



Arc Exploration Limited

A.B.N. 48 002 678 640

ANNUAL CONSOLIDATED FINANCIAL REPORT

FOR YEAR ENDED 31 DECEMBER 2015

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Arc Exploration Limited and its Controlled Entities
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Annual Consolidated Financial Report
For Year Ended 31 December 2015

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 year ended 31 December 2015.

DIRECTORS

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

Name	Period of Directorship
Executive	
Dr Jeffrey Malaihollo (Managing Director, CEO)	Director since October 2013
Non-Executive	
Mr Bruce Watson (Chairman of the Board and the Audit Committee)	Appointed Chairman (Board and Audit Committee) 2005 Director 1998-2001, Director since 2005
Mr John Carlile	Retired as Managing Director remained as Non-Executive Director October 2013, appointed Managing Director January 2008 Director since 1998
Mr Liem Max Ramajaya (Mr Max Ramajaya)	Appointed Director 1 September 2014
Mr Robert Willcocks	Director since July 2008

PRINCIPAL ACTIVITIES

During the year 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 existing operations in both Indonesia and Australia. Primarily the Group sought to attract parties who might farm-in to it various projects by funding expenditure on those projects.

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. There was minimal exploration activity undertaken during the year to conserve cash reserves whilst the Company sought additional funding and potential joint venture partnerships for the Indonesian and Australian projects.

INDONESIA

Trenggalek Project, East Java

The Trenggalek Exploration IUP tenement covers about 300 km² in the Southern Mountains of East Java.

During the year formal documentation was signed with PT Danusa Tambang Nusantara (Danusa) who can elect to fund expenditure of up to US\$1,500,000 over the initial stage of exploration. Danusa will manage the exploration program and commenced a diamond drilling program in February 2016 to further test the large gold-bearing vein systems previously identified at Sentul and Buluroto in the southeast portion of the licence area.

Preliminary bottle-roll cyanide-gold leaching test work was completed on drill core material resampled from the Sentul Prospect at the PT Intertek Utama Services laboratory in Jakarta during the year.

AUSTRALIA

The Group was farming-in to the Junee and Oberon projects in New South Wales and retains its option to farm-in to the Mount Garnet Project in Northern Queensland. The Junee and Oberon projects in New South Wales are owned by New South Resources Limited ("NSR"), and Mount Garnet Project in Queensland is owned by Snowmist Pty Ltd ("Snowmist"). The Group was entitled to earn up to an 80% interest in the Junee and Oberon Projects and remains entitled to earn an 80% interest in the Mount Garnet Project.

Junee and Oberon

There was no significant field work completed on the Junee and Oberon projects during the year whilst the Company sought additional funding and potential joint venture partners. After the year end the Group withdrew from the Junee and Oberon projects, effective from 13th April 2016, refer note matters subsequent to the end of the financial year.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Mount Garnet

The Mount Garnet Project, located near the major regional centre of Cairns, comprises three Mining Leases (ML's 4363, 4390, 20018) covering about 150 hectares that are held by Snowmist Pty Ltd, and an exploration tenement (EPM 25343) covering about 17 km² that is held directly by the Group.

ARX exercised its option to farm-in to the mining leases held by Snowmist during the year. ARX may earn 51% of the project by spending \$500,000 by August 2017, after which it can increase its interest to 80% by spending an additional \$580,000 by August 2018.

Work during the year was focused on Stockies Prospect located within EPM 25343. Surface rock geochemical sampling was conducted over a large base metal anomaly highlighted by earlier soil sampling which indicated the occurrence of a high-level granite-related mineralisation system at Stockies which has never been drill tested.

Consolidated Results

The loss after tax for the year was \$1,292,920 (2014: loss of \$1,616,409).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this Review of Operations in this report or the consolidated financial statements. The Group identified a need to conserve its cash resources given the cash strained environment which prevails in the junior resource sector.

MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

As part of its ongoing drive to reduce cash operating costs the Company issued 32,458,332 shares at a deemed issue price of 0.18 cents per share in February 2016 for services rendered by officers and employees of the Company (excluding Directors) in the quarter ended 31 December 2015.

The Group identified a need to conserve its cash resources given the cash strained environment which prevails in the junior resource sector. In these circumstances the Group elected to exercise its right under its Farm-In Agreements with New South Resources Pty Ltd to withdraw from the Junee and Oberon projects, located in New South Wales, effective from 13th April 2016.

The Group received confirmation on 22 March 2016 that the term of the Trenggalek IUP (tenement) had been extended to 2 November 2018.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year 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, in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Group include ongoing exploration by the Group's partner at Trenggalek in Indonesia and ongoing efforts to attract a joint venture partner into the Mount Garnet project in Queensland, Australia where the Group has a farm-in right to earn up to 80%.

DIVIDENDS

No dividend has been declared, or paid, by the Company since the end of the previous financial year.

STATEMENT OF INTERESTS OF DIRECTORS

As at the date of this report, the interests of the Directors and their associates in the issued shares and options of the Company were:

Directors	Shares	Director & Employee Options
Jeffrey Malaihollo	29,272,284	16,215,435
Bruce Watson	20,067,090	7,460,145
John Carlile	33,071,553	9,768,430
Max Ramajaya	-	-
Robert Willcocks	5,125,000	4,973,430
	<u>87,535,927</u>	<u>38,417,440</u>

DIRECTORS' REPORT (CONTINUED)

INDEMNITIES AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

In accordance with the Constitution of the Company, to the extent permitted by law, the Company indemnifies every director, officer and employee of the Company and each officer of a related body Corporate of the Company against any liability incurred by that person:

- (a) in his or her capacity as a director, officer or employee of the Company; and
- (b) to a person other than the Company or a related body corporate of the Company.

Arc Exploration Limited during the financial year, paid an insurance premium in respect of an insurance policy for the benefit the Directors of the Company, Company Secretaries, executive officers and employees of the Company and any subsidiary bodies corporate as defined in the insurance policy, against a liability incurred as such a director, company secretary, executive officer or employee to the extent permitted by the *Corporations Act 2001*.

In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

DETAILS OF DIRECTORS (as at the date of this report)

Dr Jeffrey Malaihollo - Dr Jeffrey Malaihollo is originally from Indonesia with a PhD in Geological Sciences from the University of London researching the tectonics of eastern Indonesia. Dr Malaihollo has been involved in the exploration and mining industry for over 20 years working with both major and junior exploration companies in Indonesia, Australia and elsewhere. He was the Managing Director and a founder of AIM-ASX listed GGG Resources Plc, which in 2010 acquired a four hundred thousand ounce gold resource in Western Australia and within less than three years, increased this to over three million ounces. Prior to this he was the Head of Research at a specialist mining finance house in London.

Dr Malaihollo was appointed as Managing Director of the Company on 1 October 2013.

Mr Bruce Watson - Mr Watson is the Managing Director of Cubic Corporate Advisory Pty. Limited and was previously Head, Corporate Advisory & Equities at Westpac Institutional Bank and prior to that a founding director of Grant Samuel & Associates Pty. Limited. Mr. Watson has a diverse and comprehensive background across the Australian banking and investment community and a high level of technical capability within the core areas of legal and financial structuring. Mr. Watson was also formerly a director of Arc Exploration Limited from 1998 until April 2001.

Mr Watson was appointed as a Director of the Company on 3 April 2005 and as Non-Executive Chairman on 23 June 2005. Mr Watson is also a member of the Audit Committee. He holds degrees in Commerce and Law and a Master of Arts in History.

Mr John Carlile - Mr Carlile is a geologist with a BSc. (Hons) degree in Geology from the University of Reading and a MSc. (DIC) in Mineral Exploration from the Royal School of Mines, University of London. Mr. Carlile is a Fellow of The Aus.I.M.M. and Geo.Soc.Lond. He has over 30 years experience in the mining industry, primarily in gold exploration, and has previously held senior positions in the Asian region with major mining companies including BHP and Newcrest Mining Limited.

Mr Carlile was appointed as a Director of the Company on 3 March, 1998 and was the Managing Director and Chief Executive Officer of the Company until 17 November 2002. From 18 November 2002 until 13 January 2008 Mr. Carlile was a Non-Executive Director. From 14 January 2008 to 30 September 2013 Mr. Carlile again served as the Managing Director of the Company. On 1 October 2013 he retired from the position of Managing Director and now remains as a member of the Board as a Non-Executive Director. Mr. Carlile was formerly a Director of Castlemaine Goldfields Limited and formerly Chairman of PEARL Energy Limited, a Singapore company focused on oil and gas exploration and production in South-East Asia.

Mr Max Ramajaya - Mr Ramajaya is the Head of Business for Katingan Timber Group responsible for the group's operation and performance in the forestry, agro forest plantation and related downstream industries. He is a graduate of the Indonesian Business and Information Institute (IBII, now the Kwik Kian Gie School of Business).

Mr Ramajaya was appointed as a Non-Executive Director of the Company on 1 September 2014.

Mr Robert Willcocks - Mr Willcocks is a former senior partner with King and Wood Mallesons (formerly Mallesons Stephen Jaques), a major Australian law firm and is now a corporate adviser. Mr. Willcocks has represented clients in the energy and mining sectors for more than 30 years. He has a Bachelor of Arts and Bachelor of Laws (Australian National University) and Master of Laws (University of Sydney).

Mr Willcocks is and has been a director of a number of listed and unlisted public companies.

