



**Arc Exploration Limited**

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

**ANNUAL CONSOLIDATED FINANCIAL REPORT**

**FOR YEAR ENDED 31 DECEMBER 2016**

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

**Annual Consolidated Financial Report**  
**For Year Ended 31 December 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 year ended 31 December 2016.

**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.

<b>Name</b>	<b>Period of Directorship</b>
<b>Executive</b>	
Dr Jeffrey Malaihollo	Director since October 2013 resigned 11 October 2016
<b>Non-Executive</b>	
Mr Simon O'Loughlin (Chairman of the Board )	Appointed Director 11 October 2016
Mr Andrew Cooke	Appointed Director 11 October 2016
Mr Robert Willcocks	Director since July 2008
Mr Simon Taylor	Appointed Director 11 October 2016
Mr Bruce Watson	Appointed Chairman (Board and Audit Committee) 2005 Director 1998-2001, Director since 2005 resigned 11 October 2016
Mr John Carlile	Appointed Managing Director January 2008 Retired as Managing Director remained as Non-Executive Director October 2014
	Director since 1998 resigned 11 October 2016
Mr Liem Max Ramajaya (Mr Max Ramajaya)	Appointed Director 1 September 2014 resigned 11 October 2016

**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.

**REVIEW OF OPERATIONS AND FINANCIAL RESULTS**

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.

**INDONESIA**

**Trenggalek Project, East Java**

The Trenggalek Exploration IUP tenement is held by ARX's Indonesian partner, P.T. Sumber Mineral Nusantara. The tenement, covering an area of 29,969 ha or about 300 km<sup>2</sup>, is valid until November 2018. PT Danusa Tambang Nusantara (Danusa), a subsidiary of one of the largest contract miners in Indonesia, is currently managing and funding exploration work at Trenggalek.

In conjunction with Danusa a new phase of scout drilling at Trenggalek commenced in early February 2016. A total of 2745-m of drilling in 20 holes was completed on epithermal gold vein targets at the Sentul and Buluroto prospects. The presence of shallow gold mineralisation within a segment of the East Sentul vein was confirmed and porphyry style mineralisation was exposed at surface in Singgahan. A ground magnetic survey, soil sampling and mapping were undertaken at Singgahan to define drill targets for a second stage of exploration in 2017 which Danusa has agreed to with a budget of US\$ 1 million. Community and local government consultation continued throughout the tenement area.

**AUSTRALIA**

The Company relinquished two of its Australian projects (Junee and Oberon) as part of its continuing efforts to conserve cash.

**Mount Garnet**

The Group retained its option to farm-in to earn an 80% interest in the Mount Garnet Project in Northern Queensland (owned by Snowmist Pty Ltd). There was no significant field work completed on the Mount Garnet Project.

**Arc Exploration Limited and its Controlled Entities**  
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**DIRECTORS' REPORT (CONTINUED)**

**Consolidated Results**

The loss after tax for the year was \$722,652 (2015: loss of \$1,292,920).

**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**

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 review of the Groups interest in 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:

<b>Directors</b>	<b>Shares</b>	<b>Director &amp; Employee Options</b>
Simon O'Loughlin ^	50,000	-
Andrew Cooke ^	52,330	8,649
Robert Willcocks	31,083	7,207
Simon Taylor ^	50,000	-
	<hr/>	<hr/>
	183,413	15,856

^ Appointed 11/10/16

**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)**

**Mr Simon O'Loughlin**

Mr. O'Loughlin is a Partner of O'Loughlins Lawyers Real Estate and Corporate & Commercial Groups. Simon holds a Law Society (SA) Certificate in Law as well as a Bachelor of Arts (Accounting) from the University of South Australia. He is admitted to the South Australian and New South Wales Supreme Courts and High Court of Australia. Simon was a Partner at O'Loughlin Robertson, and also Minter Ellison Baker O'Loughlin, where he was a member of the Executive Committee and the Finance Partner. He founded O'Loughlins Lawyers in 1993.

Mr. O'Loughlin was appointed to the Board as Non-Executive Chairman on 11 October 2016.

Mr. O'Loughlin is a member of the Audit Committee.

**Mr Andrew Cooke**

Mr. Cooke holds a law degree from the University of Sydney and has over 20 years' involvement in the corporate arena primarily engaged in the resource, biotech and property sectors. He has worked throughout the Australasian region and in North America and acquired extensive experience in capital raising, joint ventures, strategic alliances, project financing, corporate governance and listing requirements. He has been the Company Secretary of Arc Exploration Limited since 1992 and been extensively involved in its operations in both Australia and Indonesia.

Mr. Cooke was appointed to the Board on 11 October 2016 as Non-Executive Director.

**Mr Robert Willcocks**

Mr Robert Willcocks was appointed a Non-Executive Director on 14 July 2008.

Mr Willcocks is a former senior partner with Mallesons Stephen Jaques, the 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 is currently a non-executive director of CBH Resources Limited and of APAC Resources Limited, a Hong Kong listed company (an investor in the resources industry).

Mr Willcocks has had an extensive business career having been at various times a director of BanPu Australia Pty Ltd, Oakbridge Pty Ltd, Emperor Mines Limited, Energy World Corporation Limited, eStar Online Trading Limited, RIMCapital Limited (Chairman) and Bond University Limited.

Mr Willcocks was appointed by the Australian Government to be a member of the Australian International Legal Advisory Committee for the term of its program in the 1990s. He is a former member of the Australia-Vietnam Business Council.

Mr. Willcocks is Chairman of the Audit Committee.

**Mr Simon Taylor**

Mr. Taylor is a geologist with over 25 years' experience in exploration, project assessment and development in the resources sector. He has had a diversified international career as a resources professional at both a technical and corporate level. His experience spans a range of commodities including gold, fertilisers (phosphate and potash), base metals, nickel, uranium, coal and coal seam methane. He is currently Managing Director of Oklo Resources Limited and a non-executive director with Chesser Resources Limited. He is a member of the Australian Institute of Geoscientists and a graduate of Sydney University.

Mr. Simon Taylor was appointed to the Board on 11 October 2016 as Non-Executive Director.

Mr. Taylor is a member of the Audit Committee.

