Arc Exploration Limited

A.B.N. 48 002 678 640

Half-Year Report
30 June 2009

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Arc Exploration Limited and its Controlled Entities
A.B.N. 48 002 678 640
DIRECTORS' REPORT FOR THE HALF YEAR ENDED 30 JUNE 2009

The directors present their report on the consolidated entity (the "Group") consisting of Arc Exploration Limited (the "Company") and the entities it controlled at the end of, or during, the half-year ended 30 June 2009.

Directors

The following persons were directors of the Arc Exploration Limited during the half-year and up to the date of this report:

Name	Period of Directorship
Executive	
Mr. John C. Carlile (Managing Director)	Director since 1998 Appointed Managing Director January 2008
Non-Executive	
Mr. Bruce J. Watson (Chairman)	Director 1998-2001, Director since 2005 Appointed Chairman 2005
Mr. George S. Tahija	Director since 1998
Mr. Robert M. Willcocks	Director since July 2008

Review of Operations

Sale of the Cibaliung Gold Project

On 9 February 2009 the Company announced that it had entered into a binding Heads of Agreement with PT Aneka Tambang Tbk ("Antam") and the ANZ Bank for the sale of its subsidiary PT Cibaliung Sumberdaya which is the holder of the Cibaliung Gold Project in Indonesia. The key terms of the sale were:

- Antam would acquire the Company's interests in its subsidiary PT Cibaliung Sumberdaya for US$1.00;
- Antam would acquire the ANZ Bank's interest in the Project; and
- Antam would fund PT Cibaliung Sumberdaya and manage the Project with immediate effect.

The sale was conditional upon various approvals, including Company shareholder approval and Indonesian regulatory approvals, and was the culmination of an extensive process that commenced in early 2008 to secure a farm-in partner. The Company was unable to secure a farm-in partner or funding for the Project and accordingly, in co-operation with the ANZ Bank, a sale process was initiated in the latter part of 2008.

On 9 April 2009 the sale of PT Cibaliung Sumberdaya was approved by shareholders at a Company General Meeting. On 6 July 2009 the Company announced that it had completed the sale of PT Cibaliung Sumberdaya.

The sale relieved the Company of its significant obligations to fund the Project and to service the associated project debt obligations to the ANZ Bank.

Additionally under the terms of the Heads of Agreement, at the completion of the sale of PT Cibaliung Sumberdaya, the Company has fully redeemed the January 2010 convertible notes on the basis of a payment of $0.10 in the $1.00 of both the issue price and all unpaid interest on the notes and the issuing of a total of 17,775,000 options exercisable at any time until the third anniversary date of their issue at $0.025. This redemption was completed on 6 July 2009 with a cash payment of $221,117 and the issuing of the July 2012 Options.

With the completion of the sale transaction the ANZ Bank has released both the guarantee provided by the Company on the Cibaliung Project loans and the fixed and floating charge held by the ANZ Bank over all present and future property, assets and undertakings of the Company. Additionally, a Company payable amount of $536,852 in relation to underwriting fees has been forgiven by the ANZ Bank.

The consolidated interim financial report represents the Group's position as at 30 June 2009. The completion of the sale of PT Cibaliung Sumberdaya, the settlement of the convertible notes and the forgiveness of underwriting fees have materially changed the financial position from that at balance date, particularly with the Group no longer being liable for the Cibaliung Gold Project loans. After the completion of these transactions the net asset position of the Group has improved by around $17.8 million to a negative net asset position of around $0.9 million as at 6 July 2009. Accordingly users of the consolidated interim financial report should take particular note of the matters detailed in the Subsequent Events note (Note 13), in assessing the financial position of the Group going forward from the sale completion date.

Review of Operations (continued)

Funding

Subsequent to the Company entering into the Heads of Agreement for the sale of PT Cibaliung Sumberdaya on 9 February 2009, all funding requirements for this subsidiary and the Cibaliung Gold Project have been met by Antam. During the period up to 30 June 2009 Antam has advanced the subsidiary loans totalling around $1.0 million.