Mr Willcocks was appointed as a Non-Executive Director of the Company on 14 July 2008, and is also a member of the Audit Committee.

COMPANY SECRETARY

Mr Andrew J Cooke LLB, FAICS - Mr Cooke has extensive experience in law, corporate finance and as a Company Secretary of listed resource companies. He is responsible for corporate administration together with stock exchange and regulatory compliance.

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DIRECTORS' REPORT (Continued)

DETAILS OF DIRECTORS (as at the date of this report) (continued)

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by current directors in the 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of Directorship
Jeffrey Malaihollo	Nil	
Bruce Watson	Nil	-
John Carlile	Southern Arc Minerals Inc	Non-executive director from April 2015 till present
Max Ramajaya	Nil	-
Robert Willcocks	APAC Resources Limited	Director since July 2007
	Living Cell Technologies Limited	Director since March 2011

REMUNERATION REPORT - AUDITED

a. Principles used to determine the nature and amount of remuneration (audited)

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and executives for the Company and the Group.

The Company's policy in respect of senior executives is to remunerate them on the basis of their job function, taking into account their qualifications and experience. The level of remuneration is determined by the Executive Management in consultation with the Board taking into account the position and responsibilities for which each senior executive is charged.

The Group's remuneration policy is not based on the Group's earnings as the Group to date has no earnings from its exploration activities.

The objective of the Board has been to minimise the number of senior executives it employs to maintain the total remuneration of such executives at a level that is commensurate with the resources of the Group and the level of activity undertaken. During the year to better conserve the cash resources of the Group, senior management agreed to a temporary arrangement whereby remuneration was reduced and paid in the form of shares allotted in the Group. See note b.

From time to time, the Board considers the issue of options to employees and contractors as an additional incentive for them to generate shareholder wealth and for them to participate in the success of the Company. In the past, options have been priced at a premium above market at the time of grant. No Directors have entered into hedging strategies with regard to the options.

Non-Executive Directors

The Chairman (non-executive) is entitled to receive directors fees of \$45,000 per annum. Other non-executive directors are entitled to receive directors fees of \$30,000 per annum. In order to preserve the Group's cash, Directors have elected part payment in shares, subject to shareholder approval. Total remuneration for all non-executive directors was last voted on by shareholders at the 2005 Annual General Meeting and is not to exceed \$250,000 per annum. No additional fees are paid for duties carried out in relation to the Audit Committee. Compulsory superannuation contributions of 9.5% are paid in relation to the directors fees where appropriate for the Australian based non-executive directors.

Under the Employees and Contractors Option Plan of the Group established in 2001, the Board, subject to the Rules of the Plan and shareholder approval, may grant options to non-executive directors.

Share Performance and Shareholder Wealth

	2015	2014	2013	2012	2011
	\$	\$	\$	\$	\$
Profit (loss) attributable to owners of the company	(1,292,920)	(1,616,409)	(1,466,017)	(1,198,304)	(3,245,959)
Dividends paid	-	-	-	-	-
Change in share price	(0.0030)	(0.0030)	0.0020	(0.0100)	(0.0200)
Return on capital employed	-	-	-	-	-

Share performance and shareholder wealth are not used to determine the nature and amount of remuneration as the Board does not consider that these indicators are particularly relevant in the junior resource sector which is generally speculative in nature and where exploration success cannot be assured.

While the Group's main activities relate to early stage exploration the nature and amount of remuneration cannot be related to traditional financial measures or to share price performance and shareholder value. If the Group does in due course have exploration success and prove up an economic resource and ultimately develop an economically viable mining project then it is likely that some component of the remuneration of key management personnel would relate to financial performance measures that would be expected to enhance share performance and shareholder wealth.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

a. Principles used to determine the nature and amount of remuneration (audited) (continued)

Directors' post employment benefits

The Company does not have a retirement benefit scheme for non-executive directors.

Executive directors and other key management personnel

Executive remuneration packages comprise a mix of the following components:

- Fixed remuneration;
- Long term incentives provided by the issuing of options; and
- Post employment benefits.

Post employment benefits are accrued for Indonesian executives in accordance with Indonesian Labour Law No. 13/2003 and are payable upon retirement or termination by the entity.

No short term performance bonuses are payable to executive directors or other key management personnel.

Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and competitive in the market. Fixed remuneration for most executives is comprised of base salary, superannuation contributions, and in some cases with Indonesian-based executives includes other benefits such as housing, medical care and vehicles.

Long term incentives

The Company issues options either pursuant to shareholder approval or in accordance with *Employees and Contractors Option Plan* ("ECOP", "Plan"). The ECOP was established in 2001.

i. Options issued under the Employees and Contractors Option Plan

The ECOP of the Group was established in 2001.

The objective of the Plan is to provide an opportunity for senior executives and contractors to participate as equity owners in the Company and to reward key executives and contractors in a manner which aligns this element of remuneration with the creation of shareholder wealth.

At the discretion of the Board and subject to the rules of the Plan, executives may be granted options under the Plan.

No consideration is payable by any person at the time of the granting of the options pursuant to the Plan. Option holders must pay the full exercise price to the Company at the time that they elect to exercise any options.

The Directors are permitted to specify the exercise price of options granted pursuant to the Plan. In so doing they may specify the exercise price as a fixed amount or as an amount determined by reference to the market price of the shares of the Company. In addition the Directors may specify the period within which options may be exercised, any performance hurdles that must be satisfied and any other requirements that must be satisfied in relation to the exercise of options.

There are no performance hurdles for any share options granted as at 31 December 2015 because the main activities of the Group relate to early stage exploration, the success of which cannot be judged in terms of traditional financial measures. If the Group does in due course have exploration success and prove up an economic resource and ultimately develop an economically viable mining project then it is likely that appropriate performance hurdles would be introduced to apply to any options that may be granted at that time to key management personnel.

Options granted pursuant to the Plan lapse at the end of any expiry date (if one is specified) or when the option holder ceases to be an "Eligible Person" as defined by the Plan.

ii. Options issued pursuant to shareholder approval

The objective of issuing such options is to provide an opportunity for directors and senior executives to participate as equity owners in the Company and to reward them in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Shareholder approval is sought at either the Annual General Meeting or a General Meeting. Such options granted typically have an exercise price which is at a premium to a certain period's volume weighted average price established prior to the relevant meeting. The number of options to individual directors and senior executives, pricing and terms of options, is at the Board's discretion, with these option proposals being subject to shareholder approval.

No consideration is payable by any person at the time of the granting of these options approved by shareholders. Option holders must pay the full exercise price to the Company at the time that they elect to exercise any options.

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DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

a. Principles used to determine the nature and amount of remuneration (audited) (continued)

Service/Employment agreements

Remuneration and other terms of employment for executive directors and senior executives are formalised in service/employment contracts. Each of these agreements provide for participation, when eligible, in the Arc Exploration Limited Employee & Contractors Option Plan ("ECOP"). The initial term of contract is for 2 years with an option to extend.

All contracts with executives may be terminated early by either party with three months notice, subject to termination payments. Upon termination executive directors and senior executives are entitled to payments of salary and statutory entitlements accrued up to and including date of terminations as well as reimbursement of any business related expenses incurred in the course of employment.

The Group has service/employment agreements with fixed remuneration rates based on both market rates and the Group's ongoing financial capacity.

Director	Remuneration *
Jeffrey Malaihollo	\$ 23,000 per month
Executives	
Cahyono Halim	\$ 18,500 per month
Andrew Cooke	\$ 7,500 per month (based on a 2 day week)
Brad Wake	\$ 18,500 per month

* See note b Shares in lieu of Salary and election to waive part of remuneration.

b. Details of remuneration (audited)

Details of the remuneration of each Director of Arc Exploration Limited and each of the other key management personnel (KMP) of the Group are disclosed in accordance with AASB 124 *Related Party Disclosures* and are set out in the following tables.

Name of Executive	Title	Period of Responsibility
Jeffrey Malaihollo	Managing Director, CEO	Full year
Cahyono Halim	Chief Financial Officer	Full year
Andrew Cooke	Company Secretary	Full year
Brad Wake	Exploration Manager	Full year

Remuneration details of Non-Executive Directors

		Directors Fees		Advisory fees	Superannuation	Options	Total
2015	Cash*	Shares in lieu of Salary *	Accrued shares in lieu of Salary *				
Name	\$	\$	\$	\$	\$	\$	\$
Bruce Watson	11,488	3,938	12,699	-	2,644	-	30,769
John Carlile	4,875	2,625	11,250	-	-	-	18,750
Max Ramajaya (a)	-	-	-	-	-	-	-
Robert Willcocks	7,500	-	11,250	-	-	-	18,750
Total	23,863	6,563	35,199	-	2,644	-	68,269

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DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

b. Details of remuneration (audited) (continued)

Remuneration details of Non-Executive Directors (continued)

	Cash	Directors Fees Shares in lieu of Salary	Accrued shares in lieu of Salary	Advisory fees	Superannuation	Options (b)	Total
2014							
Name	\$	\$	\$	\$	\$	\$	\$
Bruce Watson	29,248	7,876	7,876	-	4,163	21,707	70,870
John Carlile	19,500	5,250	5,250	12,500	-	14,472	56,972
Max Ramajaya (c)	-	-	-	-	-	-	-
Robert Willcocks	30,000	-	-	-	-	14,472	44,472
George Tahija (d)	-	-	-	-	-	-	-
Total	78,748	13,126	13,126	12,500	4,163	50,651	172,314

- (a) Mr Ramajaya has waived his entitlement to directors' fees, and no amounts were paid to Mr Ramajaya for the provision of his services during the current or the previous year.
- (b) The value of options granted during the prior year was calculated at grant date using a Black-Scholes option-pricing model.
- (c) Mr Ramajaya was appointed 1 September 2014
- (d) Mr Tahija has waived his entitlement to directors' fees, and no amounts were paid to Mr. Tahija for the provision of his services during the 2014 year.