**Arc Exploration Limited and its Controlled Entities**  
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**DIRECTORS' 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
Simon O'Loughlin ^	Bod Australia Ltd	Director since November 2016
	Chesser Resources Ltd	Director since March 2006
	Gooroo Ventures Ltd	Director since October 2016
	Lawson Gold Ltd	Director since July 2013
	Petratherm Ltd	Director since October 2003
	Food Revolution Group Ltd	Director from October 2015 to July 2016
	Goldminex Ltd	Director from July 2012 to February 2015
	Kibaran Resources Ltd	Director from September 2010 to August 2014
	Oklo Resources Ltd	Director from October 2015 to July 2016
	Reproductive Health Science Ltd	Director from August 2013 to August 2014
	WCP Resources Ltd	Director from March 2005 to February 2016
	Xref Ltd	Director from October 2014 to June 2016
Andrew Cooke ^	Nil	
Robert Willcocks	APAC Resources Limited	Director since July 2007
	Living Cell Technologies Limited	Director since March 2011
Simon Taylor ^	Bod Australia Ltd	Director since November 2016
	Chesser Resources Ltd	Director since March 2006
	Oklo Resources Ltd	Director since April 2014
	Xref Ltd	Director from October 2014 to January 2016
	AUSCANN Group Holdings Ltd	Director from December 2014 to January 2017

^ Appointed 11/10/16

**REMUNERATION REPORT - AUDITED**

**a. Principles used to determine the nature and amount of remuneration**

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. 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 for the March Quarter 2016. 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.

**DIRECTORS' REPORT (Continued)**

**REMUNERATION REPORT - AUDITED (CONTINUED)**

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

*Non-Executive Directors*

The Chairman (non-executive) is entitled to receive directors fees of \$40,000 per annum. Other non-executive directors are entitled to receive directors fees of \$36,000 per annum. In order to preserve the Group's cash, Directors elected part payment in shares for the March Quarter 2016. No further directors fees were paid until 11 October 2016. 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*

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Profit (loss) attributable to owners of the company	(722,652)	(1,292,920)	(1,616,409)	(1,466,017)	(1,198,304)
Dividends paid	-	-	-	-	-
Change in share price	0.0500	(0.0030)	(0.0030)	0.0020	(0.0100)
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' 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.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT - AUDITED (CONTINUED)

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

*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 2016 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.

*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"). There are currently no formalised service/employment contracts.

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
Simon O'Loughlin ^	\$ 10,000 per quarter
Andrew Cooke ^ #	\$ 24,000 per quarter
Robert Willcocks	\$ 9,000 per quarter
Simon Taylor ^	\$ 9,000 per quarter
<b>Executives</b>	
Cahyono Halim	\$ 5,000 per month

^ Appointed 11/10/16

# Receives \$9,000 per quarter Directors fees and \$5,000 per month consulting fee as Company Secretary

**Arc Exploration Limited and its Controlled Entities**  
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**DIRECTORS' REPORT (Continued)**

**REMUNERATION REPORT - AUDITED (CONTINUED)**

**b. Details of remuneration**

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.

<b>Name</b>	<b>Title</b>	<b>Period of Responsibility</b>
Simon O'Loughlin ^	Non-Executive Chairman	From 11/10/16
Andrew Cooke ^	Director	From 11/10/16
	Company Secretary	Full year
Robert Willcocks	Director	Full year
Simon Taylor ^	Director	From 11/10/16
Jeffrey Malaihollo ^^	Managing Director, CEO	To 11/10/16
Bruce Watson ^^	Director	To 11/10/16
John Carlile ^^	Director	To 11/10/16
Max Ramajaya ^^	Director	To 11/10/16
Cahyono Halim	Chief Financial Officer	To 11/10/16 then continued as a consultant

^ Appointed 11/10/16

^^ Resigned 11/10/16

*Remuneration details of Non-Executive Directors*

	<b>Directors Fees</b>			<b>Consultancy fees</b>		<b>Superannuation</b>	<b>Options</b>	<b>Total</b>
<b>2016</b>	<b>Cash</b>	<b>Shares in lieu of Salary *</b>	<b>Accrued shares in lieu of Salary</b>	<b>Cash</b>	<b>Shares in lieu of Salary *</b>			
<b>Name</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Simon O'Loughlin ^	8,913	-	-	-	-	-	-	8,913
Andrew Cooke ^	8,022	-	-	56,704	11,250	-	-	75,976
Robert Willcocks	8,022	3,750	-	-	-	-	-	11,772
Simon Taylor ^	8,022	-	-	-	-	-	-	8,022
Bruce Watson ^^	1,392	4,233	-	-	-	534	-	6,159
John Carlile ^^	-	3,750	-	-	-	-	-	3,750
Max Ramajaya ^^ (a)	-	-	-	-	-	-	-	-
<b>Total</b>	<b>34,371</b>	<b>11,733</b>	<b>-</b>	<b>56,704</b>	<b>11,250</b>	<b>534</b>	<b>-</b>	<b>114,592</b>

<b>2015</b>								
<b>Name</b>								
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
<b>Total</b>	<b>23,863</b>	<b>6,563</b>	<b>35,199</b>	<b>-</b>	<b>-</b>	<b>2,644</b>	<b>-</b>	<b>68,269</b>

^ Appointed 11/10/16

^^ Resigned 11/10/16

(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.

**\* 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 elected to waive 50% of their remuneration and the remaining 50% by the issue of shares in the Group until the end of March Quarter 2016. Following shareholder approval at the Annual General Meeting held 31 May 2016 the Group issued ordinary shares in the capital of the Group to each of Bruce Watson, Robert Willcocks and John Carlile for the March Quarter 2016 under this arrangement.

Further steps to preserve cash starting the June Quarter 2016 to 11 October 2016 each of Bruce Watson, John Carlile and Robert Willcocks waived 100% of their remuneration.



**Arc Exploration Limited and its Controlled Entities**  
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**DIRECTORS' REPORT (Continued)**

**REMUNERATION REPORT - AUDITED (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)	
<b>2016</b>	\$	\$		\$	\$	\$	\$	
<b>Director</b>								
Jeffrey Malaihollo ^^	-	34,500	-	12,804	-	-	-	47,304
<b>Executives</b>								
Cahyono Halim	15,000	27,750	-	8,922	-	-	-	51,672
<b>Total</b>	<b>15,000</b>	<b>62,250</b>	<b>-</b>	<b>21,726</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,976</b>
<b>2015</b>								
<b>Director</b>								
Jeffrey Malaihollo	79,350	24,150	103,500	47,025	-	-	-	254,025
<b>Executives</b>								-
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
<b>Total</b>	<b>331,550</b>	<b>95,525</b>	<b>189,675</b>	<b>83,907</b>	<b>2,874</b>	<b>-</b>	<b>-</b>	<b>703,531</b>

^^ Resigned 11/10/16

^^Ceased to be employed 31/12/15

(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 each of Jeffrey Malaihollo and Cahyono Halim elected to waive 50% of their remuneration and the remaining 50% by the issue of shares in the Group until the end of March Quarter 2016.

