



Arc Exploration Limited

A.B.N. 48 002 678 640

INTERIM REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2016

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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 2015 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 2016

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 2016.

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
Executive	
Mr Jeffrey Malaihollo (Managing Director, CEO)	Managing Director October 2013
Non-Executive	
Mr. Bruce J. Watson (Chairman of the Board and the Audit Committee)	Appointed Chairman (Board and Audit Committee) 2005 Director 1998-2001, Director since 2005
Mr John Carile	Retired as Managing Director remained as Non-Executive Director October 2013 Appointed Managing Director January 2008 Director since 1998
Mr. Robert M. Willcocks	Director since July 2008
Mr Liem Max Ramajaya (Mr Max Ramajaya)	Director since September 2014

PRINCIPAL ACTIVITIES

During the period the principal activities of Arc Exploration Limited and its controlled entities were copper-gold exploration in Asia Pacific region concentrating on high impact gold and porphyry copper-gold deposits with 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. The Group also sought to identify new asset and funding opportunities that may be appropriate to build on the group's current level of activities and enhance its future prospects.

REVIEW OF OPERATIONS

The Group is focused on gold and base metal exploration in Indonesia and Australia.

INDONESIA

Trenggalek Project, East Java

The Group operates a joint venture with P.T. Sumber Mineral Nusantara ("SMN"), an Indonesian company which holds the Trenggalek Exploration IUP tenement that covers an area of approximately 300 square km in the Southern Mountains of East Java.

The Exploration IUP is valid until November 2018 and SMN holds a Pinjam-Pakai ("Borrow Use") Forestry Permit, valid until the 3 November 2016, which allows the Company to conduct exploration work on several targets in production forestry areas within the tenement. The Company has started the process of applying for an extension for this permit.

Early exploration work by ARX concentrated on the testing of multiple epithermal gold targets identified on the Trenggalek IUP. Initial drill testing was conducted on several vein prospects during 2010-11 and produced significant gold-silver intercepts including 9 m at 4.5 g/t Au & 8 g/t Ag at Sentul, 13.7 m at 3.2 g/t Au & 60 g/t Ag at Buluroto, and 6.6 m at 4.9 g/t Au & 149 g/t Ag at Kojan, highlighting potential for high-grade gold discoveries in the project area.

A Joint Venture with Anglo American from late 2012 until late 2014 was focused on exploring for porphyry copper-gold on the Trenggalek IUP. This partnership identified several significant targets that had advanced surface evaluations and some initial drill testing and generated an extensive geophysical and geochemical database for porphyry targeting in the project area.

P.T. Danusa Tambang Nusantara ('Danusa') has managed and funded exploration work at Trenggalek during the first half of this financial year under an agreement that was announced in late 2015 (see ARX announcements dated 18 November 2015 and 10 February 2016).

Exploration activity conducted at Trenggalek during the first half of this financial year included additional scout diamond drilling and surface mapping. A total of 2745 m of drilling in 20 holes was completed on epithermal vein targets at the Sentul and Buluroto prospects. Gold results were received for sixteen holes and returned some significantly mineralised intercepts including 1.8 m at 3.8 g/t Au (STDH03), 5.15 m at 6.9 g/t Au (STDH04) & 1.75 m at 1.6 g/t Au (STDH08) on the Sentul Vein (see ARX announcements dated 18 April 2016 and 21 June 2016).

An evaluation of these results and the planning of on-going programs to be managed and funded by Danusa are in progress.

Arc Exploration Limited and its Controlled Entities
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Interim Consolidated Financial Report
For The Half Year Ended 30 June 2016

DIRECTORS' REPORT (Continued)

REVIEW OF OPERATIONS (CONTINUED)

AUSTRALIA

ARX exercised its right under farm-in agreements with New South Resources Pty Ltd ("NSR") to withdraw from the Junee and Oberon projects located in New South Wales, effective 13 April 2016 (see ASX announcement dated 14 March 2016). ARX also relinquished its 100% held exploration tenements, EL 8349 (Oberon) and EL 8152 (Junee), during the first half of this financial year.

ARX holds an agreement with Snowmist Pty Ltd ("Snowmist") to farm-in to its Mount Garnet project located in Far North Queensland (see ASX announcement dated 28 July 2015). This project occurs in the Hodgkinson Province, another complex geological terrane endowed with world-class gold-breccia deposits.