*** Shares in lieu of Salary and election to waive part of remuneration**

Shares were issued to employees and officers in lieu of salary or fees owing to them as part of a cost reduction program designed to preserve the Group's cash resources.

Pursuant to this arrangement Directors and Employees could elect to take 35% of their gross monthly salaries in shares instead of cash. Following shareholder approval at the Annual General Meeting held 22 May 2015 the Group issued ordinary shares in the capital of the Group to each of Bruce Watson and John Carlile for the March Quarter 2015 under this arrangement.

Further steps to preserve cash as follows:

Starting the June Quarter 2015:

Each of Bruce Watson, John Carlile and Robert Willcocks elected to waive 50% of their remuneration and the remaining 50% by the issue of shares in the Group for the remainder of the year.

These shares are held as a current liability subject to shareholder approval at the next Annual General Meeting of the Company.

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DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

Other Key Management Personnel of the Group and Specified Remunerated Executives

Name	Short-term benefits				Post-employment benefits		Share Based Payments	Total \$
	Cash Salary and Fees*	Shares in lieu of Salary *	Accrued shares in lieu of Salary *	Non-monetary Benefits	Superannuation	Termination Benefits	Options (a)	
2015	\$	\$		\$	\$	\$	\$	
Director								
Jeffrey Malaihollo	79,350	24,150	103,500	47,025	-	-	-	254,025
Executives								
Cahyono Halim	63,825	47,175	55,500	17,278	2,874	-	-	186,652
Andrew Cooke	45,000	11,250	11,250	-	-	-	-	67,500
Brad Wake	143,375	12,950	19,425	19,604	-	-	-	195,354
Total	331,550	95,525	189,675	83,907	2,874	-	-	703,531
2014								
Director								
Jeffrey Malaihollo	170,200	48,300	48,300	53,143	-	-	65,122	385,065
Executives								-
Cahyono Halim	144,480	38,850	38,850	6,430	6,080	-	43,415	278,105
Andrew Cooke	90,000	-	-	-	-	-	17,366	107,366
Brad Wake	222,000	-	-	21,126	-	-	43,415	286,541
Total	626,680	87,150	87,150	80,699	6,080	-	169,318	1,057,077

(a) The fair value of options was calculated at grant date using a Black-Scholes option-pricing model.

*** Shares in lieu of Salary and election to waive part of remuneration**

Shares were issued to employees and officers in lieu of salary or fees owing to them as part of a cost reduction program designed to preserve the Group's cash resources.

Pursuant to this arrangement Directors and Employees could elect to take 35% of their gross monthly salaries in shares instead of cash. Following shareholder approval at the Annual General Meeting held 22 May 2015 the Group issued ordinary shares in the capital of the Group to each of Jeffrey Malaihollo and Cahyono Halim for the March Quarter 2015 under this arrangement.

Further steps to preserve cash as follows:

Starting the June Quarter 2015:

Jeffrey Malaihollo and Cahyono Halim, elected to receive 50% of their remuneration in cash and the remaining 50% by the issue of shares in the Group.

Starting the September Quarter 2015:

Each of Jeffrey Malaihollo, Cahyono Halim, Andrew Cooke elected to waive 50% of their remuneration and the remaining 50% by the issue of shares in the Group for the remainder of the year.

Starting 1 August 2015:

Brad Wake elected to waive 50% of his remuneration and the remaining 50% by the issue of shares in the Group for the remainder of the year.

The Group issued ordinary shares in the capital of the Group to each of Cahyono Halim, Andrew Cooke and Brad Wake for September Quarter 2015 under this arrangement. The issue of shares to Jeffrey Malaihollo are subject to shareholder approval at the next Annual General Meeting of the Company. Any unissued shares are held as a current liability until issued.

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DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

b. Details of remuneration (audited) (continued)

Options

Details of options that were granted or vested during the year to Directors or key management personnel, held directly or beneficially, were as follows:

Name	Number of options granted during the year		Number of options vested during the year	
	2015	2014	2015	2014
Directors				
Jeffrey Malaihollo	-	16,215,435	-	16,215,435
Bruce Watson	-	5,405,145	-	5,405,145
John Carlile	-	3,603,430	-	3,603,430
Robert Willcocks	-	3,603,430	-	3,603,430
Max Ramajaya ^^	-	-	-	-
George Tahija ^^^	-	-	-	-
Executives				
Andrew Cooke	-	4,324,116	-	4,324,116
Brad Wake	-	10,810,290	-	10,810,290
Cahyono Halim	-	10,810,290	-	10,810,290
Total	-	54,772,136	-	54,772,136

Details of the Directors and other key management personnel who have option based remuneration are set out below:

	Balance at 1 January	Granted during year	Lapsed during year	Exercised during the year	Other changes *	Balance at 31 December or date ceased to be KMP	Vested during the year	Vested and exercisable at 31 December
2015								
Directors								
Jeffrey Malaihollo	16,215,435	-	-	-	-	16,215,435	-	16,215,435
Bruce Watson	7,460,145	-	-	-	-	7,460,145	-	7,460,145
John Carlile	9,768,430	-	-	-	-	9,768,430	-	9,768,430
Robert Willcocks	4,973,430	-	-	-	-	4,973,430	-	4,973,430
Max Ramajaya	-	-	-	-	-	-	-	-
Executives								
Andrew Cooke	8,434,116	-	-	-	-	8,434,116	-	8,434,116
Cahyono Halim	14,920,290	-	-	-	-	14,920,290	-	14,920,290
Brad Wake	14,920,290	-	-	-	-	14,920,290	-	14,920,290
Total	76,692,136	-	-	-	-	76,692,136	-	76,692,136
2014								
Directors								
Jeffrey Malaihollo	-	16,215,435	-	-	-	16,215,435	16,215,435	16,215,435
Bruce Watson	5,383,766	5,405,145	(3,328,766)	-	-	7,460,145	5,405,145	7,460,145
John Carlile	16,151,298	3,603,430	(9,986,298)	-	-	9,768,430	3,603,430	9,768,430
Robert Willcocks	3,589,177	3,603,430	(2,219,177)	-	-	4,973,430	3,603,430	4,973,430
George Tahija ^^^	3,589,177	-	(2,219,177)	-	(1,370,000)	-	-	-
Executives								
Andrew Cooke	10,767,532	4,324,116	(6,657,532)	-	-	8,434,116	4,324,116	8,434,116
Cahyono Halim	10,767,532	10,810,290	(6,657,532)	-	-	14,920,290	10,810,290	14,920,290
Brad Wake	10,767,532	10,810,290	(6,657,532)	-	-	14,920,290	10,810,290	14,920,290
Total	61,016,014	54,772,136	(37,726,014)	-	(1,370,000)	76,692,136	54,772,136	76,692,136

^^Appointed 1/09/2014

^^^Resigned 22/05/14

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

b. Details of remuneration (audited) (continued)

Options (continued)

	A	B	C
	Remuneration consisting of options	Granted during year	Exercised during year
	%	\$	\$
2015			
Directors			
Jeffrey Malaihollo	0%	-	-
Bruce Watson	0%	-	-
John Carlile	0%	-	-
Robert Willcocks	0%	-	-
Max Ramajaya	0%	-	-
Executives			
Andrew Cooke	0%	-	-
Cahyono Halim	0%	-	-
Brad Wake	0%	-	-
2014			
Directors			
Jeffrey Malaihollo	17%	65,122	
Bruce Watson	31%	21,707	-
John Carlile	25%	14,472	-
Robert Willcocks	33%	14,472	-
Max Ramajaya ^^	0%	-	-
George Tahija ^^	0%	-	-
Executives			
Andrew Cooke	16%	17,366	-
Cahyono Halim	16%	43,415	-
Brad Wake	15%	43,415	-

A = The percentage of the value of remuneration consisting of options, based on fair value at grant date, allocated to remuneration over the vesting period.

B = The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

C = The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

^^Appointed 1/09/2014

^^^Resigned 22/05/14

Unissued shares under option

At the date of this report unissued shares of the Group under option are:

Expiry date	Exercise price	Number of shares
27 May 2016	4.2 cents	23,290,000
31 December 2018	0.9 cents	54,772,136

All unissued shares are ordinary shares of the Company. Options granted to employees expire on the earlier of their expiry date or within three months of the employee ceasing to be an eligible participant in the Groups Employee and Contractor Option Plan. Once vested, the options granted to Directors and some officers of the Company do not expire by reason of the option holder ceasing to be a Director or an officer of the Company. None of the options on issue entitle the holder to participate in any share issue of the Company

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

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (CONTINUED)

(c) Shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, or beneficially, by each by the Directors and other key management personnel, including their related parties, is as follows:

	Balance as at 1 January	Acquired	Sold	Subscription to capital raisings, rights issue or rights issue shortfall	Other changes*	Balance as at 31 December
2015						
Directors						
J Malaihollo	8,025,000	21,247,284	-	-	-	29,272,284
B Watson	14,006,240	6,060,850	-	-	-	20,067,090
J Carlile	30,882,839	2,188,714	-	-	-	33,071,553
R Willcocks	5,125,000	-	-	-	-	5,125,000
M Ramajaya	-	-	-	-	-	-
Other Key Management Personnel						
A Cooke	1,163,587	6,249,999	-	-	-	7,413,586
B Wake	-	7,194,444	-	-	-	7,194,444
C Halim	3,237,500	31,613,154	-	-	-	34,850,654

END OF REMUNERATION REPORT - AUDITED

ENVIRONMENTAL PERFORMANCE

The Group's maintains operations in both Indonesia and Australia and accordingly the Group is subject to environmental regulations in both jurisdictions.

