



**Arc Exploration Limited**

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

**INTERIM REPORT**

**FOR THE HALF YEAR ENDED 30 JUNE 2012**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2011 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 2012**

**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 2012.

**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.

<b>Name</b>	<b>Period of Directorship</b>
<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
- providing support to Anglo American to undertake copper/gold exploration on the Strategic Alliance project area in West Papua and to provide geological evaluation and exploration services elsewhere in Indonesia.

**REVIEW OF OPERATIONS**

The Group is exploring for gold, silver and associated base metal deposits 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. During the period the Group entered into an agreement with Anglo American Group to provide geological evaluation and exploration services in Indonesia. This agreement provides an opportunity to build a closer working relationship with Anglo and has offset some ARX management and technical costs in Indonesia.

**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.

Soil sampling and initial trenching at the Bogoran Prospect produced coincident gold-molybdenum anomalies over extensively stockworked volcanic rocks. The elevated molybdenum results were significant and comparable to those above the buried porphyry copper-gold deposit at Intrepid's Tujuh Bukit Project. Soil sampling and detailed geological mapping were also undertaken over the Sumber Bening Prospect, which represents a possible high-sulphidation epithermal target. The early results from Bogoran and Sumber Bening were particularly encouraging as they supported the possibility of buried mineralised porphyry systems occurring on the Trenggalek IUP.

**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.

Anglo advised that they are advancing with preparations to do an airborne geophysical survey over the three IUP's in West Papua that are part of the ARX – Anglo Strategic Alliance.

**Bima Project – East Sumbawa (Arc - Nil)**

The Group previously operated a joint-venture with PT Sumber Mineral Nusantara which held the Bima IUP covering an area of 24,980 hectares in East Sumbawa. Civil disturbances and anti-mining demonstrations occurred in the city of Bima in December 2011 and January 2012. Following these demonstrations SMN was advised by the Regent of Bima that the Exploration IUP license was revoked for security reasons as of 28 January 2012 even though SMN and The Group had operated in full compliance with all legal and regulatory licence requirements at all times. The Group carefully considered its options from all perspectives and decided not to commence court proceedings against the revocation of the Exploration IUP.

The net result of operations for the half-year was a loss of \$661,876 (2011: loss \$1,121,528).

**Financial**

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

Issued 91,509,021 shares @ \$0.0068 to repay loans of \$622,261.

Interim Consolidated Financial Report  
For The Half Year Ended 30 June 2012

DIRECTORS' REPORT (Continued)

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 2012.

Signed at Sydney this 28 August 2012 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 2012 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.

KPMG

Shane O'Connor  
*Partner*

Sydney

28 August 2012

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 30 JUNE 2012

	2012	Half-year	2011
	\$		\$
<b>Continuing operations</b>			
Other income	364,716		7,855
Employee expenses	(591,977)		(605,799)
Depreciation expenses	(17,054)		(21,536)
Management, administrative and occupancy expenses	(508,812)		(746,595)
Unrealised foreign exchange gain/(loss)	(4,631)		96,392
<b>Profit/(loss) before financing costs</b>	<b>(757,758)</b>		<b>(1,269,683)</b>
Interest income	113,532		206,383
Finance expenses	(17,650)		(58,228)
<b>Profit/(loss) before income tax</b>	<b>(661,876)</b>		<b>(1,121,528)</b>
Income tax (expense)/benefit	-		-
<b>Profit/(loss) from continuing operations</b>	<b>(661,876)</b>		<b>(1,121,528)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations	8,980		204,883
Income tax on other comprehensive income	-		-
<b>Other comprehensive income for the period, net of tax</b>	<b>8,980</b>		<b>204,883</b>
Total comprehensive income for the period	<u>(652,896)</u>		<u>(916,645)</u>
<b>Profit/(loss) attributable to:</b>			
Equity holders of the Company	(661,876)		(1,121,528)
Non controlling interests	-		-
<b>Profit/(loss) for the period</b>	<b>(661,876)</b>		<b>(1,121,528)</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company	(652,896)		(916,645)
Non controlling interests	-		-
<b>Profit/(loss) for the period</b>	<b>(652,896)</b>		<b>(916,645)</b>
<b>Earnings per share</b>			
Basic earnings/(loss) per share (cents per share)	(0.08)		(0.15)
Diluted earnings/(loss) per share (cents per share)	(0.08)		(0.15)
<b>Earnings per share - continuing operations</b>			
Basic earnings/(loss) per share (cents per share)	(0.08)		(0.15)
Diluted earnings/(loss) per share (cents per share)	(0.08)		(0.15)

