



**Arc Exploration Limited**

**A.B.N. 48 002 678 640**

**INTERIM REPORT**

**FOR THE HALF YEAR ENDED 30 JUNE 2011**

▪ Directors' Report	2
▪ Auditors' Independence Declaration	4
▪ Consolidated Statement of Comprehensive Income	5
▪ Consolidated Statement of Financial Position	6
▪ Consolidated Statement of Changes in Equity	7
▪ Consolidated Statement of Cash Flows	8
▪ Notes to the Consolidated Financial Statements	9
▪ Directors' Declaration	12
▪ Independent Auditors' Report	13

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2010 and any public announcements made by Arc Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

**Interim Consolidated Financial Report**  
**For The Half Year Ended 30 June 2011**

**DIRECTORS' REPORT**

The directors present their report together with the financial statements of the consolidated entity (the 'Group') consisting of Arc Exploration Limited (the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2011.

**DIRECTORS**

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

Name	Period of Directorship
<b>Executive</b>	
Mr. John C. Carlile (Managing Director)	Director since 1998 Appointed Managing Director January 2008
<b>Non-Executive</b>	
Mr. Bruce J. Watson (Chairman of the Board and the Audit Committee)	Director 1998-2001, Director since 2005 Appointed Chairman (Board and Audit Committee) 2005
Mr. George S. Tahija	Director since 1998
Mr. Robert M. Willcocks	Director since July 2008

**PRINCIPAL ACTIVITIES**

During the year, the principal activities of the Group and its controlled entities were:

- the undertaking of gold exploration in Indonesia at Trenggalek (East Java) and Bima (East Sumbawa); and
- providing support to Anglo American to undertake copper/gold exploration in Indonesia at Aisasjur (West Papua).

**REVIEW OF OPERATIONS**

The Group is exploring for gold, silver and associated base metal deposits on Java and Sumbawa which both lie along Indonesia's highly prospective magmatic arcs. The primary exploration targets are high-grade low-sulphidation epithermal gold-vein and porphyry-related gold-copper deposits.

**Trenggalek Project, East Java (Arc - 95%)**

The Group operates a joint-venture with PT Sumber Mineral Nusantara which holds the Trenggalek Exploration IUP covering an area of 30,044 hectares in the Southern Mountains of East Java. The Southern Mountains comprise an older segment of the Sunda-Banda magmatic arc ("Southern Mountains Arc") and hosts numerous gold, silver and base metal occurrences, including Intrepid Mines' Tujuh Bukit porphyry copper-gold project located about 250 km east of Trenggalek.

During the half year the Group undertook trenching and commenced a geophysical survey over the Suruh Prospect. In addition a diamond core drilling program was commenced and approximately 1,429 metres was drilled in 8 inclined holes at the Suruh, Timahan and Kojan prospects. At Suruh and Timahan the drilling confirmed the presence of low-grade mineralisation which will be tested further. The Group aims to carry out more detailed surface work including mapping and trenching to support further drilling at a later date.

**Bima Project – East Sumbawa (Arc - 95%)**

The Group operates a joint-venture with PT Sumber Mineral Nusantara which holds the Bima IUP covering an area of 24,980 hectares in East Sumbawa. Sumbawa Island comprises a segment of the Sunda-Banda magmatic arc, host to the giant Batu Hijau porphyry copper-gold deposit and several major copper-gold prospects on the western side of the island. This highly prospective geological setting extends into the Bima project area which is underlain by Early Miocene to Pliocene and comprises intermediate-felsic volcanic and volcanoclastic rocks, fossiliferous limestone and high-level intrusions.

The Group carried out detailed geological mapping, extensive soil sampling and trenching on the Bima Project in East Sumbawa. A major new gold target was confirmed at the Soro Prospect. Geophysical surveys at the Baku Prospect supported the potential extension of mineralisation at depth.

**Aisasjur Project –Anglo Strategic Alliance (Arc -20%)**

The Group has a 20% interest in a strategic alliance with the Anglo American Group ("Anglo") to explore for large porphyry copper-gold deposits in the Papua and West Papua provinces. The interest is fully funded by Anglo through to a development decision.

Aisasjur, the first project in the alliance, is located in West Papua at the western end of the Medial Papua-New Guinea magmatic arc, host to the giant copper-gold deposits of Grasberg and Ertsberg.

Regional stream sediment sampling and reconnaissance programs were undertaken at Aisasjur by Anglo during the half year. Anglo also commenced preparations to undertake an airborne magnetics and radiometrics survey.

The net result of operations for the half-year was a loss of \$1,121,528 (2010: loss \$1,357,963).