The Group issued ordinary shares in the capital of the Group to each of Cahyono Halim and Jeffrey Malaihollo for March Quarter 2016 under this arrangement. The issue of shares to Jeffrey Malaihollo were subject to shareholder approval at the Annual General Meeting of the Company. Any unissued shares are held as a current liability until issued.

Further steps to preserve cash starting the June Quarter 2016 to 11 October 2016 each of Jeffrey Malaihollo and Cahyono Halim waived 100% of their remuneration.

**Arc Exploration Limited and its Controlled Entities**  
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**DIRECTORS' REPORT (Continued)**

**REMUNERATION REPORT - AUDITED (CONTINUED)**

**b. Details of remuneration (continued)**

*Options*

No options were granted or vested during the year to Directors or key management personnel, held directly or beneficially.

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 - ceased to be KMP	Balance at 31 December	Vested during the year	Vested and exercisable at 31 December
<b>2016</b>								
<b>Directors</b>								
Simon O'Loughlin ^	-	-	-	-	-	-	-	-
Andrew Cooke ^	16,869	-	(8,220)	-	-	8,649	-	8,649
Robert Willcocks	9,947	-	(2,740)	-	-	7,207	-	7,207
Simon Taylor ^	-	-	-	-	-	-	-	-
Jeffrey Malaihollo ^^	32,431	-	-	-	(32,431)	-	-	-
Bruce Watson ^^	14,921	-	(4,110)	-	(10,811)	-	-	-
John Carlile ^^	19,537	-	(12,330)	-	(7,207)	-	-	-
Max Ramajaya ^^	-	-	-	-	-	-	-	-
<b>Executives</b>								
Cahyono Halim	29,840	-	(8,220)	-	-	21,620	-	21,620
Brad Wake	29,840	-	(8,220)	-	(21,620)	-	-	-
<b>Total</b>	<b>153,385</b>	<b>-</b>	<b>(43,840)</b>	<b>-</b>	<b>(72,069)</b>	<b>37,476</b>	<b>-</b>	<b>37,476</b>
<b>2015</b>								
<b>Directors</b>								
Jeffrey Malaihollo	32,431	-	-	-	-	32,431	-	32,431
Bruce Watson	14,921	-	-	-	-	14,921	-	14,921
John Carlile	19,537	-	-	-	-	19,537	-	19,537
Robert Willcocks	9,947	-	-	-	-	9,947	-	9,947
Max Ramajaya	-	-	-	-	-	-	-	-
<b>Executives</b>								
Andrew Cooke	16,869	-	-	-	-	16,869	-	16,869
Cahyono Halim	29,840	-	-	-	-	29,840	-	29,840
Brad Wake	29,840	-	-	-	-	29,840	-	29,840
<b>Total</b>	<b>153,385</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>153,385</b>	<b>-</b>	<b>153,385</b>

^ Appointed 11/10/16

^^ Resigned 11/10/16

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT - AUDITED (CONTINUED)

**b. Details of remuneration (continued)**

Options (continued)

	A	B	C
	Remuneration consisting of options	Granted during year	Exercised during year
	%	\$	\$
<b>2016</b>			
<b>Directors</b>			
Simon O'Loughlin ^	0%	-	-
Andrew Cooke ^	0%	-	-
Robert Willcocks	0%	-	-
Simon Taylor ^	0%	-	-
Jeffrey Malaihollo ^^	0%	-	-
Bruce Watson ^^	0%	-	-
John Carlile ^^	0%	-	-
Max Ramajaya ^^	0%	-	-
<b>Executives</b>			
Cahyono Halim	0%	-	-
<b>2015</b>			
<b>Directors</b>			
Jeffrey Malaihollo	0%	-	-
Bruce Watson	0%	-	-
John Carlile	0%	-	-
Robert Willcocks	0%	-	-
Max Ramajaya	0%	-	-
<b>Executives</b>			
Andrew Cooke	0%	-	-
Cahyono Halim	0%	-	-
Brad Wake	0%	-	-

**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 11/10/16

^^ Resigned 11/10/16

*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
31 December 2018	0.9 cents	109,544

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 - AUDITED (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 - ceased to be KMP	Balance as at 31 December
<b>2016</b>						
<b>Directors</b>						
Simon O'Loughlin ^	-	50,000	-	-	-	<b>50,000</b>
Andrew Cooke ^	14,830	37,500	-	-	-	<b>52,330</b>
Robert Willcocks	10,250	20,833	-	-	-	<b>31,083</b>
Simon Taylor ^	-	50,000	-	-	-	<b>50,000</b>
Jeffrey Malaihollo ^^	58,545	191,667	-	-	(250,212)	-
Bruce Watson ^^	40,134	23,517	-	-	(63,651)	-
John Carlile ^^	66,144	20,833	-	-	(86,977)	-
Max Ramajaya ^^	-	-	-	-	-	-
<b>Other Key Management Personnel</b>						
Brad Wake	14,389	21,583	-	-	(35,972)	-
Cahyono Halim	69,701	123,333	-	-	-	<b>193,034</b>

^ Appointed 11/10/16

^^Resigned 11/10/16

**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, Nexia Sydney Partnership, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact upon the impartiality and objectivity of the auditor
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards. Details of the amounts paid to the auditors of the Company, Nexia Sydney Partnership, and its related practices for audit and non-audit services provided during the year are set out in Note 30 to the financial statements.

**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 2016 and the number of meetings attended by each Director:

	<b>Meetings of Directors *</b>		<b>Audit Committee *</b>	
	<b>Eligible to Attend</b>	<b>Attended</b>	<b>Eligible to Attend</b>	<b>Attended</b>
Simon O'Loughlin ^	3	3	1	1
Andrew Cooke ^	3	3	#	#
Robert Willcocks	15	15	6	6
Simon Taylor ^	3	3	1	1
Jeffrey Malaihollo ^^	12	12	#	#
Bruce Watson ^^	12	12	5	5
John Carlile ^^	12	11	#	#
Max Ramajaya ^^	12	8	#	#

^ Appointed 11/10/16

^^Resigned 11/10/16

\*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 28th day of March 2017.



