



Arc Exploration Limited

A.B.N. 48 002 678 640

INTERIM REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Arc Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Arc Exploration Limited and its Controlled Entities
A.B.N. 48 002 678 640

Interim Consolidated Financial Report
For The Half Year Ended 30 June 2017

DIRECTORS' REPORT

The directors present their report together with the financial statements of the consolidated entity (the 'Group') consisting of Arc Exploration Limited (the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2017.

DIRECTORS

The following persons were directors of the Company during the half-year and until the date of this report. Directors were in office for this entire period unless otherwise stated.

Name	Period of Directorship
Non-Executive	
Mr Simon O'Loughlin (Chairman of the Board)	Director since 11 October 2016
Mr Andrew Cooke	Director since 11 October 2016
Mr Robert Willcocks	Director since July 2008
Mr Simon Taylor	Director since 11 October 2016

PRINCIPAL ACTIVITIES

During the period the principal activities of Arc Exploration Limited and its controlled entities were copper-gold exploration in Asia Pacific region concentrating on high impact gold and porphyry copper-gold deposits with operations in Indonesia and Australia. The Australian operations were relinquished during the period.

REVIEW OF OPERATIONS

The Group is exploring for high-value epithermal gold-silver and large-scale porphyry copper-gold deposits along the highly prospective magmatic arcs and related terranes of Indonesia and Australia.

In Indonesia the Group retains an interest in the Trenggalek Exploration IUP tenement which is held by ARX's Indonesian partner, P.T. Sumber Mineral Nusantara. The tenement, covering an area of 29,969 ha or about 300 km², is valid until November 2018. PT Danusa Tambang Nusantara (Danusa), a subsidiary of one of the largest contract miners in Indonesia, is currently managing and funding exploration work at Trenggalek.

In conjunction with Danusa, community and local government consultation continued throughout the tenement area while preparatory work was undertaken in anticipation of a drilling program to be undertaken at Singgahan where porphyry style mineralisation has previously been exposed at surface. Further community consultation, mapping and soil sampling were also conducted in preparation for an Induced Polarisation program at Jerambah.

The Group relinquished its remaining Australian project at Mount Garnet as part of its continuing effort to conserve cash. No significant field work was undertaken on the Mount Garnet project during the period.

With the withdrawal from the Mount Garnet project the Group commenced the process of seeking to identify new opportunities in the resources sector which have the potential to create shareholder value.

Net Loss After Tax

The net loss after tax for the half-year was \$573,419 (2016: loss \$336,166).

Financial

During the half year no dividends have been declared or paid.

Arc Exploration Limited and its Controlled Entities
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Interim Consolidated Financial Report
For The Half Year Ended 30 June 2017

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on Page 4 and forms part of the Directors' report for the half-year ended 30 June 2017.

Signed at Sydney this 7 September 2017 in accordance with a resolution of the directors.



Simon O'Loughlin
Non-Executive Chairman



Andrew Cooke
Non-Executive Director

To the Board of Directors of Arc Exploration Limited

Auditor's Independence Declaration under section 307C of the Corporations Act 2001 to the Directors of Arc Exploration Limited

As lead audit partner for the review of the financial statements of Arc Exploration Limited for the half year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

Yours sincerely



Nexia Sydney Partnership



Joseph Santangelo

Partner

Sydney

Dated: 7 September 2017

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Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2017

	30 June 2017 \$	Half-year 30 June 2016 \$
Continuing operations		
Other income	642	90,474
Employee expenses	(114,172)	(161,586)
Depreciation expenses	(260)	(1,227)
Management, administrative and occupancy expenses	(191,372)	(239,345)
Exploration expenditure	(19,930)	(36,309)
Exploration asset impairment	8 (246,680)	-
Unrealised foreign exchange gain/(loss)	(10,040)	5,148
Loss before financing costs	<u>(581,812)</u>	<u>(342,845)</u>
Interest income	8,393	6,679
Loss before income tax	<u>(573,419)</u>	<u>(336,166)</u>
Income tax (expense)/benefit	-	-
Loss after tax	<u>(573,419)</u>	<u>(336,166)</u>
Other comprehensive income		
Items that will not be reclassified to profit and loss	-	-
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences for foreign operations	(3,260)	14,367
Other comprehensive income for the period, net of tax	<u>(3,260)</u>	<u>14,367</u>
Total comprehensive income for the period	<u>(576,679)</u>	<u>(321,799)</u>
Earnings per share		
Basic and diluted earnings/(loss) per share (cents per share)	(13.65)	(13.14)