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

**Interim Consolidated Financial Report**  
**For The Half Year Ended 30 June 2011**

**DIRECTORS' REPORT (Continued)**

**REVIEW OF OPERATIONS (CONTINUED)**

**Financial**

The company made the following share issues during the half year:

Exercise of 190,632,875 ARXOA Options @ 3.6 cent per share raising \$6,862,784.  
Issued 38,637,113 shares @ \$0.0275 to repay loans of \$1,056,263.

The funds raised are being used to provide working capital to continue project generation and project enhancement.

**AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration is set out on Page 4 and forms part of the Directors' report for the half-year ended 30 June 2011.

Signed at Sydney this 5 September 2011 in accordance with a resolution of the directors.

**John C. Carlile**  
**Managing Director**

**Bruce J. Watson**  
**Non-Executive Chairman**



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

To: the directors of Arc Exploration Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten version of the KPMG logo in blue ink.

KPMG

A handwritten signature in blue ink, appearing to read 'Shane O'Connor'.

Shane O'Connor  
*Partner*

Sydney

5 September 2011

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 30 JUNE 2011

	2011 \$	Half-year 2010 \$
<b>Continuing operations</b>		
Other income	7,855	22,730
Employee expenses	(605,799)	(615,721)
Depreciation expenses	(21,536)	(40,122)
Management, administrative and occupancy expenses	(746,595)	(420,884)
Unrealised foreign exchange gain/(loss)	96,392	(175,046)
<b>Profit/(loss) before financing costs</b>	<b>(1,269,683)</b>	<b>(1,229,043)</b>
Interest income	206,383	51,742
Finance expenses	(58,228)	(180,662)
<b>Profit/(loss) before income tax</b>	<b>(1,121,528)</b>	<b>(1,357,963)</b>
Income tax (expense)/benefit	-	-
<b>Profit/(loss) from continuing operations</b>	<b>(1,121,528)</b>	<b>(1,357,963)</b>
<b>Other comprehensive income</b>		
Foreign currency translation differences for foreign operations	204,883	(54,097)
Income tax on other comprehensive income	-	-
<b>Other comprehensive income for the period, net of tax</b>	<b>204,883</b>	<b>(54,097)</b>
Total comprehensive income for the period	(916,645)	(1,412,060)
<b>Profit/(loss) attributable to:</b>		
Equity holders of the Company	(1,121,528)	(1,357,963)
Non controlling interests	-	-
<b>Profit/(loss) for the period</b>	<b>(1,121,528)</b>	<b>(1,357,963)</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	(916,645)	(1,412,060)
Non controlling interests	-	-
<b>Profit/(loss) for the period</b>	<b>(916,645)</b>	<b>(1,412,060)</b>
<b>Earnings per share</b>		
Basic earnings/(loss) per share (cents per share)	(0.16)	(0.39)
Diluted earnings/(loss) per share (cents per share)	(0.16)	(0.39)
<b>Earnings per share - continuing operations</b>		
Basic earnings/(loss) per share (cents per share)	(0.16)	(0.39)
Diluted earnings/(loss) per share (cents per share)	(0.16)	(0.39)

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011

	Notes	30 June 2011 \$	31 December 2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		7,467,544	4,037,462
Receivables		98,199	33,906
Other		158,017	131,553
<b>TOTAL CURRENT ASSETS</b>		<b>7,723,760</b>	<b>4,202,921</b>
<b>NON-CURRENT ASSETS</b>			
Receivables		266,286	266,286
Plant and equipment		83,040	47,550
Exploration and evaluation expenditure		5,003,933	3,558,274
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,353,259</b>	<b>3,872,110</b>
<b>TOTAL ASSETS</b>		<b>13,077,019</b>	<b>8,075,031</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		345,513	238,814
Interest bearing liabilities		1,205,469	1,498,576
Other		34,887	34,887
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,585,869</b>	<b>1,772,277</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities		-	1,498,576
Provisions		60,878	47,715
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>60,878</b>	<b>1,546,291</b>
<b>TOTAL LIABILITIES</b>		<b>1,646,747</b>	<b>3,318,568</b>
<b>NET ASSETS</b>		<b>11,430,272</b>	<b>4,756,463</b>
<b>EQUITY</b>			
Contributed equity		147,765,527	140,292,319
Reserves		1,322,595	1,000,466
Accumulated losses		(137,657,850)	(136,536,322)
Total equity attributable to equity holders of the Company		11,430,272	4,756,463
Non controlling interest		-	-
<b>TOTAL EQUITY</b>		<b>11,430,272</b>	<b>4,756,463</b>

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 THE HALF YEAR ENDED 30 JUNE 2011