**Simon O'Loughlin**  
**Non-Executive Chairman**



**Andrew Cooke**  
**Non-Executive Director**

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

28 March 2017

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 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 audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely



**Nexia Sydney Partnership**



**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  
**e** [info@nexiasydney.com.au](mailto:info@nexiasydney.com.au)  
**w** [nexia.com.au](http://nexia.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Sydney Partnership (ABN 71 502 156 733) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

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Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR YEAR ENDED 31 DECEMBER 2016

	Notes	2016 \$	2015 \$
<b>Continuing operations</b>			
Other income	6a (i)	11,001	680,748
Gain on equity settlement of liabilities	6a (i)	90,474	-
Employee expenses	6b	(231,055)	(654,300)
Depreciation expenses		(1,773)	(1,741)
Management, administrative and occupancy expenses		(555,673)	(615,320)
Exploration expenses		(54,284)	(205,386)
Impairment of exploration asset	14	-	(511,015)
Foreign exchange gains/(losses)		7,028	(82)
<b>Loss before financing costs</b>		<b>(734,282)</b>	<b>(1,307,096)</b>
Interest income	6a (ii)	11,630	14,176
<b>Loss before income tax</b>		<b>(722,652)</b>	<b>(1,292,920)</b>
Income tax (expense)/benefit		-	-
<b>Loss after tax</b>		<b>(722,652)</b>	<b>(1,292,920)</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit and loss</b>		-	-
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation differences for foreign operations	19	12,720	30,142
Tax on items that may be reclassified subsequently to profit or loss		-	-
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>12,720</b>	<b>30,142</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>(709,932)</b>	<b>(1,262,778)</b>
<b>Loss attributable to:</b>			
Equity holders of the Company		(722,652)	(1,292,920)
Loss for the period		<b>(722,652)</b>	<b>(1,292,920)</b>
<b>Total comprehensive income/(loss) attributable to:</b>			
Equity holders of the Company		(709,932)	(1,262,778)
<b>Total comprehensive income/(loss) for the period</b>		<b>(709,932)</b>	<b>(1,262,778)</b>
<b>Earnings per share</b>			
Basic and diluted earnings/(loss) per share (cents per share)	7	(23.17)	(57.84)

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 2016

	Notes	2016 \$	2015 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	800,131	679,773
Receivables	10	8,527	3,759
Other assets	12	113,424	149,435
<b>TOTAL CURRENT ASSETS</b>		<b>922,082</b>	<b>832,967</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	11	187,866	181,214
Plant and equipment	13	461	2,553
Exploration and evaluation expenditure	14	5,404,726	5,338,653
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,593,053</b>	<b>5,522,420</b>
<b>TOTAL ASSETS</b>		<b>6,515,135</b>	<b>6,355,387</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	138,005	339,818
Other	17	37,255	34,861
<b>TOTAL CURRENT LIABILITIES</b>		<b>175,260</b>	<b>374,679</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	16	59,429	68,889
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>59,429</b>	<b>68,889</b>
<b>TOTAL LIABILITIES</b>		<b>234,689</b>	<b>443,568</b>
<b>NET ASSETS</b>		<b>6,280,446</b>	<b>5,911,819</b>
<b>EQUITY</b>			
Contributed equity	18	150,443,876	149,380,398
Reserves	19	1,915,153	1,887,352
Accumulated losses	20	(146,078,583)	(145,355,931)
Total equity attributable to equity holders of the Company		6,280,446	5,911,819
<b>TOTAL EQUITY</b>		<b>6,280,446</b>	<b>5,911,819</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 YEAR ENDED 31 DECEMBER 2016

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
<b>Balance at 1 January 2016</b>	<b>149,380,398</b>	<b>764,810</b>	<b>1,122,542</b>	<b>(145,355,931)</b>	<b>5,911,819</b>
<b>Total comprehensive income for year</b>					
Profit/(loss) for the year	-	-	-	(722,652)	(722,652)
<b>Other comprehensive income</b>					
Foreign currency translation differences	-	12,720	-	-	12,720
Total other comprehensive income	-	12,720	-	-	12,720
Total comprehensive income for the year	-	12,720	-	(722,652)	(709,932)
<b>Transactions with equity holders in their capacity as equity holders</b>					
Share options expense	-	-	15,081	-	15,081
Share issue in lieu of salary	219,633	-	-	-	219,633
Contribution of equity, net of transaction costs	843,845	-	-	-	843,845
Total transactions with equity holders	1,063,478	-	15,081	-	1,078,559
<b>Total equity at the end of year</b>	<b>150,443,876</b>	<b>777,530</b>	<b>1,137,623</b>	<b>(146,078,583)</b>	<b>6,280,446</b>
	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
<b>Balance at 1 January 2015</b>	<b>149,130,428</b>	<b>734,668</b>	<b>1,122,542</b>	<b>(144,063,011)</b>	<b>6,924,627</b>
<b>Total comprehensive income for year</b>					
Profit/(loss) for the year	-	-	-	(1,292,920)	(1,292,920)
<b>Other comprehensive income</b>					
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)
<b>Transactions with equity holders in their capacity as equity holders</b>					
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
<b>Total equity at the end of year</b>	<b>149,380,398</b>	<b>764,810</b>	<b>1,122,542</b>	<b>(145,355,931)</b>	<b>5,911,819</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 YEAR ENDED 31 DECEMBER 2016

	Notes	2016 \$	2015 \$
<b>Cash flows from operating activities</b>			
Consulting fees		-	238,944
Partner Contribution		-	429,160
Other income		9,806	429,160
Payments to suppliers and employees		(705,166)	(982,977)
Exploration and evaluation expenditure		(53,332)	(542,295)
Interest received		11,630	19,970
<b>Net cash used in operating activities</b>	<b>27b</b>	<b>(737,062)</b>	<b>(408,038)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of assets		339	-
Security deposits		-	10,000
<b>Net cash used in investing activities</b>		<b>339</b>	<b>10,000</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net)	<b>18</b>	858,926	47,606
<b>Net cash (used in)/from financing activities</b>		<b>858,926</b>	<b>47,606</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>122,203</b>	<b>(350,432)</b>
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		(1,845)	(46,952)
<b>Cash and cash equivalents at the end of the period</b>		<b>800,131</b>	<b>1,108,933</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 YEAR ENDED 31 DECEMBER 2016**

**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 2016 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.

**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 28th day of March 2017.

***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 2016**

**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.

Non-controlling 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 2016**

**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 2016**

**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 exists 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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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**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.



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**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 2016, 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 2016 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 2015 and 2016, 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 2016 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 2016 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 \$746,822 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.