During the half-year the Company focused on conserving its remaining cash balances whilst the sale transaction was being completed. As detailed in the 2008 Annual Report in order to reduce outstanding employee contractual commitments and conserve future cashflows the Group terminated all employees. Following these terminations the Group re-employed a limited number of personnel on a short-tem contract basis and in many cases on a substantially reduced remuneration rate. Personnel engaged on these short-term contracts were either engaged in completing the sale transaction, ensuring continued regulatory and statutory compliance by Indonesian subsidiaries, working on securing additional funding for the Group, or providing limited care and maintenance activities for the Cibaliung Project and exploration sites.

The Company is seeking further funding to ensure the Group has the required cash resources to meet its minimum cash outflow estimates over the next 12 months as well as additional capital to allow for an expanded exploration program in Indonesia. The Company has identified a number of potential investors, with these parties being well advanced in their due diligence reviews on their possible investment in the Company. The Company is also exploring alternative capital raising strategies should these potential investments not proceed.

A detailed note on going concern matters, including the Group's funding status, has been provided in the financial statements (refer Note 7) and this Directors' Report should be read in conjunction with this note.

Exploration

The Company is exploring for high-grade gold, silver and associated base metal deposits on Java and elsewhere along Indonesia's highly prospective magmatic arcs. Low-sulphidation epithermal gold-vein deposits are the primary target because they potentially host high-grade (greater than 10 g/t Au; e.g. Pongkor) and bonanza-grade (greater than 30 g/t Au; e.g. Gosowong-Kencana) ore-shoots amenable to relatively low cost extraction and processing with minimal environmental impact.

With the focus on conservation of existing cash resources, relatively limited exploration activity was undertaken during the half-year.

(i) Trenggalek Project, East Java (Arc – 95%)

The Company operates a joint-venture with PT Sumber Mineral Nusantara which holds the Trenggalek Exploration licence (Kuasa Pertambangan or "KP") covering an area of 30,044 hectares in the Southern Mountains of East Java. The Southern Mountains comprise an older segment of the Sunda-Banda magmatic arc and contains numerous gold, silver and base metal occurrences, including the Tujuh Bukit gold-silver-copper deposits. Tujuh Bukit Project is located about 250 km east of Trenggalek. Intrepid Mines Limited recently announced an inferred resource of 2.5 million ounces gold-equivalent in shallow oxide mineralisation overlying porphyry-style, sulphide copper-gold mineralisation.

The geology at Trenggalek comprises Oligo-Miocene intermediate-felsic volcanic and volcaniclastic rocks, fossiliferous limestone and sedimentary rocks intruded by intermediate-felsic volcanic plugs and flow domes. Erosional remnants of mineralised hot-spring depositional features (i.e. sinters, hydrothermal breccias and veins) are widespread in the project area. Although the primary target at Trenggalek is high-grade low-sulphidation epithermal gold-veins, there is further potential for porphyry-style mineralisation beneath the shallower epithermal vein targets.

Review of Operations (continued)

Exploration (continued)

Exploration completed during the half-year included further mapping and rock chip geochemical sampling on various parts of the KP. A total of 57 rock samples were collected and submitted for assaying. Results were received late in the half-year and contain the following highlights:

- 3 grab samples returning 0.23 g/t Au, 1.75 g/t Au and 16 g/t Au in ferruginous vein-breccia boulders at Buluroto Prospect (southern end of KP);
- Continuous-chip samples returning 7.5 m at 0.32 g/t Au (about 4.5 m true-width) across a road-cut of the Nglodo vein at Kojan Prospect (northwest corner of KP); and
- 4 grab samples returning 0.14, 0.23, 0.37 and 0.45 g/t Au in quartz-breccia boulders excavated by local people for road aggregate from the Bonang vein at Kojan Prospect (northwest corner of KP).

Assuming sufficient funding is obtained, further target definition work will be undertaken in the next half in preparation for scout drilling.