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total	Non- controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2011</b>	<b>140,292,319</b>	<b>629,315</b>	<b>371,151</b>	<b>(136,536,322)</b>	<b>4,756,463</b>	<b>-</b>	<b>4,756,463</b>
<b>Total comprehensive income for period</b>							
Profit/(loss)	-	-	-	(1,121,528)	(1,121,528)	-	(1,121,528)
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	204,883	-	-	204,883	-	204,883
Total other comprehensive income	-	204,883	-	-	(916,645)	-	(916,645)
Total other comprehensive income for the period	-	204,883	-	(1,121,528)	(916,645)	-	(916,645)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Employee share options expense	-	-	117,246	-	117,246	-	117,246
Contribution of equity, net of transaction costs	7,473,208	-	-	-	7,473,208	-	7,473,208
Total transactions with equity holders	7,473,208	-	117,246	-	7,590,454	-	7,590,454
<b>Total equity at the end of period 30 June 2011</b>	<b>147,765,527</b>	<b>834,198</b>	<b>488,397</b>	<b>(137,657,850)</b>	<b>11,430,272</b>	<b>-</b>	<b>11,430,272</b>

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total	Non- controlling interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2010</b>	<b>135,313,344</b>	<b>209,132</b>	<b>4,735</b>	<b>(133,850,142)</b>	<b>1,677,069</b>	<b>-</b>	<b>1,677,069</b>
<b>Total comprehensive income for period</b>							
Profit/(loss)	-	-	-	(1,357,963)	(1,357,963)	-	(1,357,963)
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	(54,097)	-	-	(54,097)	-	(54,097)
Total other comprehensive income	-	(54,097)	-	-	(1,412,060)	-	(1,412,060)
Total other comprehensive income for the period	-	(54,097)	-	(1,357,963)	(1,412,060)	-	(1,412,060)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Employee share options expense	-	-	82,088	-	82,088	-	82,088
Contribution of equity, net of transaction costs	301,388	-	-	-	301,388	-	301,388
Total transactions with equity holders	301,388	-	82,088	-	383,476	-	383,476
<b>Total equity at the end of period 30 June 2010</b>	<b>135,614,732</b>	<b>155,035</b>	<b>86,823</b>	<b>(135,208,105)</b>	<b>648,485</b>	<b>-</b>	<b>648,485</b>

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 THE HALF YEAR ENDED 30 JUNE 2011

	Notes	Half-year
	30 June 2011 \$	30 June 2010 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(864,536)	(718,700)
Interest received	156,056	55,464
Finance costs	(51,148)	(59)
<b>Net cash used in operating activities</b>	<b>(759,628)</b>	<b>(663,295)</b>
<b>Cash flows from investing activities</b>		
Payments for office furniture, equipment and vehicles	(51,368)	(17,971)
Exploration and evaluation expenditures	(1,422,777)	(1,020,466)
Loans to other entities	-	(150,470)
<b>Net cash used in investing activities</b>	<b>(1,474,145)</b>	<b>(1,188,907)</b>
<b>Cash flows from financing activities</b>		
Repayment of loans	(635,894)	-
Net proceeds from the issue of share capital	6,416,633	301,388
<b>Net cash from financing activities</b>	<b>5,780,739</b>	<b>301,388</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,546,966</b>	<b>(1,550,814)</b>
Cash and cash equivalents at beginning of the period	4,037,462	3,283,924
Effects of exchange rate changes on balances of cash held in foreign currencies	(116,884)	14,138
<b>Cash and cash equivalents at the end of the period</b>	<b>7,467,544</b>	<b>1,747,248</b>

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



**Arc Exploration Limited and its Controlled Entities**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2011**

**1 Reporting Entity**

Arc Exploration Limited (the "Company") is a publicly listed company that is incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the period ended 30 June 2011 comprise the Company and its controlled entities (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2010 is available upon request from the Company's registered office at Suite 1502, Level 15, Tower B, 799 Pacific Highway, Chatswood NSW 2067, or at [www.arcexploration.com.au](http://www.arcexploration.com.au).

**2 Statement of Compliance**

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

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2010.

The consolidated interim financial statements were approved by the Board of Directors on 5 September 2011.

**3 Significant accounting policies**

Except as described below the accounting policies applied by the Group in this consolidated interim report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2010.

**Determination and presentation of operating segments**

The Group has applied *AASB 8 Operating Segments* and its associated amending standards from 1 January 2009. As of 1 January 2009 the Group determines and presents operating segments based information produced and provided by management 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 from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the MD to make decisions about resources to be allocated to the segment and assess its performance, for which discrete financial information is available.