**Arc Exploration Limited and its Controlled Entities**  
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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 2018, 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 continue to fund all holding costs and any ongoing exploration during the course of 2017 and 2018 in order to earn an interest in the Trenggalek project;

The Group, has withdrawn from the farm-in arrangements that it held on two projects in New South Wales but retained a farm-in interest over the Mount Garnet project in Queensland where it is currently reviewing its position;

The Group has taken a number of steps to reduce its corporate overhead costs;

The Group intends to raise additional new capital in the year ended 31 December 2017, subject to suitable market conditions. These funds will be applied to meet the Group's cash burn rate and committed obligations.

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

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

**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 2016 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**

	2016 \$	2015 \$
<b>(a) (i) Revenue</b>		
Consulting fees	-	251,588
<b>Other income</b>		
Partner Contribution	-	429,160
Other income	11,001	-
Gain on equity settlement of liabilities - see note 18 (i)	90,474	-
	<u>101,475</u>	<u>680,748</u>
<b>(ii) Finance income</b>		
Interest income	<u>11,630</u>	<u>14,176</u>
<b>(b) Employee expenses</b>		
Wages and salaries	220,626	825,044
Superannuation & post employment benefits	10,429	(170,744)
Share based payments expense	-	-
	<u>231,055</u>	<u>654,300</u>

**Arc Exploration Limited and its Controlled Entities**  
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<b>7 EARNINGS / (LOSS) PER SHARE</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share	(722,652)	(1,292,920)
Profit/(loss) from discontinued operations	-	-
Net profit/(loss) used in calculating basic and diluted earnings per share	<u>(722,652)</u>	<u>(1,292,920)</u>
Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share	<u>3,119,303</u>	<u>2,235,365</u>
<b>Weighted average number of ordinary shares</b>		
Issued ordinary shares at 1 January	2,385,889	2,126,780
Shares issued under share placement plan on 2 September 2015	-	117,778
Issue of Shares for Directors Fees / Salary to preserve existing cash resources	439,267	141,331
Security consolidation 1/500 rounding	1,315	-
Shares issued under share placement plan on 16 June 2016	423,773	-
Shares issued under share placement plan on 10 October 2016	950,000	-
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share	<u>3,119,303</u>	<u>2,235,365</u>
Basic earnings/(loss) per share (cents per share)	(23.17)	(57.84)
Diluted earnings/(loss) per share (cents per share)	(23.17)	(57.84)

**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 2016 and 2015.

**Listed and Unlisted Options**

There are no listed options at 31 December 2016.

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 2016 and 2015. These options could potentially dilute earnings per share in the future.

**8 INCOME TAX**

<b>(a) Income tax expense</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Numerical reconciliation of income tax expense to prima facie tax payable:		
<b>Profit/(loss) before income tax benefit</b>	(722,652)	(1,292,920)
Income tax expense/(benefit) at the statutory rate of 30% (2015:30%)	(216,796)	(387,876)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible / assessable foreign translation (gain)/loss	-	-
Share issue costs	22,110	17,518
Non deductible impairment of exploration expenses	-	131,487
Non deductible share based payments expense	4,524	-
	<u>(190,162)</u>	<u>(238,871)</u>
Less tax losses not recognised and carried forward	190,162	238,871
<b>Income tax expense/(benefit)</b>	<u>-</u>	<u>-</u>
<b>(b) Recognised tax assets and liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
Exploration and evaluation expenditure	1,621,418	1,601,596
Tax losses recognised	(1,621,418)	(1,601,596)
Net deferred tax liability/(asset)	<u>-</u>	<u>-</u>

**Arc Exploration Limited and its Controlled Entities**  
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**8 INCOME TAX (CONTINUED)**

**(c) Unrecognised deferred tax assets**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Deferred tax assets have not been recognised in respect of the following items:		
Provisions	14,857	17,222
Tax losses PT Indonusa Mining Services (IMS)	784,256	1,070,928
Tax losses Arc Exploration Limited (Arc)	10,987,629	9,472,435
Capital tax losses Arc	15,046,770	15,046,770
<b>Total</b>	<b>26,833,513</b>	<b>25,607,355</b>

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.

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>9 CASH AND CASH EQUIVALENTS</b>		
Cash at bank and on hand	300,131	679,773
Short term deposits	500,000	-
	<b>800,131</b>	<b>679,773</b>

**10 CURRENT RECEIVABLES**

Trade Receivables	-	-
Other debtors	1,446	1,393
Goods and services tax (GST) and other consumption taxes recoverable	7,081	2,366
	<b>8,527</b>	<b>3,759</b>

**11 NON-CURRENT RECEIVABLES**

Other debtors	187,866	181,214
	<b>187,866</b>	<b>181,214</b>

**12 OTHER CURRENT ASSETS**

Prepayments	36,169	74,574
Security deposits	40,000	40,000
Monies held in trust - refer note 17	37,255	34,861
	<b>113,424</b>	<b>149,435</b>

**13 PLANT AND EQUIPMENT**

**(a) Office furniture and equipment**

**Gross carrying amount**

Opening balance	470,447	419,054
Additions	-	-
Disposals and transfers	-	-
Net foreign exchange differences	4,551	51,393
Closing balance	<b>474,998</b>	<b>470,447</b>

**Accumulated depreciation**

Opening balance	(468,964)	(415,755)
Depreciation expense	(1,635)	(2,220)
Net foreign exchange differences	(3,938)	(50,989)
Closing balance	<b>(474,537)</b>	<b>(468,964)</b>

Net office furniture and equipment	<b>461</b>	<b>1,483</b>
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**Arc Exploration Limited and its Controlled Entities**  
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**13 PLANT AND EQUIPMENT (CONTINUED)**

<b>(b) Motor vehicles</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Gross carrying amount</b>		
Opening balance	116,523	103,794
Additions	-	-
Disposals and transfers	(1,607)	-
Net foreign exchange differences	1,128	12,729
Closing balance	<u>116,044</u>	<u>116,523</u>
<b>Accumulated depreciation</b>		
Opening balance	(115,453)	(103,268)
Depreciation expense	(138)	479
Disposals and transfers	1,273	-
Net foreign exchange differences	(1,726)	(12,664)
Closing balance	<u>(116,044)</u>	<u>(115,453)</u>
Net motor vehicles	<u>-</u>	<u>1,070</u>
<b>Carrying amounts</b>		
Total plant and equipment – at 1 January	<u>2,553</u>	<u>3,825</u>
Total plant and equipment – at 31 December	<u>461</u>	<u>2,553</u>