In Australia, the Group's activities are carried out in accordance with Commonwealth and State laws and statutory regulations relating to exploration, mining, heritage and the environment.

In Indonesia, the Group's activities are carried out in accordance with environmental regulations as determined by the Ministry of Mines and Energy.

All field operations in both Indonesia and Australia are conducted on the premise of respect for the environment and a commitment to regeneration.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately following this Directors' Report and forms part of this Directors' Report.

NON-AUDIT SERVICES

During the year the Company did not employ the Company's auditor, Nexia , on assignments additional to their statutory audit duties.

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

DIRECTORS' REPORT (Continued)

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the year ended 31 December 2015 and the number of meetings attended by each Director:

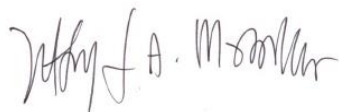
	Meetings of Directors *		Audit Committee *	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Jeffrey Malaihollo	16	16	#	#
Bruce Watson	16	16	7	7
John Carlile	16	14	#	#
Robert Willcocks	16	16	7	7
Max Ramajaya	16	10	#	#

*Including meetings by circular resolution

#Not a member of the relevant committee

This report is made on behalf of the Board of Directors pursuant to a resolution of Directors.

Dated this 31st day of March 2016.



Jeffrey Malaihollo
Managing Director



Bruce Watson
Non-Executive Chairman

To the Board of Directors of Arc Exploration Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit partner for the audit of the financial statements of Arc Exploration Limited for the financial year ended 31 December 2015, 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 audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Nexia Court & Co

Nexia Court & Co
Chartered Accountants

Joseph Santangelo

Joseph Santangelo
Partner

Sydney, 31 March 2016

Sydney Office

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info@nxiacourt.com.au, www.nexia.com.au

Independent member of Nexia International



Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR YEAR ENDED 31 DECEMBER 2015

	Notes	2015 \$	2014 \$
Continuing operations			
Revenue and other income	6a (i)	680,748	784,187
Employee expenses	6b	(654,300)	(1,078,857)
Depreciation expenses		(1,741)	(16,018)
Management, administrative and occupancy expenses		(615,320)	(652,829)
Exploration expenses		(205,386)	(697,974)
Impairment of exploration asset	14	(511,015)	-
Foreign exchange gains/(losses)		(82)	(1,851)
Loss before financing costs		(1,307,096)	(1,663,342)
Interest income	6a (ii)	14,176	46,933
Loss before income tax		(1,292,920)	(1,616,409)
Income tax (expense)/benefit		-	-
Loss after tax		(1,292,920)	(1,616,409)
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		30,142	(307)
Tax on items that may be reclassified subsequently to profit or loss		-	-
Other comprehensive income/(loss) for the period, net of tax		30,142	(307)
Total comprehensive income/(loss) for the period		(1,262,778)	(1,616,716)
Loss attributable to:			
Equity holders of the Company		(1,292,920)	(1,616,409)
Loss for the period		(1,292,920)	(1,616,409)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(1,262,778)	(1,616,716)
Total comprehensive income/(loss) for the period		(1,262,778)	(1,616,716)
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)		(0.12)	(0.17)

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 31 DECEMBER 2015

	Notes	2015 \$	2014 \$
CURRENT ASSETS			
Cash and cash equivalents	9	679,773	1,506,317
Receivables	10	3,759	61,615
Other	12	149,435	192,885
TOTAL CURRENT ASSETS		832,967	1,760,817
NON-CURRENT ASSETS			
Receivables	11	181,214	189,083
Plant and equipment	13	2,553	3,825
Exploration and evaluation expenditure	14	5,338,653	5,522,719
Intangible asset	15	-	33,864
TOTAL NON-CURRENT ASSETS		5,522,420	5,749,491
TOTAL ASSETS		6,355,387	7,510,308
CURRENT LIABILITIES			
Trade and other payables	16	339,818	296,191
Other	18	34,861	34,861
TOTAL CURRENT LIABILITIES		374,679	331,052
NON-CURRENT LIABILITIES			
Provisions	17	68,889	254,629
TOTAL NON-CURRENT LIABILITIES		68,889	254,629
TOTAL LIABILITIES		443,568	585,681
NET ASSETS		5,911,819	6,924,627
EQUITY			
Contributed equity	19	149,380,398	149,130,428
Reserves	20	1,887,352	1,857,210
Accumulated losses	21	(145,355,931)	(144,063,011)
Total equity attributable to equity holders of the Company		5,911,819	6,924,627
TOTAL EQUITY		5,911,819	6,924,627

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 CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2015

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 January 2015	149,130,428	734,668	1,122,542	(144,063,011)	6,924,627
Total comprehensive income for year					
Profit/(loss) for the year	-	-	-	(1,292,920)	(1,292,920)
Other comprehensive income					
Foreign currency translation differences	-	30,142	-	-	30,142
Total other comprehensive income	-	30,142	-	-	30,142
Total comprehensive income for the year	-	30,142	-	(1,292,920)	(1,262,778)
Transactions with equity holders in their capacity as equity holders					
Share options expense	-	-	-	-	-
Share issue in lieu of salary	202,364	-	-	-	202,364
Contribution of equity, net of transaction costs	47,606	-	-	-	47,606
Total transactions with equity holders	249,970	-	-	-	249,970
Total equity at the end of year	149,380,398	764,810	1,122,542	(145,355,931)	5,911,819
	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 January 2014	148,387,790	734,975	902,573	(142,446,602)	7,578,736
Total comprehensive income for year					
Profit/(loss) for the year	-	-	-	(1,616,409)	(1,616,409)
Other comprehensive income					
Foreign currency translation differences	-	(307)	-	-	(307)
Total other comprehensive income	-	(307)	-	-	(307)
Total comprehensive income for the year	-	(307)	-	(1,616,409)	(1,616,716)
Transactions with equity holders in their capacity as equity holders					
Share options expense	-	-	219,969	-	219,969
Share issue in lieu of salary	50,138	-	-	-	50,138
Contribution of equity, net of transaction costs	692,500	-	-	-	692,500
Total transactions with equity holders	742,638	-	219,969	-	962,607
Total equity at the end of year	149,130,428	734,668	1,122,542	(144,063,011)	6,924,627

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR YEAR ENDED 31 DECEMBER 2015

	Notes	2015 \$	2014 \$
Cash flows from operating activities			
Consulting fees		238,944	73,393
Partner Contribution		429,160	775,689
Payments to suppliers and employees		(982,977)	(755,661)
Exploration and evaluation expenditure		(542,295)	(1,490,198)
Interest received		19,970	44,757
Net cash used in operating activities	28b	(837,198)	(1,352,020)
Cash flows from investing activities			
Security deposits		10,000	-
Net cash used in investing activities		10,000	-
Cash flows from financing activities			
Proceeds from issue of shares (net)		47,606	692,500
Net cash (used in)/from financing activities	19	47,606	692,500
Net increase/(decrease) in cash and cash equivalents		(779,592)	(659,520)
Cash and cash equivalents at beginning of the period		1,506,317	2,205,476
Effects of exchange rate changes on balances of cash held in foreign currencies		(46,952)	(39,639)
Cash and cash equivalents at the end of the period		679,773	1,506,317

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 YEAR ENDED 31 DECEMBER 2015

1 REPORTING ENTITY

Arc Exploration Limited ("Arc" or the "Company") is a publicly listed company that is incorporated and domiciled in Australia and is a for-profit entity. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its controlled entities (together referred to as the "consolidated entity" or "Group") and the Group's interest in associates and jointly controlled entities.

The registered office and principal place of business of Arc Exploration Limited is located at:

Level 8
65 York Street
Sydney NSW 2000

During the year 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 existing operations in both Indonesia and Australia. Primarily the Group sought to attract parties who might farm-in to it various projects by funding expenditure on those projects.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

Statement of Compliance

The consolidated financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

Except where noted, all amounts are presented in Australian dollars.

The financial statements were approved by the Board of Directors on 31st day of March 2016.

Going Concern Basis

The accounts are prepared on a going concern basis. Risks and uncertainties associated with the ability of the Group to continue as a going concern are detailed in Note 4.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are as follows:

- Exploration and evaluation expenditure
- Recognition of tax losses

Refer to Note 5 for further details.

(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Changes to accounting policies

The Group has consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated financial statements.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

Controlled entities

A controlled entity is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date of which control ceases.

All inter-company balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated financial report.

Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Arc Exploration Limited is Australian Dollars and the functional currency of the Group's main operating entities in Indonesia is United States dollars.

A reporting entity's presentation currency is the currency in which the entity chooses to present its financial reports. The consolidated financial statements are presented in Australian dollars which is Arc Exploration Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Group Entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are converted into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rate at the date of the statement of financial position;
- income and expenses are translated at the average exchange rate for the period (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the dates of the transaction); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entity, including long term loans, are taken to shareholders' equity.