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

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

The results of mapping, soil and rock chip geochemistry received in the first quarter of 2009 from the Kowo Prospect to-date were encouraging as detailed in Company's March 2009 Quarter Activities Report. The mineralisation-alteration system exposed at this prospect is large and the anomalous metal association suggests a distal position to a porphyry intrusion located either at depth or beneath the surrounding younger cover deposits.

Work completed during the second quarter included follow-up mapping and rock chip geochemical sampling over soil anomalies reported from the Kowo Prospect. This work was done late in the quarter and results are awaited.

Assuming sufficient funding is obtained, further drainage sampling and prospecting will be done in the second half of 2009, in areas of the KP not covered in the previous regional survey.

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

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

Aisasjur, the first project in the alliance, is located in West Papua at the western end of the Medial Papua-New Guinea magmatic arc, host to the giant copper-gold deposits of Grasberg and Ertsberg. The original Exploration KP licence in this project covers 9,486 hectares. Two new KPs with General Survey status were granted to our Indonesian partner late in 2008. These added another 51,410 hectares to the Aisasjur Project.

During the half-year Anglo has reported results from a new program of diamond drilling completed on a deep porphyry copper-gold target at the Aisasjur Prospect late last year. A total of 3,558 metres was completed in five diamond drill-holes using two helicopter-supported CS-1000 drill rigs. The results from these five holes were detailed in Company's March 2009 and June 2009 Quarter Activities Reports. As with the previous drilling, Anglo reported that there were difficulties in reaching the targeted drill depth in some of the holes. It was reported that the holes intersected broad zones of low-grade epithermal-style gold-arsenic-antimony mineralisation.

Anglo proposes to undertake an airborne magnetics and radiometrics survey over the entire project area in the second half of 2009.

Review of Operations (continued)

Exploration (continued)

(iv) Cibaliung and Pekalongan Projects

With the sale of PT Cibaliung Sumberdaya completed in July 2009, the Company will cease to have any further interest in the Cibaliung tenement.

During 2008, an application for a 12 month extension to the Pekalongan Exploration KP licence, located in Central Java, was approved by the Regency Government. The approval, however, was only for an area reduced by the Regency Government from the original 5,617 hectares to 2,447 hectares and excluded the main gold prospect, Kuning. With the Company's appeal on this decision being unsuccessful, the Company relinquished the KP for this reduced area in early 2009. The Company has written-off $11,284 to the comprehensive income statement for the expenditures incurred during the half-year on this KP.

Liquidation of controlled entity

During the half-year the Group received advice that the liquidation of the subsidiary PT Eastara Melawi Mineral had been completed.

Consolidated Results

The consolidated profit of the Group for the half-year was $535,725 (2008: $36,780,802 loss) which includes a number of items that had a significant impact on the result as set out in the table below. The underlying net operating loss for the half-year year was $546,405 (2008: $1,013,583 loss).

	30 June 2009	**30 June 2008**
Profit/(loss) associated with the Cibaliung Gold Project (discontinued operation)	63,780	(35,767,219)
Write-back of provision for liquidation expenses for PT Eastara Melawi Mineral (discontinued operation)	627,291	-
Employee share options relinquished	391,059	-
Underlying operating loss	(546,405)	(1,013,583)
Consolidated profit/(loss)	535,725	(36,780,802)

Auditor's Independence Declaration

The lead auditor's independence declaration is set out on Page 6 and forms part of the Directors' report for the half-year ended 30 June 2009.

Signed in accordance with a resolution of the Directors.

Dated this 8th day of September 2009.