The Mount Garnet Project, QLD (100% Snowmist; ARX earning up to 80%)

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 100% held by Snowmist Pty Ltd ("Snowmist"), and an exploration tenement (EPM 25343) covering about 17 square km that is held by Arc Exploration Limited ("ARX").

The package of mining tenements held by Snowmist of the Triple Crown gold deposit, which has a drill-indicated gold resource estimated to be 69,000 ounces and includes a small oxide resource of about 25,000 ounces gold (see ASX announcement dated 21 August 2013). Historic drilling at Triple Crown has produced some broad low-grade gold intercepts including 22m at 2.33 g/t gold, 51m at 1.73 g/t gold and 35m at 1.39 g/t gold (see ARX announcement dated 21 August 2013).

The project area lies in the Mount Garnet tin-base metal mining subdistrict of the Herberton Tinfield and within the southern end of a discontinuous belt of Siluro-Devonian calcareous metasedimentary rocks (Chillagoe Formation) that is bounded by the major regional Palmerville Fault and intruded by Permo-Carboniferous granites. These rocks are host to a number of gold-base metal-tin skarn and disseminated gold-base metal-tin stockwork/breccia deposits in the region, including Red Dome (gold-copper), Mungana (gold-zinc) and King Vol (zinc) in the Chillagoe district, and Mount Garnet (zinc-copper), Gillian (tin) and Triple Crown (gold) in the Mount Garnet district.

There is a significant potential to increase the known gold resource at Triple Crown and additional potential to identify new gold-breccia targets and other deposit styles, including base metal skarn similar to that exploited at the nearby Mount Garnet zinc-copper mine.

No field activities were undertaken during the first half of this financial year. The Company is seeking to raise cash or find another farm-in partner to fund further exploration on this project.

Net Loss After Tax

The net loss after tax for the half-year was \$336,166 (2015: loss \$715,737).

Financial

Following shareholder approval at the AGM on 31 May 2016, 219,633,332 shares (on a pre-consolidation basis) were issued in lieu of Directors Fees and Salaries to preserve existing cash resources.

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

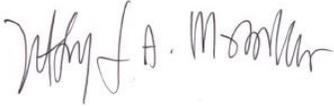
Arc Exploration Limited and its Controlled Entities
A.B.N. 48 002 678 640

Interim Consolidated Financial Report
For The Half Year Ended 30 June 2016

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on Page 5 and forms part of the Directors' report for the half-year ended 30 June 2016.

Signed at Sydney this 9 September 2016 in accordance with a resolution of the directors.



Jeffrey Malaihollo
Managing Director



Bruce J Watson
Non-Executive Chairman

The Board of Directors
Arc Exploration Limited
Level 8, 65 York Street,
Sydney NSW 2000

9 September 2016

Dear Board Members

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

As lead audit partner for the review of the financial report of Arc Exploration Limited and its Controlled Entities for the half year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



Nexia Court & Co
Chartered Accountants



Joseph Santangelo
Partner

Sydney

Sydney Office

Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nxiacourt.com.au, www.nexia.com.au

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Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2016

	Half-year	
	30 June 2016	30 June 2015
	\$	\$
Continuing operations		
Other income	90,474	174,239
Employee expenses	(161,586)	(488,756)
Depreciation expenses	(1,227)	(2,480)
Management, administrative and occupancy expenses	(239,345)	(306,460)
Exploration expenditure	(36,309)	(86,322)
Unrealised foreign exchange gain/(loss)	5,148	(18,613)
Loss before financing costs	<u>(342,845)</u>	<u>(728,392)</u>
Interest income	6,679	12,655
Loss before income tax	<u>(336,166)</u>	<u>(715,737)</u>
Income tax (expense)/benefit	-	-
Loss after tax	<u>(336,166)</u>	<u>(715,737)</u>
Other comprehensive income		
Items that will not be reclassified to profit and loss	-	-
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences for foreign operations	14,367	(385)
Other comprehensive income for the period, net of tax	<u>14,367</u>	<u>(385)</u>
Total comprehensive income for the period	<u>(321,799)</u>	<u>(716,122)</u>
Earnings per share		
Basic and diluted earnings/(loss) per share (cents per share)	(13.14)	(33.37)