Derivative Financial Instruments

The Group did not hold any derivative financial instruments during this or the previous year.

Fair value estimation

The Group has an established control framework with respect to the measurement of fair values. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar transactions.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquisition of Assets

All assets acquired, including property, plant, equipment and intangibles, other than goodwill, are initially recorded at cost, at the date of acquisition.

Plant and Equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and any accumulated impairment losses. The cost of self-constructed assets includes the costs of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the initial estimate, where relevant, of the costs of dismantling and removing items, restoring the site and an appropriate proportion of production overheads. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

For the Indonesian entities, when assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resultant gain or loss is credited or charged to capitalised exploration expenditures or development expenditures. For non-exploration or asset items, gains and losses on disposal are determined by comparing proceeds with asset carrying amounts. These are included in the statement of profit or loss and comprehensive income.

Construction in progress is stated at cost and it is transferred to the respective property and equipment accounts when completed and ready for use.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount.

Depreciation

Plant and equipment, motor vehicles, office equipment, and furniture are recorded at cost and are depreciated over their estimated useful economic lives to their estimated residual values using either straight line or diminishing value methods.

The estimated useful lives for the current and comparative periods are as follows:

- Office equipment	4 to 10 years
- Office furniture	5 to 10 years
- Plant and equipment	4 to 7 years
- Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Exploration and Evaluation Expenditure

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Group in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

a) The rights to tenure of the area of interest are current; and

b) At least one of the following conditions is also met:

- (i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; or
- (ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and Evaluation Expenditure (continued)

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

When the technical feasibility and commercial viability of the extraction of a mineral resource has been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mining and project development expenditure. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of no value, accumulated costs carried forward are written-off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash-generating-unit which is no larger than the area of interest.

Intangible assets

Intangible assets relate to the option right to farm-in on exploration projects measured at cost. As costs are being incurred with respect to the option commitment, it is capitalised and recognised in exploration and evaluation expenditure asset.

Cash

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks or financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

Trade Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of profit or loss and comprehensive income.

Trade and other Payables

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are non-interest bearing, unsecured and generally paid within 30 days of recognition. They are recognised initially at fair value less directly attributable transaction costs and subsequently at amortised cost using the effective interest rate method.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Assets

The carrying values of all plant and equipment are reviewed at the each reporting date to determine whether there is an indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate the impairment may have reversed.

Share-based payment transactions

Share-based compensation benefits are provided to Directors, employees and contractors. The Company issues options either pursuant to shareholder approval or in accordance with *Employees and Contractors Option Plan ("ECOP")*.

The fair value of equity options granted is recognised as an employee benefit or other expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the holder became unconditionally entitled to the options.

The fair value at grant date was determined by using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the non-tradable nature of the option, the share price at grant date and the expected price volatility of the underlying share, and the risk-free interest rate for the term of the option.

Basic/Diluted Earnings/(loss) per Share

The Group presents basic and diluted earnings/loss per share data for its ordinary shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period adjusted for bonus elements in ordinary shares issued during the year. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, share options issued to shareholders, and share options granted to directors, employees and contractors.

Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred.

Interest bearing liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Employee Benefits

Wages, salaries, and annual leave

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date. The amount is measured at the amount expected to be paid, including expected on-costs, when liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long Service Leave

The liability for long service leave is recognised, and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, plus expected on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Post employment benefits

The Group provides post-employment benefits for its employees in Indonesia in accordance with Indonesian Labor Law NO 13/2003. This benefit program is deemed a defined benefit plan and is unfunded by the Group. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are recognised immediately in the profit or loss. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss immediately. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds.

Restoration, Rehabilitation and Environmental Expenditure

Provisions are made for the estimated cost of rehabilitation, decommissioning and restoration relating to areas disturbed during a mine's development/operations up to reporting date but not yet rehabilitated. Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. If this occurs prior to commencement of production, the costs are included in capitalised tenement and infrastructure acquisition expenditure.

The provision is the best estimate of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future costs are reviewed annually and any changes are reflected in the restoration provision at the end of the reporting period.

Other income

Interest income

Other income earned by the Group is predominantly interest income. This income is recognised as the interest accrues (using the effective interest method where applicable) to the net carrying amount of the related financial asset.

Sundry income

Sundry income predominantly relates to consulting income earned by providing consulting services for other exploration entities in Indonesia.

Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The Group has not entered into any finance leases.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. Rental payments are charged against profits in equal instalments over the term of the lease.

Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that, where necessary, take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Goods and Services Tax (GST) and Value Added Tax (VAT)

Goods and services taxes

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated inclusive of the amount of GST receivable and recoverable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Value added taxes

VAT applies to goods and services in Indonesia. In 2004, upon request by the Group, the Directorate General of Taxation issued a confirmation letter stating that gold mining companies will not have their revenues subject to VAT.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

Income tax expense or benefit for the period is the tax payable on the current period's taxable income or loss based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment Reporting

The Group determines and presents operating segments based on the information that is internally provided to the Managing Director (MD), who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities whose operating results are reviewed regularly by the Group's MD and for which discrete financial information is available.

The Group is involved in exploration activities in Indonesia and Australia and has two geographical operating segments, that its MD reviews regularly to make decisions about resources to be allocated to the segment and to assess its performance.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial Group.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Group's principal financial instruments during the financial year comprised receivables, payables, unsecured loans, cash and short-term deposits.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed periodically where there are changes in market conditions and the Group's activities. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the future cash flows for the Group.

Arc Exploration Limited and its Controlled Entities
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3 FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer, borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment of its cash balances.

Counterparty credit risk will be managed by dealing with an agreed range of suitable financial institutions based on their credit rating of A or better.

Other receivables

The credit risk exposures on Group receivables are not considered significant.

Guarantees

As at 31 December 2015 the Group has not provided financial guarantees to any third party.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The ability of the Group to continue to meet the financial obligations they are incurring will depend on the ability of the Company to successfully complete capital raisings as required. Given the Group's financial position during 2014 and 2015, the Group's approach to managing liquidity was to ensure that liabilities were only incurred where there were sufficient available funds to meet those liabilities within normal trading terms or alternatively where there were reasonable grounds to believe that additional funding would be raised within the required timeframe required to settle such liabilities when they fell due.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Foreign exchange risk

The Group's exposure to foreign currency risk will be related to its equity raisings and Indonesian expenditures. The Company will raise funds through equity placements to fund predominantly Indonesian exploration expenditure as well as to fund its Australian corporate activities. The equity that is raised is denominated in Australian dollars. Indonesian exploration expenditure cash outflows are in United States Dollars ("USD"), Indonesian Rupiah ("IDR") and Australian dollars. As such the Group has a currency risk in relation to unfavourable movements in these IDR and USD exchange rates.

(ii) Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At 31 December 2015 there are no interest bearing loans.

The Group's policy on interest rate risk on borrowings is firstly to fund its exploration activities with equity funds wherever possible and to minimise borrowings as the Group does not generate revenue to service borrowings. Where the Group has existing borrowings or borrowings become necessary the Group will seek to minimise or fix interest rates wherever possible. The Group does not seek to hedge its interest rate risks due to the small scale of its operations and lack of treasury function within the Group.

(iii) Other market price risk

The Group did not hold any investments during the 2015 financial year.

Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern. The Group's capital consists of share capital, options reserve and retained losses.

As an exploration entity, the Group monitors capital and financing facilities on a liquidity basis. The Group's liquidity position is calculated as current assets less current liabilities being \$458,288 and also considers future exploration commitments.

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. At the shareholder's meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Each ordinary share has no par value.

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4 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 31 March 2017, taking the following into consideration:

- The Group 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 fund all holding costs and any ongoing exploration during the course of 2016 and 2017 in order to earn an interest in the Trenggalek project;
- The Group, has withdrawn from the farm-in arrangements that it held on two projects in New South Wales but retained a farm-in interest over the Mount Garnet project in Queensland where it is seeking to attract third party interest to fund ongoing holding and exploration costs;
- 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 2016, 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.

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- (i) Exploration and evaluation expenditure

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the group's accounting policy (refer Note 2), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to the existence of reserves, the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy described in Note 2(b), a judgment is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement. The carrying amounts of exploration and evaluation assets are set out in Note 14.

- (ii) Deferred tax

In accordance with the Group's accounting policies for deferred taxes, a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. This includes estimates and judgements about commodity prices, ore reserves, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets.

The Group has not recognised a net deferred tax asset for temporary differences and tax losses as at 31 December 2015 on the basis that the ability to utilise these temporary differences and tax losses can not yet be regarded as probable.

