITIES)	(273,458)	277,801
EQUITY		
Contributed equity	5,009,963	5,360,592
Reserves	168,496	369,126
Accumulated losses	(5,451,917)	(5,451,917)
TOTAL EQUITY	(273,458)	277,801

¹ During July and August 2015, the Company issued a total of 2,486,732 Shares at an issue price of \$0.15 per Share to raise \$350,629 (after costs);

² Assuming the Offer is taken up in full, cash reserves will increase by approximately \$200,630 (after costs);