**14 EXPLORATION AND EVALUATION EXPENDITURE**

Opening balance	5,338,653	5,522,719
Additions	66,073	326,949
Impairment	-	(511,015)
	<u>5,404,726</u>	<u>5,338,653</u>

At 31 December 2016, there was \$5,158,046 capitalised exploration expenditure relating to the Trenggalek Project, included in "Exploration and Evaluation Expenditure" in the statement of financial position. During 2016 work at Trenggalek continued pursuant to an agreement entered into with PT Danusa Tambang Nusantara (Danusa), a subsidiary of one of the largest contract miners in Indonesia. Danusa completed the first stage of exploration during the year and has committed to continue with a second stage which is expected to commence within the first half of 2017. This second stage is expected to focus on the Singgahan Prospect where previous petrological studies on selected core samples taken from drilling in this area have confirmed the occurrence of porphyry-style veining and alteration, with copper and molybdenum minerals and recent mapping has identified porphyry style mineralisation at the surface. A Ground Magnetic survey consisting of 25.5 line km covering an area 1.5km x 1.6km was completed in 2016 and these results combined with existing aeromagnetic data and detailed geological mapping will be used to define drill targets at Singgahan for the next phase of exploration after consultation with the local community. The Group retains a 95% interest in the Trenggalek project until such time as Danusa has earned its equity in the project.

The Group has also undertaken limited exploration 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 TRADE AND OTHER PAYABLES**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Trade payables and accrued expenses	136,333	94,146
Other consumption taxes payable	1,672	20,798
Shares in lieu of salary *	-	224,874
	<u>138,005</u>	<u>339,818</u>

\*Refer Remuneration Report.

**16 PROVISIONS**

**Current liabilities**

Employee leave entitlements	-	-
	<u>-</u>	<u>-</u>

**Non-current liabilities**

Post employment benefits	59,429	68,889
	<u>59,429</u>	<u>68,889</u>

**Current and non-current provisions**

	<u>59,429</u>	<u>68,889</u>
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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.

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17	OTHER CURRENT LIABILITIES		2016	2015		
			\$	\$		
		Amounts payable to other persons	37,255	34,861		
		37,255	34,861			
18	CONTRIBUTED EQUITY	31-12-16	31-12-15	31-12-16	31-12-15	
		Number	Number	\$	\$	
		At 31 December	4,200,244	1,192,944,578	150,443,876	149,380,398
		Fully paid ordinary shares				
		At the beginning of the year	1,192,944,578	1,063,390,131	149,380,398	149,130,428
		Issue of Shares for Directors Fees / Salary to preserve existing cash resources	219,633,332	70,665,556	219,633	202,364
		Issue of shares under share purchase plan	1,373,773	58,888,891	917,546	106,000
		Security consolidation 1/500	(1,409,751,439)			
		Transaction costs relating to share issues			(73,701)	(58,394)
		4,200,244	1,192,944,578	150,443,876	149,380,398	

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

(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 Gain on equity settlement of liabilities included as income for the year ended 31 December 2016.

**(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:

2016	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	43,840	-	-	(43,840)	-
	22-05-14	31-12-18	\$0.0450	109,445	-	-	-	109,445
				<u>153,285</u>	<u>-</u>	<u>-</u>	<u>(43,840)</u>	<u>109,445</u>
Weighted average exercise price				\$0.0441	\$0.0000	\$0.0000	\$0.0000	\$0.0450
<b>2015</b>								
	27-05-11	27-05-16	\$0.0420	43,840	-	-	-	43,840
	22-05-14	31-12-18	\$0.0450	109,445	-	-	-	109,445
				<u>153,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,285</u>
Weighted average exercise price				\$0.0441	\$0.0000	\$0.0000	\$0.0000	\$0.0441

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.

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

Grant Date	Expiry Date	2016	2015
22-05-14	31-12-18	109,445	109,445

The weighted average remaining contractual life of options outstanding at the end of the year was 2.00 years (2015: 3.00 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 2016 was nil (2015:nil).

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**18 CONTRIBUTED EQUITY (CONTINUED)**

***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) Unlisted Options**

The number of unlisted options over unissued ordinary shares as at 31 December 2016 is 100,000 (2015:nil)

100,000 unlisted options were issued as part consideration for corporate advisory services.

The inputs used in the measurement of the fair values at grant date of unlisted options can be summarised as follows:

Grant date	10-10-16
Fair value at grant date	\$0.15081
Share price at grant date	\$0.58
Exercise price	\$0.75
Expected volatility	70.60%
Expiry date	10-10-19
Expected dividends	Nil
Risk-free interest rate	1.91%

No unlisted options have been exercised during the year.

**19 RESERVES**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Foreign currency translation reserve</b>		
Balance at the beginning of financial year	764,810	734,668
Translation of foreign operations during the year	12,720	30,142
Balance at end of the financial year	<u>777,530</u>	<u>764,810</u>
<b>Share-based payments reserve</b>		
Balance at the beginning of financial year	1,122,542	1,122,542
Options expense - transaction costs relating to share issues	15,081	-
Balance at end of the financial year	<u>1,137,623</u>	<u>1,122,542</u>
<b>Total Reserves</b>	<u>1,915,153</u>	<u>1,887,352</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**  
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<b>20 ACCUMULATED LOSSES</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Balance at the beginning of the financial year	(145,355,931)	(144,063,011)
Transfer of options reserve amount for relinquished vested options	-	-
Net profit/(loss) attributable to Arc Exploration Limited	(722,652)	(1,292,920)
Balance at the end of the financial year	<u>(146,078,583)</u>	<u>(145,355,931)</u>

**21 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**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
The aggregate of compensation of the key management personnel of the Group is set out below:		
Short term employee benefits	213,034	766,282
Post employment benefits	534	5,518
Share-based payments	-	-
	<u>213,568</u>	<u>771,800</u>

\*Simon Taylor received fees consultancy fees.

**22 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 provides consulting services for other exploration entities in Indonesia. The total other income recognised for the year ended 31 December 2016 was nil (31 December 2015: \$204,703).

**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 nil (2015: \$139,560) of the Group's total other income for the year ended 31 December 2016.