6 REVENUE AND EXPENSES

	2015	2014
	\$	\$
(a) (i) Revenue		
Consulting fees	251,588	139,193
Other income		
Partner Contribution	429,160	644,994
	<u>680,748</u>	<u>784,187</u>
(ii) Finance income		
Interest income	14,176	46,933
	<u>14,176</u>	<u>46,933</u>
(b) Employee expenses		
Wages and salaries	825,044	818,016
Superannuation & post employment benefits	(170,744)	40,872
Share based payments expense	-	219,969
	<u>654,300</u>	<u>1,078,857</u>

Arc Exploration Limited and its Controlled Entities
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7 EARNINGS / (LOSS) PER SHARE	2015	2014
	\$	\$
Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share	(1,292,920)	(1,616,409)
Profit/(loss) from discontinued operations	-	-
Net profit/(loss) used in calculating basic and diluted earnings per share	<u>(1,292,920)</u>	<u>(1,616,409)</u>
Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share	<u>1,098,321,721</u>	<u>968,027,301</u>
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	1,063,390,131	916,533,798
Issue of Shares for Directors Fees / Salary to preserve existing cash resources	70,665,556	8,356,333
Shares issued under share placement plan on 2 September 2015	58,888,891	138,500,000
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share	<u>1,098,321,721</u>	<u>968,027,301</u>
Basic earnings/(loss) per share (cents per share)	(0.12)	(0.17)
Diluted earnings/(loss) per share (cents per share)	(0.12)	(0.17)

Information Concerning the Classification of Securities

Employee and Director Options

The options granted to directors, employees and contractors are not included in the calculation of diluted earnings per share because the exercise price exceeded the average market price and are therefore considered as antidilutive for the years ended 31 December 2015 and 2014.

Listed and Unlisted Options

There are no listed options at 31 December 2015.

Unlisted options are not included in the calculation of diluted earnings per share because the exercise price exceeded the average market price and are therefore considered as antidilutive for the years ended 31 December 2015 and 2014. These options could potentially dilute earnings per share in the future.

8 INCOME TAX

(a) Income tax expense	2015	2014
	\$	\$
Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax benefit	(1,292,920)	(1,616,409)
Income tax expense/(benefit) at the statutory rate of 30% (2014:30%)	(387,876)	(484,923)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible / assessable foreign translation (gain)/loss	-	-
Share issue costs	17,518	-
Non deductible impairment of exploration expenses	131,487	-
Non deductible share based payments expense	-	65,991
	<u>(238,871)</u>	<u>(418,932)</u>
Less tax losses not recognised and carried forward	238,871	418,932
Income tax expense/(benefit)	<u>-</u>	<u>-</u>
(b) Recognised tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Exploration and evaluation expenditure	1,601,596	1,656,816
Tax losses recognised	<u>(1,601,596)</u>	<u>(1,656,816)</u>
Net deferred tax liability/(asset)	<u>-</u>	<u>-</u>

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8 INCOME TAX (CONTINUED)

(c) Unrecognised deferred tax assets

	2015	2014
	\$	\$
Deferred tax assets have not been recognised in respect of the following items:		
Provisions	17,222	63,657
Tax losses PT Indonusa Mining Services (IMS)	1,070,928	1,136,606
Tax losses Arc Exploration Limited (Arc)	9,472,435	8,994,906
Capital tax losses Arc	15,046,770	15,046,770
Total	25,607,355	25,241,939

The deductible temporary differences and tax losses relating to Arc do not expire under current tax legislation. The tax losses relating to IMS can be carried forward for a maximum of 5 years. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

	2015	2014
	\$	\$
9 CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	679,773	306,317
Short term deposits	-	1,200,000
	<u>679,773</u>	<u>1,506,317</u>

10 CURRENT RECEIVABLES

Trade Receivables	-	39,418
Other debtors	1,393	2,625
Goods and services tax (GST) and other consumption taxes recoverable	2,366	13,778
Interest receivable	-	5,794
	<u>3,759</u>	<u>61,615</u>

11 NON-CURRENT RECEIVABLES

Other debtors	181,214	189,083
	<u>181,214</u>	<u>189,083</u>

12 OTHER CURRENT ASSETS

Prepayments	74,574	138,024
Security deposits	40,000	20,000
Monies held in trust	34,861	34,861
	<u>149,435</u>	<u>192,885</u>

13 PLANT AND EQUIPMENT

(a) Office furniture and equipment

Gross carrying amount

Opening balance	419,054	384,116
Additions	-	-
Disposals and transfers	-	-
Net foreign exchange differences	51,393	34,938
Closing balance	<u>470,447</u>	<u>419,054</u>

Accumulated depreciation

Opening balance	(415,755)	(369,830)
Depreciation expense	(2,220)	(12,288)
Net foreign exchange differences	(50,989)	(33,637)
Closing balance	<u>(468,964)</u>	<u>(415,755)</u>

Net office furniture and equipment	<u>1,483</u>	<u>3,299</u>
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Arc Exploration Limited and its Controlled Entities
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13 PLANT AND EQUIPMENT (CONTINUED)

(b) Motor vehicles	2015 \$	2014 \$
Gross carrying amount		
Opening balance	103,794	95,141
Additions	-	-
Disposals and transfers	-	-
Net foreign exchange differences	12,729	8,653
Closing balance	<u>116,523</u>	<u>103,794</u>
Accumulated depreciation		
Opening balance	(103,268)	(91,239)
Depreciation expense	479	(3,730)
Disposals and transfers	-	-
Net foreign exchange differences	(12,664)	(8,299)
Closing balance	<u>(115,453)</u>	<u>(103,268)</u>
Net motor vehicles	<u>1,070</u>	<u>526</u>
Carrying amounts		
Total plant and equipment – at 1 January	<u>3,825</u>	<u>18,188</u>
Total plant and equipment – at 31 December	<u>2,553</u>	<u>3,825</u>

14 EXPLORATION AND EVALUATION EXPENDITURE

Opening balance	5,522,719	5,117,557
Additions	326,949	405,162
Impairment	(511,015)	-
	<u>5,338,653</u>	<u>5,522,719</u>

At 31 December 2015, there is \$5,108,046 capitalised exploration expenditure relating to the Trenggalek Project, included in "Exploration and Evaluation Expenditure" in the statement of financial position. During 2015 the Group focussed primarily on attracting a new partner to farm-in to the project. In September 2015 the Group announced that it had entered into a Memorandum of Understanding with PT Danusa Tambang Nusantara (Danusa), a subsidiary of one of the largest contract miners in Indonesia. Formal documentation with Danusa was signed in November 2015 which provide for Danusa to fund expenditure of up to US\$1,500,000 over an initial 10 month stage of exploration with the right to continue second and third stages of exploration within a total timeframe of 30 months. Danusa will manage the exploration program and initially focus on exploring and evaluating the multiple epithermal gold targets already defined at Trenggalek. The Group retains a 95% interest in the Trenggalek project until such time as Danusa has earned its equity in the project.

The Group undertook limited exploration expenditure on the Junee and Oberon gold-copper prospects in New South Wales pursuant to farm-in arrangements with New South Resources Pty Ltd. As per the subsequent events note (note 34) the Group identified a need to conserve its cash resources given the cash strained environment which prevails in the junior resource sector. In these circumstances the Group elected to exercise its right under its Farm-In Agreements with New South Resources Pty Ltd to withdraw from the Junee and Oberon projects, located in New South Wales, effective from 13th April 2016. An impairment of \$511,015 was made, as at 31 December 2015, to Junee and Oberon.

The Group also completed exploration expenditure under a farm-in arrangement with Snowmist Pty Ltd in which it is entitled to earn up to 80% of the Mount Garnet gold project located in Northeast Queensland.

15 INTANGIBLE ASSETS

Intangible assets relate to the option right on Junee, Oberon and Mount Garnet projects.

When the Group elected to proceed with the option and farm-in arrangements the Group agreed to sole fund expenditure during the Option Period. As costs are spent it is recognised in the exploration and evaluation expenditure asset, leaving the remaining balance of the option right in intangible asset as set out in the table below:

Project	Option Period Months	Option Period Ends	Funding commitment \$	Balance 2014	Expenditure 2015 \$	Intangible asset
Junee	12	03-07-14	100,000	100,000	-	-
Oberon	12	03-07-14	135,000	135,000	-	-
Mount Garnet	24	19-08-15	150,000	116,136	33,864	-
			<u>385,000</u>	<u>351,136</u>	<u>33,864</u>	<u>- *</u>

*Option period liability

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16 TRADE AND OTHER PAYABLES	2015	2014
	\$	\$
Trade payables and accrued expenses	94,146	134,457
Other consumption taxes payable	20,798	27,594
Shares in lieu of salary *	224,874	100,276
Option period liability**	-	33,864
	<u>339,818</u>	<u>296,191</u>

*Refer Remuneration Report.

**Refer note 15.

17 PROVISIONS		
Current liabilities		
Employee leave entitlements	-	-
	<u>-</u>	<u>-</u>
Non-current liabilities		
Post employment benefits	68,889	254,629
	<u>68,889</u>	<u>254,629</u>
Current and non-current provisions	<u>68,889</u>	<u>254,629</u>

The above non-current post employment benefits relate to a defined benefit scheme operating for employees in the subsidiary of the Group, PT Indonusa Mining Services. Detailed disclosures have not been included on the basis of materiality.

18 OTHER CURRENT LIABILITIES		
Amounts payable to other persons	34,861	34,861
	<u>34,861</u>	<u>34,861</u>

19 CONTRIBUTED EQUITY	31-12-15	31-12-14	31-12-15	31-12-14
	Number	Number	\$	\$
At 31 December	1,192,944,578	1,063,390,131	149,380,398	149,130,428
Fully paid ordinary shares				
At the beginning of the year	1,063,390,131	916,533,798	149,130,428	148,387,790
Issue of Shares for Directors Fees / Salary to preserve existing cash resources	70,665,556	8,356,333	202,364	50,138
Issue of shares under share purchase plan	58,888,891	138,500,000	106,000	692,500
Transaction costs relating to share issues			(58,394)	-
	<u>1,192,944,578</u>	<u>1,063,390,131</u>	<u>149,380,398</u>	<u>149,130,428</u>

(a) Share-based payment options

The Company issues options either pursuant to shareholder approval or in accordance with the *Employees and Contractors Option Plan ("ECOP")*.