Segment results that are reported to the MD include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate office assets, head office expenses, and income tax assets and liabilities.

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

Comparative segment information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

**4 Estimates**

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2010.

**5 Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 31 December 2010.

**Arc Exploration Limited and its Controlled Entities**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2011**

**6 Going concern**

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

The Group is in a strong financial position with \$7.4 M in cash as at 30 June 2011.

The Group's cash burn rate during the six month period to 30 June 2011 and thereafter to the date of this report has not been as great as originally contemplated due to reduced drilling expenditure at Trenggalek and due to the fact that drilling has not yet commenced at the Bima project due to land access issues.

Based on a cash flow forecast for the period 1 July 2011 to 30 September 2012, the Group has sufficient funds to continue its planned exploration program in Indonesia and also to meet corporate operating costs in both Australia and Indonesia during this period. In addition, whilst not reflected in the current budgets or forecasts, management have the ability to reduce expenditure in certain areas (if required by unforeseen events) to further preserve the Group's cash.

During the 2010 year the Company continued to demonstrate its ability to raise shareholder funds for its exploration program via the share placement in October 2010 which raised \$1.2M, the Share Purchase Plan which closed over subscribed on 27 October 2010 and raised \$3.0M and the exercise of ARXOA Options in January 2011 which raised \$6.9M.

If the Group, including the Company, is unable to continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. In addition, the functional currency of the Indonesian subsidiary may also need to be reassessed if the Group is not a going concern which would impact the translation of foreign currency denominated transactions and balances.

**7 Segment reporting**

The results and financial position of the Company's single operating segment exploration activities in Indonesia, are prepared for the MD on a basis consistent with Australian Accounting Standards and are consistent to that presented in the last annual financial report, thus no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items have been made.

**8 Interest bearing liabilities- Unsecured loans**

As at 30 June 2011 the outstanding principal and capitalised interest amount on these unsecured loans is US\$1,294,553 (A\$1,205,469).

Between 31 January 2008 and 1 July 2010 the loan interest rate was 10% per annum with the interest being capitalised quarterly in arrears. From 1 July 2010 the loan interest rate is 5% per annum with the interest being paid in cash quarterly in arrears. 50% of the principal was repaid in March 2011. In April 2011 one of the lenders loans was paid in full by the issue of shares. The remainder of these loans will be repayable in March 2012.

**9 Share-based payment reserve**

During the half year ended 30 June 2011 the company issued options to key management personnel pursuant to shareholder approval at the Company's Annual General Meeting on 27 May 2011.

23,290,000 options were issued at an exercise price of 4.2 cents per share with an expiry date of 27 May 2016. 50% of the options vest on 31 December 2011 with the remaining 50% to vest on 31 December 2012 subject to the option holder still being a Company director or Group employee at the relevant vesting date. The options shall not expire by reason of the option holder subsequently resigning or ceasing to be a director or employee. The options shall also vest if a person becomes entitled to in excess of 30% of the shares in the company. The options shall immediately vest in the event of death for the benefit of the option holder's estate.

Cost of options issued to directors and key management personnel charged to the statement of comprehensive income for 30 June 2011 was \$117,246 (31 December 2010: \$82,088 ).

**10 Related party transactions**

**Transactions with Directors or Related Entities**

Loan of US \$152,300 (2010: US\$304,600) owed by the Company to Mr John Carlile as at 30 June 2011.

During the period Mr John Carlile received the following

- interest payments of 5% being US\$3,689 on a loan provided to the Company.
- repayment by issue of 2,679,593 shares @ \$0.0275 equivalent to US\$76,150 on a loan provided to the Company.
- repayment of US\$76,150 on a loan provided to the Company

**Arc Exploration Limited and its Controlled Entities**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2011**

**11 Capital and Reserves**

The company made the following share issues during the half year:

Exercise of 190,632,875 ARXOA Options @ 3.6 cent per share raising \$6,862,784.

Issued 38,637,113 shares @ \$0.0275 to repay a loan of \$1,056,263.

The funds raised are being used to provide working capital to continue exploration and project generation work.

**12 Subsequent events**

There has not arisen in the interval between the end of the financial half year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

**Arc Exploration Limited and its Controlled Entities**

**DIRECTORS' DECLARATION**

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

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the six month period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the directors:

Dated 5 September 2011



**Mr. John C. Carlile**

**Managing Director**



**Bruce J. Watson**

**Non-Executive Chairman**



## **Independent auditor's review report to the members of Arc Exploration Limited**

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Arc Exploration Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' responsibility for the interim financial report*

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

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Arc Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



*Conclusion*

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Shane O'Connor  
*Partner*

Sydney

5 September 2011