**Segment assets and liabilities**

**Information about reportable segments**

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

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Australia exploration	246,680	230,607
Indonesia exploration	5,158,046	5,108,046
Corporate	1,110,409	1,016,734
	<u><b>6,515,135</b></u>	<u><b>6,355,387</b></u>
<b>Liabilities</b>		
Australia exploration	-	-
Indonesia exploration	-	-
Corporate	234,689	443,568
	<u><b>234,689</b></u>	<u><b>443,568</b></u>
<b>Equity</b>	<u><b>6,280,446</b></u>	<u><b>5,911,819</b></u>

**Arc Exploration Limited and its Controlled Entities**  
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**22 OPERATING SEGMENTS (CONTINUED)**

		Australia	Indonesia	Corporate	Total
<b>Revenue from continuing operations</b>	<b>2016</b>				
Other income		-	-	11,001	<b>11,001</b>
Gain on equity settlement of liabilities		-	-	90,474	<b>90,474</b>
Employee expenses		-	-	(231,055)	<b>(231,055)</b>
Depreciation expenses		-	-	(1,773)	<b>(1,773)</b>
Other expenses		-	-	(555,673)	<b>(555,673)</b>
Impairment exploration assets		-	-	-	-
Exploration expenses		(16,578)	(37,706)	-	<b>(54,284)</b>
Foreign exchange losses		-	-	7,028	<b>7,028</b>
<b>Loss before financing costs</b>		<b>(16,578)</b>	<b>(37,706)</b>	<b>(679,998)</b>	<b>(734,282)</b>
Interest income		-	-	11,630	<b>11,630</b>
<b>Loss before income tax</b>		<b>(16,578)</b>	<b>(37,706)</b>	<b>(668,368)</b>	<b>(722,652)</b>
Income tax (expense)/benefit		-	-	-	-
<b>Loss after tax</b>		<b>(16,578)</b>	<b>(37,706)</b>	<b>(668,368)</b>	<b>(722,652)</b>
		Australia	Indonesia	Corporate	Total
<b>Revenue from continuing operations</b>	<b>2015</b>				
Revenue		-	-	251,588	<b>251,588</b>
Other income		-	-	429,160	<b>429,160</b>
Employee expenses		-	-	(654,300)	<b>(654,300)</b>
Depreciation expenses		-	-	(1,741)	<b>(1,741)</b>
Other expenses		-	-	(615,320)	<b>(615,320)</b>
Impairment exploration assets		(511,015)	-	-	<b>(511,015)</b>
Exploration expenses		-	(205,386)	-	<b>(205,386)</b>
Foreign exchange losses		-	-	(82)	<b>(82)</b>
<b>Loss before financing costs</b>		<b>(511,015)</b>	<b>(205,386)</b>	<b>(590,695)</b>	<b>(1,307,096)</b>
Interest income		-	-	14,176	<b>14,176</b>
<b>Loss before income tax</b>		<b>(511,015)</b>	<b>(205,386)</b>	<b>(576,519)</b>	<b>(1,292,920)</b>
Income tax (expense)/benefit		-	-	-	-
<b>Loss after tax</b>		<b>(511,015)</b>	<b>(205,386)</b>	<b>(576,519)</b>	<b>(1,292,920)</b>

**23 INVESTMENTS IN CONTROLLED ENTITIES**

Name of controlled entity	Country of Incorporation	Class of Shares	Equity Holdings	
			2016	2015
			%	%
PT Indonusa Mining Services	Indonesia	Ord	100	100

**24 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 \$219,633 of shares were issued in lieu of salary as per table below.

Date	No of Shares	Share price	\$	Year salary earned	
				2016	2015
10-02-16	64,917	0.5000	32,458	-	32,458
11-04-16	86,667	0.5000	43,333	43,333	-
18-04-16	30,833	0.5000	15,417	-	15,417
02-06-16	154,110	0.5000	77,055	-	77,055
02-06-16	102,740	0.5000	51,370	51,370	-
	<b>439,267</b>		<b>219,633</b>	<b>94,703</b>	<b>124,930</b>

**Arc Exploration Limited and its Controlled Entities**  
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**25 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:

Simon O'Loughlin ^	Non-Executive Chairman	From 11/10/16
Andrew Cooke ^	Director	From 11/10/16
	Company Secretary	Full year
Robert Willcocks	Director	Full year
Simon Taylor ^	Director	From 11/10/16
Jeffrey Malaihollo ^^	Managing Director, CEO	To 11/10/16
Cahyono Halim	Chief Financial Officer	To 11/10/16 then continued as a consultant
^ Appointed 11/10/16		
^^ Resigned 11/10/16		

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Directors related party transactions</b>		
Simon Taylor geologist consultancy fee	5,000	-

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>(b) Subsidiaries</b>		
Net loan to subsidiary	273,008	400,343
Provision for impairment	(273,008)	(400,343)
Carrying value at year end	<u>-</u>	<u>-</u>
Opening balance	400,343	5,948,563
Loans (repaid)/advanced	(125,000)	875,000
Amounts paid by parent entity on behalf of subsidiary	-	27,500
Amounts charged by subsidiary to parent and offset against loan	-	(161,011)
Loan converted to equity holding in subsidiary	-	(5,859,375)
Exchange rate variances	(2,335)	(430,334)
Closing balance	<u>273,008</u>	<u>400,343</u>
Provision for impairment	<u>(273,008)</u>	<u>(400,343)</u>
Carrying value at end of year	<u><u>-</u></u>	<u><u>-</u></u>

**26 FINANCIAL INSTRUMENTS**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Credit risk</b>		
Cash and cash equivalents	800,131	679,773
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	196,393	184,973

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.

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 6 months</b>	<b>Within 6-12 months</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2016</b>						
Trade and other payables	138,005	138,005	138,005	-	-	-
Other current liabilities	37,255	37,255	37,255	-	-	-
	<u>175,260</u>	<u>175,260</u>	<u>175,260</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>2015</b>						
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>

**Arc Exploration Limited and its Controlled Entities**  
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**26 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 \$
<b>2016</b>				
Cash and cash equivalents	54,361	519,220	-	573,581
Receivables	-	187,866	-	187,866
Trade and other payables	-	(8,516)	-	(8,516)
	<u>54,361</u>	<u>698,570</u>	<u>-</u>	<u>752,931</u>
<b>2015</b>				
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>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	2016	2015	2016	2015
USD	0.7434	0.7465	0.7236	0.7306
IDR	9,906	10,034	9,725	10,082

*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 \$
<b>2016</b>							
<b>Financial Assets</b>							
Cash at bank	1.3%	Floating	300,131	-	-	-	300,131
Term Deposit	2.6%	Fixed	500,000	-	-	-	500,000
Security deposits	2.6%	Fixed	20,000	-	-	-	20,000
Monies held in trust	0.1%	Floating	37,255	-	-	-	37,255
Net Position			<u>857,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>857,386</u>
<b>2015</b>							
<b>Financial Assets</b>							
Cash at bank	1.3%	Floating	679,773	-	-	-	679,773
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>

*Sensitivity analysis*

At 31 December 2016, 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 \$773 lower/higher (2015: change of 100 base points \$7,419 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 2016 and 31 December 2015 approximates their fair values.