Set out below are summaries of options granted under the plan:

2015	Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	No. of options Granted	Exercised	Expired/ forfeited/other	Balance at the end of the year
	27-05-11	27-05-16	\$0.0420	21,920,000	-	-	-	21,920,000
	22-05-14	31-12-18	\$0.0090	54,722,136	-	-	-	54,722,136
				<u>76,642,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,642,136</u>
Weighted average exercise price				\$0.0184	\$0.0000	\$0.0000	\$0.0000	\$0.0184
2014								
	13-03-08	12-03-13	\$0.0360	39,945,191			(39,945,191)	-
	27-05-11	27-05-16	\$0.0420	23,290,000			(1,370,000)	21,920,000
	22-05-14	31-12-18	\$0.0090	-	54,722,136	-		54,722,136
				<u>63,235,191</u>	<u>54,722,136</u>	<u>-</u>	<u>(41,315,191)</u>	<u>76,642,136</u>
Weighted average exercise price				\$0.0382	\$0.0090	\$0.0000	\$0.0362	\$0.0184

Each option entitles the option holder to one ordinary share in the Company at the stated exercise price per share, exercisable at any time from the date of vesting where applicable. None of the above mentioned options were exercised during the financial year.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

19 CONTRIBUTED EQUITY (CONTINUED)

(a) Share-based payment options (continued)

Set out below are the options exercisable at the end of the financial year:

Grant Date	Expiry Date	2015	2014
27-05-11	27-05-16	21,920,000	21,920,000
22-05-14	31-12-18	54,722,136	54,722,136

The weighted average remaining contractual life of options outstanding at the end of the year was 2.26 years (2014: 3.26 years).

The value of the options was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

The total cost of options issued to directors and key management personnel charged to profit and loss for 2015 was nil (2014:\$219,969).

Employees and Contractors Option Plan ("ECOP")

The eligible participants in the Company's Employee and Contractors Option Plan are:

- (i) A person who is a Director, alternate Director or Company Secretary of the Company or any entity in the Group;
- (ii) A permanent or part-time employee of the Company or Group;
- (iii) A person who is in an independent contractor relationship with the Company or Group and provides goods or services to the Company or Group;
- (iv) A full time or permanent part-time, employee of a person under (iii); and
- (v) A trust or entity either controlled by or associated with the persons referred to in (i) and (ii) above.

(b) Listed Options

The number of listed options over unissued ordinary shares as at 31 December 2015 is nil (2014:nil)

20 RESERVES

	2015 \$	2014 \$
Foreign currency translation reserve		
Balance at the beginning of financial year	734,668	734,975
Translation of foreign operations during the year	30,142	(307)
Balance at end of the financial year	<u>764,810</u>	<u>734,668</u>
Share-based payments reserve		
Balance at the beginning of financial year	1,122,542	902,573
Options expense	-	219,969
Balance at end of the financial year	<u>1,122,542</u>	<u>1,122,542</u>
Total Reserves	<u>1,887,352</u>	<u>1,857,210</u>

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Share-based payments reserve

The share-based payments reserve relates to the cumulative expense for share options granted to directors, employees and contractors. Upon the exercise of the options, the balance of the options reserve relating to those options is transferred to contributed equity.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

21 ACCUMULATED LOSSES	2015	2014
	\$	\$
Balance at the beginning of the financial year	(144,063,011)	(142,446,602)
Transfer of options reserve amount for relinquished vested options	-	-
Net profit/(loss) attributable to Arc Exploration Limited	(1,292,920)	(1,616,409)
Balance at the end of the financial year	<u>(145,355,931)</u>	<u>(144,063,011)</u>

22 KEY MANAGEMENT PERSONNEL DISCLOSURES

Key Management Personnel of the entity are those persons with the authority and responsibility for planning, directing and controlling the activities of the Group during the financial year.

(a) Remuneration

	2015	2014
	\$	\$
The aggregate of compensation of the key management personnel of the Group is set out below:		
Short term employee benefits	766,282	998,999
Post employment benefits	5,518	10,243
Share-based payments	-	219,969
	<u>771,800</u>	<u>1,229,211</u>

23 OPERATING SEGMENTS

The results and financial position of the Group's two operating segments, being exploration activities in Indonesia and Australia, are prepared for the Managing Director on a basis consistent with Australian Accounting Standards. Entity-wide disclosures in relation to Group's services, geographical areas, and major customers are detailed below.

Services

The Group currently provides consulting services for other exploration entities in Indonesia. The total other income recognised for the year ended 31 December 2015 was \$204,703 (31 December 2014: \$875,488).

Geographical areas

The Company's revenue generating activities and assets are located two geographical areas, Indonesia and Australia.

Major customers

Other income from one customer of the Group represents approximately \$139,560 (2014: \$644,994) of the Group's total other income for the year ended 31 December 2015.

Segment assets and liabilities

Information about reportable segments

The key segment assets as reported to the Managing Director are as follows:	2015	2014
	\$	\$
Assets		
Australia exploration	230,607	597,791
Indonesia exploration	5,108,046	4,958,792
Corporate	1,016,734	1,953,725
	<u>6,355,387</u>	<u>7,510,308</u>
Liabilities		
Australia exploration	-	33,864
Indonesia exploration	-	-
Corporate	443,568	551,817
	<u>443,568</u>	<u>585,681</u>
Equity	<u>5,911,819</u>	<u>6,924,627</u>

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

23 OPERATING SEGMENTS (CONTINUED)

		Australia	Indonesia	Corporate	Total
Revenue from continuing operations	2015				
Revenue		-	-	251,588	251,588
Other income		-	-	429,160	429,160
Employee expenses		-	-	(654,300)	(654,300)
Depreciation expenses		-	-	(1,741)	(1,741)
Other expenses		-	-	(615,320)	(615,320)
Impairment exploration assets		(511,015)	-	-	(511,015)
Exploration expenses		-	(205,386)	-	(205,386)
Foreign exchange losses		-	-	(82)	(82)
Loss before financing costs		(511,015)	(205,386)	(590,695)	(1,307,096)
Interest income		-	-	14,176	14,176
Loss before income tax		(511,015)	(205,386)	(576,519)	(1,292,920)
Income tax (expense)/benefit		-	-	-	-
Loss after tax		(511,015)	(205,386)	(576,519)	(1,292,920)
		Australia	Indonesia	Corporate	Total
Revenue from continuing operations	2014				
Revenue		-	-	139,193	139,193
Other income		-	-	644,994	644,994
Employee expenses		-	-	(1,078,857)	(1,078,857)
Depreciation expenses		-	-	(16,018)	(16,018)
Other expenses		-	-	(652,829)	(652,829)
Exploration expenses		(5,275)	(692,699)	-	(697,974)
Foreign exchange losses		-	-	(1,851)	(1,851)
Loss before financing costs		(5,275)	(692,699)	(965,368)	(1,663,342)
Interest income		-	-	46,933	46,933
Loss before income tax		(5,275)	(692,699)	(918,435)	(1,616,409)
Income tax (expense)/benefit		-	-	-	-
Loss after tax		(5,275)	(692,699)	(918,435)	(1,616,409)

24 INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entity	Country of Incorporation	Class of Shares	Equity Holdings	
			2015	2014
			%	%
PT Indonusa Mining Services	Indonesia	Ord	100	100

25 SHARE BASED PAYMENTS

Shares were issued to employees and officers in lieu of salary or fees owing to them as part of a cost reduction program designed to preserve the Group's cash resources. This issue of shares has a nil effect on the Groups cash resources. A total of \$202,362 of shares were issued in lieu of salary as per table below.

Date	No of Shares	Share price	\$	Year salary earned	
				2015	2014
22-05-15	11,659,884	0.0043	50,138	-	50,138
22-05-15	12,855,769	0.0039	50,138	-	50,138
22-05-15	17,288,793	0.0029	50,138	50,138	
24-07-15	7,222,222	0.0018	13,000	13,000	
02-09-15	10,819,444	0.0018	19,475	19,475	
02-10-15	10,819,444	0.0018	19,475	19,475	
	70,665,556		202,363	102,088	100,276

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

26 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated.

(a) Directors during the year

The Directors of Arc Exploration Limited during part or the whole of the year were:

Jeffrey Malaihollo	Managing Director, CEO
Bruce Watson	Non-Executive Chairman
John Carlile	Non-Executive Director
Max Ramajaya	Non-Executive Director
Robert Willcocks	Non-Executive Director

(b) Subsidiaries

	2015	2014
	\$	\$
Net loan to subsidiary	400,343	5,948,563
Provision for impairment	(400,343)	(5,948,563)
Carrying value at year end	<u>-</u>	<u>-</u>
Opening balance	5,948,563	5,893,246
Loans advanced	875,000	400,000
Amounts paid by parent entity on behalf of subsidiary	27,500	34,625
Amounts charged by subsidiary to parent and offset against loan	(161,011)	(99,000)
Loan converted to equity holding in subsidiary	(5,859,375)	-
Exchange rate variances	(430,334)	(280,308)
Closing balance	400,343	5,948,563
Provision for impairment	(400,343)	(5,948,563)
Carrying value at end of year	<u>-</u>	<u>-</u>

27 FINANCIAL INSTRUMENTS

	2015	2014
	\$	\$
Cash and cash equivalents	679,773	1,506,317
Group credit risk is considered negligible on the cash and cash equivalent amounts as these are primarily deposited with the ANZ and Commonwealth Bank.		
Trade and other receivables	184,973	250,698

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Whilst there is concentration of credit risk the Group has assessed the creditworthiness of each customer and no impairment losses has been recognised against these customers.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities and interest payments.