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 2012

	Notes	30 June 2012 \$	31 December 2011 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		4,184,577	5,851,354
Receivables		199,549	38,078
Other		148,659	148,024
<b>TOTAL CURRENT ASSETS</b>		<b><u>4,532,785</u></b>	<b><u>6,037,456</u></b>
<b>NON-CURRENT ASSETS</b>			
Receivables		189,150	196,600
Plant and equipment		45,645	62,916
Exploration and evaluation expenditure		4,914,531	4,631,180
<b>TOTAL NON-CURRENT ASSETS</b>		<b><u>5,149,326</u></b>	<b><u>4,890,696</u></b>
<b>TOTAL ASSETS</b>		<b><u>9,682,111</u></b>	<b><u>10,928,152</u></b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		147,965	179,705
Interest bearing liabilities		-	1,274,668
Other		34,861	34,887
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>182,826</u></b>	<b><u>1,489,260</u></b>
<b>NON-CURRENT LIABILITIES</b>			
Other payables		1,420	-
Provisions		117,843	99,074
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b><u>119,263</u></b>	<b><u>99,074</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>302,089</u></b>	<b><u>1,588,334</u></b>
<b>NET ASSETS</b>		<b><u>9,380,022</u></b>	<b><u>9,339,818</u></b>
<b>EQUITY</b>			
Contributed equity		148,387,790	147,765,528
Reserves		1,436,389	1,356,571
Accumulated losses		(140,444,157)	(139,782,281)
Total equity attributable to equity holders of the Company		<u>9,380,022</u>	<u>9,339,818</u>
Non controlling interest		-	-
<b>TOTAL EQUITY</b>		<b><u>9,380,022</u></b>	<b><u>9,339,818</u></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 2012

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total	Non- controlling interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2012</b>	<b>147,765,528</b>	<b>595,647</b>	<b>760,924</b>	<b>(139,782,281)</b>	<b>9,339,818</b>	<b>-</b>	<b>9,339,818</b>
<b>Total comprehensive income for period</b>							
Profit/(loss)	-	-	-	(661,876)	(661,876)	-	(661,876)
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	8,980	-	-	8,980	-	8,980
Total other comprehensive income	-	8,980	-	-	8,980	-	8,980
Total comprehensive income for the period	-	8,980	-	(661,876)	(652,896)	-	(652,896)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Employee share options expense	-	-	70,838	-	70,838	-	70,838
Contribution of equity, net of transaction costs	622,262	-	-	-	622,262	-	622,262
Total transactions with equity holders	622,262	-	70,838	-	693,100	-	693,100
<b>Total equity at the end of period 30 June 2012</b>	<b>148,387,790</b>	<b>604,627</b>	<b>831,762</b>	<b>(140,444,157)</b>	<b>9,380,022</b>	<b>-</b>	<b>9,380,022</b>

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total	Non- controlling interest	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	-	-	204,883	-	204,883
Total 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>