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

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	30 June 2016 \$	31 December 2015 \$
CURRENT ASSETS			
Cash and cash equivalents		577,595	679,773
Receivables		10,568	3,759
Other		116,900	149,435
TOTAL CURRENT ASSETS		705,063	832,967
NON-CURRENT ASSETS			
Receivables		186,619	181,214
Plant and equipment		950	2,553
Exploration and evaluation expenditure		5,392,062	5,338,653
TOTAL NON-CURRENT ASSETS		5,579,631	5,522,420
TOTAL ASSETS		6,284,694	6,355,387
CURRENT LIABILITIES			
Trade and other payables		134,859	339,818
Other		34,861	34,861
TOTAL CURRENT LIABILITIES		169,720	374,679
NON-CURRENT LIABILITIES			
Provisions		67,775	68,889
TOTAL NON-CURRENT LIABILITIES		67,775	68,889
TOTAL LIABILITIES		237,495	443,568
NET ASSETS		6,047,199	5,911,819
EQUITY			
Contributed equity	8	149,837,577	149,380,398
Reserves		1,901,719	1,887,352
Accumulated losses		(145,692,097)	(145,355,931)
Total equity attributable to equity holders of the Company		6,047,199	5,911,819
TOTAL EQUITY		6,047,199	5,911,819

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

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2016

	Notes	Half-year
	30 June 2016 \$	30 June 2015 \$
Cash flows from operating activities		
Consulting fees	-	163,625
Payments to suppliers and employees	(301,900)	(799,023)
Exploration and evaluation expenditure	(38,125)	(350,287)
Interest received	6,679	18,449
	<u>(333,346)</u>	<u>(967,236)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Receipts for office furniture, equipment and vehicles	330	-
Payments for Security Deposits	-	(10,000)
	<u>330</u>	<u>(10,000)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceed from capital raising	347,546	-
Payments for capital raisings	(110,000)	(28,083)
	<u>237,546</u>	<u>(28,083)</u>
Net cash from financing activities		
Net increase/(decrease) in cash and cash equivalents	(95,470)	(1,005,319)
Cash and cash equivalents at beginning of the period	679,773	1,506,317
Effects of exchange rate changes on balances of cash held in foreign currencies	(6,708)	(58,157)
	<u>577,595</u>	<u>442,841</u>
Cash and cash equivalents at the end of the period		

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 2016

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 2016 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 2015 is available upon request from the Company's registered office at Level 8, 65 York Street, Sydney NSW 2000, or at www.arcexploration.com.au.

2 Statement of Compliance

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

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2015.

The consolidated interim financial statements were approved by the Board of Directors on 9 September 2016.

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 2015.

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 2015.

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 2015.

6 Going concern

The financial report is prepared on a going concern basis which reflects the Directors' expectation that the Group will be able to realise its assets and settle its obligations in the normal course of business. In making this assessment the Directors have prepared cash flows forecasts until 30 September 2017, taking the following into consideration:

- It is anticipated that PT Danusa Tambang Nusantara (Danusa) will continue to fund all holding costs (excluding prior years building taxes and dead rents) and any ongoing exploration during the course of 2016 and 2017 in order to earn an interest in the Trenggalek project in Indonesia;
- The Group, has 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 announced on 19 August 2016 and 2 September 2016 that it had agreed to make a placement to private investors to raise new capital of \$570,000 and it is envisaged that additional new capital may be raised in the year ended 31 December 2016 (subject to suitable market conditions) if a suitable exploration project is identified for acquisition. These funds raised to date will be applied to meet the Group's cash burn rate and committed obligations and to investigate new opportunities for acquisition;
- The Group is seeking to identify new asset and transaction opportunities that may be appropriate to build on the Group's current level of activities and enhance its future prospects.

If additional funding is required but cannot be obtained, there would be 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 not incur liabilities that it was not in a position to pay from available cash resources.