	Carrying amount	Contractual cash flows	Within 6 months	Within 6-12 months	1 to 2 years	2 to 5 years
2015	\$	\$	\$	\$	\$	\$
Trade and other payables	339,818	339,818	339,818	-	-	-
Other current liabilities	34,861	34,861	34,861	-	-	-
	<u>374,679</u>	<u>374,679</u>	<u>374,679</u>	<u>-</u>	<u>-</u>	<u>-</u>
2014						
Trade and other payables	296,191	296,191	296,191	-	-	-
Other current liabilities	34,861	34,861	34,861	-	-	-
	<u>331,052</u>	<u>331,052</u>	<u>331,052</u>	<u>-</u>	<u>-</u>	<u>-</u>

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

27 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Currency risk

The Group's exposure to foreign currency risk relates to balances that are denominated in currencies other than an entity's functional currency. At balance date the notional amount (AUD equivalent) of the non-functional currency balances were as follows:

	AUD \$	IDR \$	USD \$	Total \$
2015				
Cash and cash equivalents	53,839	514,246	-	568,085
Receivables	-	181,214	-	181,214
Trade and other payables	-	(62,739)	-	(62,739)
	<u>53,839</u>	<u>632,721</u>	<u>-</u>	<u>686,560</u>
2014				
Cash and cash equivalents	12,599	8,411	-	21,010
Receivables	-	179,083	-	179,083
Trade and other payables	-	(48,034)	-	(48,034)
	<u>12,599</u>	<u>139,460</u>	<u>-</u>	<u>152,059</u>

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
USD	0.7465	0.8990	0.7306	0.8202
IDR	10,034	10,663	10,082	10,202

Sensitivity analysis

From the Group perspective fluctuations in exchange rates for non-functional currency balances in AUD and IDR would have no material impact on earnings or equity as these balances relate to the Indonesian subsidiaries. For PT Indonusa Mining Services the impact of exchange rate fluctuations are not considered to be material.

(d) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average rates on classes of financial assets and financial liabilities, is as follows, by interest rate re-set period.

	Effective average interest rate	Fixed or Floating rate	Within 6 months \$	Within 6-12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
2015							
Financial Assets							
Cash at bank	1.3%	Floating	679,773	-	-	-	679,773
Cash at bank		Fixed	-	-	-	-	-
Security deposits	2.8%	Fixed	20,000	-	-	-	20,000
Monies held in trust	0.1%	Floating	34,861	-	-	-	34,861
Net Position			<u>734,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>734,634</u>
2014							
Financial Assets							
Cash at bank	3.0%	Floating	306,317	-	-	-	306,317
Cash at bank	3.5%	Fixed	1,200,000	-	-	-	1,200,000
Security deposits	3.4%	Fixed	20,000	-	-	-	20,000
Monies held in trust	0.1%	Floating	34,861	-	-	-	34,861
Net Position			<u>1,561,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,561,178</u>

Sensitivity analysis

At 31 December 2015, if interest rates changed by +/- 100 base points from the year end rates with other variables held constant, post tax loss for the year end would have been \$7,419 lower/higher (2014: change of 100 base points \$15,091 lower/higher) as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

(e) Fair values

The carrying amounts of assets and liabilities shown in the statement of financial position at 31 December 2015 and 31 December 2014 approximates their fair values.

(f) Derivative financial instruments

No derivative financial instruments were held by the Group either at 31 December 2015 or 31 December 2014.

(g) Commodity price risk

The Group is not affected by commodity price fluctuations.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

28 CASHFLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash at bank, cash on hand, and term deposits. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	2015	2014
	\$	\$
Cash at bank and in hand	679,773	306,317
Term deposits	-	1,200,000
	<u>679,773</u>	<u>1,506,317</u>

(b) Cash flows from operating activities

Profit/(loss) for the financial year	(1,292,920)	(1,616,409)
Depreciation	1,741	16,018
Share based payments	-	219,969
Net effect of exchange rate changes on cash	46,952	1,851
Non cash expenses	27,542	31,144
Employee provisions	(185,740)	54,877
Exploration liability non cash	33,864	242,371
Share issue in lieu of salary	202,364	50,138
<i>(Increase)/decrease in assets:</i>		
Current receivables	57,856	399,384
Other current assets	43,450	(42,880)
Exploration and evaluation expenditure	184,066	-
<i>Increase/(decrease) in liabilities:</i>		
Current payables	43,627	(296,551)
Current provisions	-	-
Net cash flow from operating activities	<u>(837,198)</u>	<u>(940,088)</u>

29 LEASING COMMITMENTS

Operating Lease Commitments

Payable		
- not later than 1 year	-	21,755
- longer than 1 year but not later than 5 years	-	35,498
- more than 5 years	-	-
	<u>-</u>	<u>57,253</u>

30 COMMITMENTS FOR CAPITAL EXPENDITURE

Capital expenditure commitments:

Payable		
Plant and equipment:		
- not longer than 1 year	-	-
	<u>-</u>	<u>-</u>

31 ECONOMIC DEPENDENCY

PT Indonusa Mining Services, a controlled entity of the Group is reliant upon the continued financial support of the parent entity.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2015

32 AUDITORS' REMUNERATION

	2015	2014
	\$	\$
Audit services		
Auditors of the Company		
<i>KPMG - Australia</i>		
Audit and review of financial reports	(950)	65,700
<i>Nexia - Australia</i>		
Audit and review of financial reports	40,000	-
<i>KPMG - Indonesia</i>		
Audit and review of financial reports	-	30,045
<i>Persek. Kanaka Puradiredja, Suhartono - Indonesia</i>		
Audit and review of financial reports	13,687	-
	<u>52,737</u>	<u>95,745</u>
Other services		
<i>KPMG - Australia</i>		
Tax compliance and consulting services	10,350	13,620
	<u>10,350</u>	<u>13,620</u>
	<u>63,087</u>	<u>109,365</u>

33 CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2015 (2014: nil).

34 EVENTS SUBSEQUENT TO REPORTING DATE

As part of its ongoing drive to reduce cash operating costs the Company issued 32,458,332 shares at a deemed issue price of 0.18 cents per share in February 2016 for services rendered by officers and employees of the Company (excluding Directors) in the quarter ended 31 December 2015.

The Group identified a need to conserve its cash resources given the cash strained environment which prevails in the junior resource sector. In these circumstances the Group elected to exercise its right under its Farm-In Agreements with New South Resources Pty Ltd to withdraw from the Junee and Oberon projects, located in New South Wales, effective from 13th April 2016.

The Group received confirmation on 22 March 2016 that the term of the Trenggalek IUP (tenement) had been extended to 2 November 2018.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year 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, in future financial years.

35 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 31 December 2015 the parent entity of the Group was Arc Exploration Limited.

	2015	2014
	\$	\$
Result of parent entity		
Profit/(loss) for the period	(1,843,424)	(1,157,104)
Other comprehensive income	-	-
Total comprehensive income for the period	<u>(1,843,424)</u>	<u>(1,157,104)</u>
Financial position of parent entity at year end		
Current assets	195,825	1,530,204
Total assets	5,715,692	7,275,870
Current liabilities	291,976	258,700
Total liabilities	291,976	258,700
Total equity of parent entity comprising of:		
Share capital	149,380,398	149,130,428
Reserves	1,122,542	1,122,542
Accumulated losses	(145,079,224)	(143,235,800)
Total equity	<u>5,423,716</u>	<u>7,017,170</u>

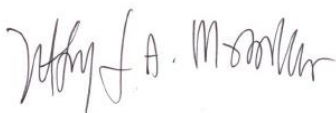
Arc Exploration Limited and its Controlled Entities

DIRECTORS' DECLARATION

- 1 In the opinion of the Directors of Arc Exploration Limited ("the Company")
- (a) the consolidated financial statements, notes and the Remuneration report in the Directors' report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the financial year ended on that date; and
 - (ii) complying with the Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a)
 - (c) as disclosed in Note 4 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the financial year ended 31 December 2015.

This declaration is signed in accordance with a resolution of the Directors.

Dated 31st day of March 2016



Jeffrey Malaihollo
Managing Director



Bruce Watson
Non-Executive Chairman

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

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Report on the Financial Report

We have audited the accompanying financial report of Arc Exploration Limited, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Independent member of Nexia International



Opinion

In our opinion:

- (a) the financial report of Arc Exploration Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Emphasis of Matter

Without modifying our opinion, we draw your attention to Note 4 of the financial report, which indicates that the preparation of the financial statements on a going concern basis is dependent on future capital raisings to fund the Group's operations, including the continuation of exploration activities in Australia and Indonesia. As set out in Note 4, these circumstances indicate the existence of a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and settle its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Arc Exploration Limited for the year ended 31 December 2015, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in dark ink that reads "Nexia Court & Co".

Nexia Court & Co
Chartered Accountants

A handwritten signature in dark ink that reads "Joseph Santangelo".

Joseph Santangelo
Partner

Sydney, 31 March 2016