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	30 June 2017 \$	31 December 2016 \$
CURRENT ASSETS			
Cash and cash equivalents		468,449	800,131
Receivables		11,227	8,527
Other		97,637	113,424
TOTAL CURRENT ASSETS		577,313	922,082
NON-CURRENT ASSETS			
Receivables		178,209	187,866
Plant and equipment		173	461
Exploration and evaluation expenditure	8	5,158,046	5,404,726
TOTAL NON-CURRENT ASSETS		5,336,428	5,593,053
TOTAL ASSETS		5,913,741	6,515,135
CURRENT LIABILITIES			
Trade and other payables		117,965	138,005
Other		37,255	37,255
TOTAL CURRENT LIABILITIES		155,220	175,260
NON-CURRENT LIABILITIES			
Provisions		54,754	59,429
TOTAL NON-CURRENT LIABILITIES		54,754	59,429
TOTAL LIABILITIES		209,974	234,689
NET ASSETS		5,703,767	6,280,446
EQUITY			
Contributed equity	9	150,443,876	150,443,876
Reserves		1,911,893	1,915,153
Accumulated losses		(146,652,002)	(146,078,583)
Total equity attributable to equity holders of the Company		5,703,767	6,280,446
TOTAL EQUITY		5,703,767	6,280,446

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2017

	Notes	Half-year
	30 June 2017 \$	30 June 2016 \$
Cash flows from operating activities		
Consulting fees	-	-
Payments to suppliers and employees	(317,227)	(301,900)
Exploration and evaluation expenditure	(17,494)	(38,125)
Interest received	8,393	6,679
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>(326,328)</u>	<u>(333,346)</u>
Cash flows from investing activities		
Receipts for office furniture, equipment and vehicles	-	330
Payments for Security Deposits	-	-
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>-</u>	<u>330</u>
Cash flows from financing activities		
Proceed from capital raising	-	347,546
Payments for capital raisings	-	(110,000)
	<u> </u>	<u> </u>
Net cash from financing activities	<u>-</u>	<u>237,546</u>
Net increase/(decrease) in cash and cash equivalents	(326,328)	(95,470)
Cash and cash equivalents at beginning of the period	800,131	679,773
Effects of exchange rate changes on balances of cash held in foreign currencies	(5,354)	(6,708)
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the period	<u>468,449</u>	<u>577,595</u>

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

1 Reporting Entity

Arc Exploration Limited (the "Company") is a publicly listed company that is incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the period ended 30 June 2017 comprise the Company and its controlled entities (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2016 is available upon request from the Company's registered office at Level 8, 65 York Street, Sydney NSW 2000, or at www.arcexploration.com.au.

2 Statement of Compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2016.

The consolidated interim financial statements were approved by the Board of Directors on 7 September 2017.

3 Significant accounting policies

Except as described below the accounting policies applied by the Group in this consolidated interim report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2016.

4 Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2016.

5 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 31 December 2016.

6 Going concern

The financial report is prepared on a going concern basis which reflects the Directors' expectation that the Group will be able to realise its assets and settle its obligations in the normal course of business. In making this assessment the Directors have prepared cash flows forecasts until 30 September 2018, taking the following into consideration:

- The Group has previously entered into formal documentation with PT Danusa Tambang Nusantara (Danusa) in Indonesia in respect of the Trenggalek project and accordingly it is anticipated that Danusa will continue to fund all holding costs and any ongoing exploration during the course of 2017 and 2018 in order to earn an interest in the Trenggalek project;
- The Group, has withdrawn from the farm-in arrangements that it held over the Mount Garnet project in Queensland;
- The Group has taken a number of steps to reduce its corporate overhead costs;
- The Group intends to raise additional new capital in the year ended 31 December 2017, subject to suitable market conditions. These funds will be applied to meet the Group's cash burn rate and committed obligations.

If additional funding cannot be obtained, there is a material uncertainty whether the Group will be able to continue as a going concern. However, it should be noted that if additional funding is not obtained, the Company would take further steps to reduce its operating expenditures and would not incur liabilities that it was not in a position to pay from available cash resources.

If the Group is unable to continue as a going concern in the future, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

7 Segment reporting

The Groups operating segment is exploration activities in Indonesia and Australia. The Managing Director only reviews the expenses, profit or loss, assets and liabilities relating to exploration activities separately. The disclosures set out below have been prepared on this basis.