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 2012

Notes	30 June 2012 \$	Half-year 30 June 2011 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	198,694	-
Payments to suppliers and employees	(859,970)	(864,536)
Exploration and evaluation expenditure expensed	(169,685)	-
Interest received	123,956	156,056
Finance costs	(13,888)	(51,148)
	<u>(720,893)</u>	<u>(759,628)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from investing activities</b>		
Payments for office furniture, equipment and vehicles	-	(51,368)
Exploration and evaluation expenditures	(322,067)	(1,422,777)
Net proceeds from sale of asset	13,926	-
	<u>(308,141)</u>	<u>(1,474,145)</u>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Repayment of loans	(651,186)	(635,894)
Net proceeds from the issue of share capital	-	6,416,633
	<u>(651,186)</u>	<u>5,780,739</u>
<b>Net cash from financing activities</b>		
<b>Net increase/(decrease) in cash and cash equivalents</b>	(1,680,220)	3,546,966
Cash and cash equivalents at beginning of the period	5,851,354	4,037,462
Effects of exchange rate changes on balances of cash held in foreign currencies	13,443	(116,884)
	<u>4,184,577</u>	<u>7,467,544</u>
<b>Cash and cash equivalents at the end of the period</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 2012**

**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 2012 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 2011 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 2011.

The consolidated interim financial statements were approved by the Board of Directors on 28 August 2012.

**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 2011.

**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 2011.

**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 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 \$4,184,577 in cash as at 30 June 2012.

The Group's cash burn rate during the six month period to 30 June 2012 has been reduced due to reduced expenditure at Trenggalek and due to income received from the agreement entered into with Anglo American Group to provide geological evaluation and exploration services in Indonesia.

Based on a cash flow forecast for the period 1 July 2012 to 30 September 2013, 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.

If a 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.

**Arc Exploration Limited and its Controlled Entities**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2012**

**7 Segment reporting**

The results and financial position of the Company's single operating segment exploration activities in Indonesia, are prepared for the Managing Director 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**

During the period the Group issued ordinary shares in the capital of the Company and paid cash to each of Aclare Investments Limited, Hermani Soeprapto and Mr John Carlile (Lenders) as final repayment of loans owing by the Company to them. The Group is now debt free following the full repayment of these loans.

The amounts repaid to each of these lenders are set out below:

Lender	Cash Paid \$US	Shares Issued
Aclare Investments Limited	456,901	64,594,620
Hermani Soeprapto	114,225	16,148,655
Mr John Carlile	76,150	10,765,746
<b>Total</b>	<b>647,276</b>	<b>91,509,021</b>

No cash funds were raised by the issue of the shares referred to above however liabilities were extinguished.

**9 Share-based payment reserve**

Cost of options issued to directors and key management personnel charged to the statement of comprehensive income for 30 June 2012 was \$70,838 (31 December 2011: \$117,246 ).

**10 Related party transactions**

**Transactions with Directors or Related Entities**

Loan of US \$152,300 owed by the Company to Mr John Carlile has been repaid as at 30 June 2012.

During the period Mr John Carlile received the following

- interest payments of 5% being US\$1,899 on a loan provided to the Company.
- repayment by issue of 10,765,746 shares @ \$0.0068 equivalent to US\$76,150 on a loan provided to the Company.
- repayment of US\$76,150 on a loan provided to the Company

**11 Capital and Reserves**

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

Issued 91,509,021 shares @ \$0.0068 to repay loans of \$622,261.

**12 Subsequent events**

In August 2012 the Group entered into an agreement with Anglo American covering its Trenggalek Project in East Java. Anglo American has recently undertaken high resolution airborne magnetic and radiometric surveys over the entire 300 km<sup>2</sup> Trenggalek IUP tenement and is currently carrying out ground geochemical sampling and mapping in selected areas. Following completion of the surveys and evaluation of results Anglo American may elect to move forward and earn a majority interest by sole funding ongoing activities at the Trenggalek Project.

With the exception of the above, 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 2012 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 28 August 2012



**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, which comprises the consolidated statement of financial position as at 30 June 2012, 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 internal 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 2012 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 2012 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

Shane O'Connor  
*Partner*

Sydney

28 August 2012