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

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016

7 Segment reporting

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

Segment assets and liabilities	June 2016	December 2015
Information about reportable segments	\$	\$

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

Assets		
Australia exploration	234,016	230,607
Indonesia exploration	5,158,046	5,108,046
Corporate	892,632	1,016,734
	<u>6,284,694</u>	<u>6,355,387</u>
Liabilities		
Australia exploration	-	-
Indonesia exploration	-	-
Corporate	237,495	443,568
	<u>237,495</u>	<u>443,568</u>
Equity		
	<u>6,047,199</u>	<u>5,911,819</u>

2016 - June

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

2015 - June

	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income	-	-	174,239	174,239
Employee expenses	-	-	(488,756)	(488,756)
Depreciation expenses	-	-	(2,480)	(2,480)
Other expenses	-	-	(306,460)	(306,460)
Exploration expenses	-	(86,322)	-	(86,322)
Foreign exchange losses	-	-	(18,613)	(18,613)
Loss before financing costs	<u>-</u>	<u>(86,322)</u>	<u>(642,070)</u>	<u>(728,392)</u>
Interest income	-	-	12,655	12,655
Loss before income tax	<u>-</u>	<u>(86,322)</u>	<u>(629,415)</u>	<u>(715,737)</u>
Income tax (expense)/benefit	-	-	-	-
Loss after tax	<u>-</u>	<u>(86,322)</u>	<u>(629,415)</u>	<u>(715,737)</u>

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016

8 Contributed Equity

The company issued 219,633,332 shares (on a pre-consolidation basis) during the half year to settle part of Directors Fees / Salary to preserve existing cash resources. During the half year the company consolidated its share capital 500:1 and on this basis 439,266 shares were allotted in this regard.

	30-06-16	31-12-15	30-06-16	31-12-15
	Number	Number	\$	\$
Fully paid ordinary shares				
At the beginning of the period	1,192,944,578	1,063,390,131	149,380,398	149,130,428
Shares issued to settle part of Directors Fees / Salary (i)	219,633,332	70,665,556	219,633	202,364
Shares issued under share placement @ \$0.005 per share		58,888,891		106,000
Security consolidation	(1,409,751,439)			
Shares issued under share placement @ \$0.82 per share	423,773		347,546	
Transaction costs relating to share issues			(110,000)	(58,394)
	3,250,244	1,192,944,578	149,837,577	149,380,398

(i) Shares were issued to Directors at a share price higher than the price available in the market, which resulted in a gain to the Group of \$90,474. This is included on other income for the half-year ended 30 June 2016.

9 Subsequent events

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

On 19 August The Group announced that it had agreed, subject to shareholder approval, to make a placement to private investors of 850,000 shares at a price of \$0.60 per share to raise \$510,000 with the support of Taylor Collison Limited as Lead Manager. On 2 September The Group announced that the placement had been increased to 950,000 shares to raise \$570,000 and a number of Board changes would occur following completion of the placement. It is contemplated that each of Bruce Watson, Jeff Malaihollo, John Carlile and Max Ramajaya will resign from the Board and that Simon O'Loughlin, Simon Taylor and Andrew Cooke will be appointed to the Board. The funds raised from the placement are to be used for working capital purposes and to investigate the acquisition of further exploration opportunities.

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

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016

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:

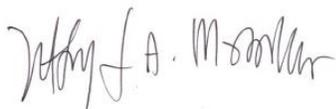
(a) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the six month period ended on that date; and

(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 9 September 2016



Jeffrey Malaihollo
Managing Director



Bruce J Watson
Non-Executive Chairman

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

We have reviewed the accompanying half-year financial report of Arc Exploration Limited (the 'Company') and Consolidated Entities (the 'Group'), which comprises the consolidated statement of financial position as at 30 June 2016 the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration 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 Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arc Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been given to the directors of Arc Exploration Limited.

Sydney Office

Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiacourt.com.au, www.nexia.com.au

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF ARC EXPLORATION LIMITED
(CONT'D)**

Conclusion

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the half year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion, we draw your attention to Note 6 'Going concern' of the financial report, which indicates the Group has incurred net losses after income tax of \$336,166 for the period ended 30 June 2016 (30 June 2015: \$715,737) and experienced net cash outflows from operating, investing and financing activities of \$95,470 (30 June 2015: \$1,005,319) for the period ended 30 June 2016.

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

In note 6, the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As discussed in that note, if the equity raisings does not occur, there are material uncertainties as to whether the Company and the Group will be able to continue as a going concern and therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.



Nexia Court & Co
Chartered Accountants



Joseph Santangelo
Partner

9 September 2016
Sydney