**(f) Derivative financial instruments**

No derivative financial instruments were held by the Group either at 31 December 2016 or 31 December 2015.

**(g) Commodity price risk**

The Group is not affected by commodity price fluctuations.

**Arc Exploration Limited and its Controlled Entities**  
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**27 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:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	300,131	679,773
Term deposits	500,000	-
	<u>800,131</u>	<u>679,773</u>

**(b) Cash flows from operating activities**

<b>Profit/(loss) for the financial year</b>	<b>(722,652)</b>	<b>(1,292,920)</b>
Depreciation	1,773	1,741
Net effect of exchange rate changes on cash	1,845	46,952
Non cash expenses	6,048	27,542
Employee provisions	(9,460)	(185,740)
Exploration liability non cash	-	33,864
Share issue in lieu of salary	219,633	202,364
<i>(Increase)/decrease in assets:</i>		
Current receivables	(4,768)	57,856
Other current assets	36,011	43,450
Exploration and evaluation expenditure	(66,073)	184,066
<i>Increase/(decrease) in liabilities:</i>		
Current payables	(199,419)	43,627
Current provisions	-	-
<b>Net cash flow from operating activities</b>	<b><u>(737,062)</u></b>	<b><u>(837,198)</u></b>

**28 COMMITMENTS FOR CAPITAL EXPENDITURE**

**Capital expenditure commitments:**

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

**29 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**  
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30 AUDITORS' REMUNERATION	2016 \$	2015 \$
<b>Audit services</b>		
Auditors of the Company		
<i>KPMG - Australia</i>		
Audit and review of financial reports	-	(950)
<i>Nexia - Australia</i>		
Audit and review of financial reports	40,450	40,000
 <i>Persek. Kanaka Puradiredja, Suhartono - Indonesia</i>		
Audit and review of financial reports	13,820	13,687
	<u>54,270</u>	<u>52,737</u>
<b>Other services</b>		
<i>KPMG - Australia</i>		
Tax compliance and consulting services	-	10,350
<i>Nexia - Australia</i>		
Tax compliance and consulting services	4,513	-
	<u>4,513</u>	<u>10,350</u>
	<u>58,783</u>	<u>63,087</u>

**31 CONTINGENT LIABILITIES**

The Group has no contingent liabilities as at 31 December 2016 (2015: nil).

**32 EVENTS SUBSEQUENT TO REPORTING DATE**

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.

**33 PARENT ENTITY DISCLOSURES**

As at, and throughout, the financial year ended 31 December 2016 the parent entity of the Group was Arc Exploration Limited.

	2016 \$	2015 \$
<b>Result of parent entity</b>		
Profit/(loss) for the period	(340,322)	(1,843,424)
Other comprehensive income	100,280	-
<b>Total comprehensive income for the period</b>	<u>(240,042)</u>	<u>(1,843,424)</u>
<b>Financial position of parent entity at year end</b>		
Current assets	734,433	195,825
Total assets	6,327,025	5,715,692
Current liabilities	165,072	291,976
Total liabilities	165,072	291,976
<b>Total equity of parent entity comprising of:</b>		
Share capital	150,443,876	149,380,398
Reserves	1,137,623	1,122,542
Accumulated losses	(145,419,546)	(145,079,224)
<b>Total equity</b>	<u>6,161,953</u>	<u>5,423,716</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 2016 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 Company Secretary and the Consulting Financial Controller for the financial year ended 31 December 2016.

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

Dated 28th day of March 2017



**Simon O'Loughlin**  
**Non-Executive Chairman**



**Andrew Cooke**  
**Non-Executive Director**

## Independent Auditor's Report to the Members of Arc Exploration Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Arc Exploration Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 2016 and of its financial performance for the year then ended; and
- ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Material uncertainty related to going concern

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, amongst others items, 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.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### 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  
**e** [info@nexiasydney.com.au](mailto:info@nexiasydney.com.au)  
**w** [nexia.com.au](http://nexia.com.au)

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Key audit matter	How our audit addressed the key audit matter
<p><b>Exploration and evaluation expenditure</b></p> <p><b><i>Refer to note 14 (Exploration and Evaluation Expenditure)</i></b></p> <p>At 31 December 2016, the Consolidated Entity had capitalised exploration assets of \$5.404m. The Group's accounting policy in respect of exploration and evaluation assets is outlined in Note 2.</p> <p>This is a key audit matter because the carrying value of the assets are material to the financial statements and the significant judgements applied in determining whether an indicator of impairment exists in relation to capitalised exploration and expenditure assets in accordance with Australian Accounting Standard AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• We confirmed the existence and tenure of the exploration assets in Australia and Indonesia in which the Group has a contracted interest by obtaining confirmation of title from the relevant government agency.</li> <li>• We obtained executed agreements evidencing the Group's interest in those exploration assets and confirmed the currency and good standing of those agreements.</li> <li>• In assessing whether an indicator of impairment exists in relation to the Group's exploration assets in accordance with AASB 6 – <i>Exploration for and Evaluation of Mineral Resources</i>, we: <ul style="list-style-type: none"> <li>• examined the minutes of the Group's board meetings and updates from the Group's exploration partners;</li> <li>• tested the significant inputs in the Group's cash flow forecasts for consistency with their future activity regarding the exploration assets.</li> <li>• discussed with management the Group's ability and intention to undertake further exploration activities.</li> </ul> </li> <li>• We tested a sample of additions of capitalised exploration expenditure to supporting documentation.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in Arc Exploration Limited's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

### 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 preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibility for the audit of the financial report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. This description forms part of our auditor's report.

### **Report on the Remuneration Report**

#### **Opinion 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 2016.

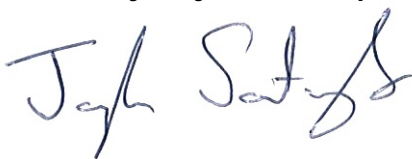
In our opinion, the Remuneration Report of Arc Exploration Limited for the year ended 31 December 2016, complies with section 300A of the Corporations Act 2001.

#### **Responsibilities**

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.



**Nexia Sydney Partnership**



**Joseph Santangelo**  
Partner

Dated: 28 March 2017  
Sydney