Segment assets and liabilities	June 2017	December 2016
Information about operating segments	\$	\$
Assets		
Australia exploration	-	246,680
Indonesia exploration	5,158,046	5,158,046
Corporate	755,695	1,110,409
	<u>5,913,741</u>	<u>6,515,135</u>
Liabilities		
Australia exploration	-	-
Indonesia exploration	-	-
Corporate	209,974	234,689
	<u>209,974</u>	<u>234,689</u>
Equity		
	<u>5,703,767</u>	<u>6,280,446</u>

The segment assets and liabilities as reported to the Managing Director are as follows:

2017 - June	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income	-	-	642	642
Employee expenses	-	-	(114,172)	(114,172)
Depreciation expenses	-	-	(260)	(260)
Other expenses	-	-	(191,372)	(191,372)
Exploration expenses	(4,060)	(15,870)	-	(19,930)
Exploration asset impairment	(246,680)	-	-	(246,680)
Foreign exchange losses	-	-	(10,040)	(10,040)
Loss before financing costs	<u>(250,740)</u>	<u>(15,870)</u>	<u>(315,202)</u>	<u>(581,812)</u>
Interest income	-	-	8,393	8,393
Loss before income tax	<u>(250,740)</u>	<u>(15,870)</u>	<u>(306,809)</u>	<u>(573,419)</u>
Income tax (expense)/benefit	-	-	-	-
Loss after tax	<u>(250,740)</u>	<u>(15,870)</u>	<u>(306,809)</u>	<u>(573,419)</u>

2016 - June	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income	-	-	90,474	90,474
Employee expenses	-	-	(161,586)	(161,586)
Depreciation expenses	-	-	(1,227)	(1,227)
Other expenses	-	-	(239,345)	(239,345)
Exploration expenses	(16,578)	(19,731)	-	(36,309)
Foreign exchange losses	-	-	5,148	5,148
Loss before financing costs	<u>(16,578)</u>	<u>(19,731)</u>	<u>(306,536)</u>	<u>(342,845)</u>
Interest income	-	-	6,679	6,679
Loss before income tax	<u>(16,578)</u>	<u>(19,731)</u>	<u>(299,857)</u>	<u>(336,166)</u>
Income tax (expense)/benefit	-	-	-	-
Loss after tax	<u>(16,578)</u>	<u>(19,731)</u>	<u>(299,857)</u>	<u>(336,166)</u>

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

8 Exploration and evaluation expenditure	June 2017 \$	December 2016 \$
Opening balance	5,404,726	5,338,653
Additions	-	66,073
Impairment	(246,680)	-
	<u><u>5,158,046</u></u>	<u><u>5,404,726</u></u>

The Group relinquished its remaining Australian project at Mount Garnet as part of its continuing effort to conserve cash and has written off the capitalised asset of \$246,680. No significant field work was undertaken on the Mount Garnet project during the period.

9 Contributed Equity

	30-06-17 Number	31-12-16 Number	30-06-17 \$	31-12-16 \$
Fully paid ordinary shares				
At the beginning of the period	4,200,244	1,192,944,578	150,443,876	149,380,398
Shares issued to settle part of Directors Fees / Salary (i)	-	219,633,332	-	219,633
Issue of shares under share purchase plan		1,373,773		917,546
Security consolidation	-	(1,409,751,439)		
Shares issued under share placement @ \$0.82 per share	-		-	
Transaction costs relating to share issues				(73,701)
	<u><u>4,200,244</u></u>	<u><u>4,200,244</u></u>	<u><u>150,443,876</u></u>	<u><u>150,443,876</u></u>

10 Subsequent events

The Group is seeking to identify new asset and transaction opportunities that may be appropriate to build on the group's current level of activities and enhance its future prospects. At the date of this report the Group has not committed to any such opportunity.

With the exception of the matters referred to above, no other matter has arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

DIRECTORS' DECLARATION

In the opinion of the Directors of Arc Exploration Limited ("the Company")

1. The financial statements and notes set out in this report are in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the six month period ended on that date; and

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

2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated 7 September 2017



Simon O'Loughlin
Non-Executive Chairman



Andrew Cooke
Non-Executive Director

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ARC EXPLORATION LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arc Exploration Limited (the 'Company') and consolidated entities (the 'Group'), which comprises the Consolidated Statement of Financial Position as at 30 June 2017, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2017 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of ARC Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
- b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

Without modifying our conclusion, we draw your attention to Note 6 'Going concern' of the financial report. The Group has incurred net losses after income tax of \$573,419 for the period ended 30 June 2017 (30 June 2016: \$336,166) and experienced net cash outflows from operating, investing and financing activities of \$326,328 (30 June 2016: \$95,470) for the period ended 30 June 2017.

The financial report had been prepared on a going concern basis which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary courses of business.

In note 6, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As discussed in that note, if additional funding cannot be obtained, there are material uncertainties that may cast significant doubt on the Company and the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.



Nexia Sydney Partnership



Joseph Santangelo

Partner

Sydney

Dated: 7 September 2017