John C. Carlile
Managing Director

Bruce J. Watson
Non-Executive Chairman

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

To: the directors of Arc Exploration Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Chris Sargent
Partner

Melbourne

8 September 2009

Arc Exploration Limited and its Controlled Entities

A.B.N. 48 002 678 640

Consolidated interim statement of comprehensive income
For the six months ended 30 June 2009

	Note	30 June 2009 $	30 June 2008 $
Continuing operations			
Other income		8,501	-
Employee expenses		(275,704)	(364,193)
Employee share options expense		-	(87,599)
Employee share options relinquished	**10**	391,059	-
Depreciation expenses		(64,597)	(16,524)
Management, administrative and occupancy expenses		(465,572)	(733,800)
Exploration expenses written-off		(11,284)	-
Unrealised foreign exchange gain/(loss)		538,854	356,279
Profit/(loss) before financing costs		**121,257**	**(845,837)**
Interest income		22,749	197,017
Finance expenses		(299,352)	(364,763)
Profit/(loss) before income tax		**(155,346)**	**(1,013,583)**
Income tax (expense)/benefit		-	-
Profit/(loss) from continuing operations		**(155,346)**	**(1,013,583)**
Profit/(loss) from discontinued operations	**6**	691,071	(35,767,219)
Profit/(loss) for the period		**535,725**	**(36,780,802)**
Other comprehensive income			
Foreign currency translation differences for foreign operations		2,626,530	2,168,954
Net change in share-based payment reserve for unvested options		(454,839)	87,599
Income tax on other comprehensive income		-	-
Other comprehensive income for the period, net of tax		**2,171,691**	**2,256,553**
Total comprehensive income for the period		**2,707,416**	**(34,524,249)**
Profit/(loss) attributable to:			
Equity holders of the Company		535,725	(36,780,802)
Minority interest		-	-
Profit/(loss) for the period		**535,725**	**(36,780,802)**
Total comprehensive income attributable to:			
Equity holders of the Company		4,010,525	(34,524,249)
Minority interest (PT Aneka Tambang Tbk)		(1,303,109)	-
Profit/(loss) for the period		**2,707,416**	**(34,524,249)**
Earnings per share *			
Basic earnings/(loss) per share (cents per share)		0.36	(39.18)
Diluted earnings/(loss) per share (cents per share)		0.36	(39.18)
Continuing operations*			
Basic earnings/(loss) per share (cents per share)		(0.10)	(1.08)
Diluted earnings/(loss) per share (cents per share)		(0.10)	(1.08)

*During 2008 the Company consolidated its shares on a 50 to 1 basis. The weighted average number of shares for 2008 has been adjusted to reflect this conversion for the entire half-year.

The statement should be read in conjunction with the accompanying notes.

Arc Exploration Limited and its Controlled Entities

A.B.N. 48 002 678 640

Consolidated interim statement of changes in equity
For the six months ended 30 June 2009

	Share Capital $	Translation reserve $	Share-Based Payment Reserve $	Accumulated losses $	Total $	Minority interest $	Total Equity $
Balance at 1 January 2009	**132,058,588**	**(6,986,363)**	**593,180**	**(148,313,222)**	**(22,647,817)**	**-**	**(22,647,817)**
Total comprehensive income for period							
Profit/(loss)	-	-	-	535,725	535,725	-	535,725
Other comprehensive income							
Foreign currency translation differences	-	2,626,530	-	-	2,626,530	-	2,626,530
Absorption of prior year minority interest losses with additional capital contributed to the subsidiary by the minority interest party	-	-	-	1,303,109	1,303,109	(1,303,109)	-
Employee share options relinquished – vested options	-	-	(138,341)	138,341	-	-	-
Employee share options relinquished – unvested options	-	-	(454,839)	-	(454,839)	-	(454,839)
Total other comprehensive income	-	2,626,530	(593,180)	1,441,450	3,474,800	(1,303,109)	2,171,691
Total comprehensive income for the period	-	2,626,530	(593,180)	1,977,175	4,010,525	(1,303,109)	2,707,416
Transactions with equity holders in their capacity as equity holders:							
Additional capital contributed to a subsidiary by a minority interest party	-	-	-	-	-	1,303,109	1,303,109
Total transactions with equity holders	-	-	-	-	-	1,303,109	1,303,109
Total equity at the end of period	**132,058,588**	**(4,359,833)**	**-**	**(146,336,047)**	**(18,637,292)**	**-**	**(18,637,292)**
Balance at 1 January 2008	**100,793,278**	**(1,610,225)**	**184,120**	**(117,485,026)**	**(18,117,853)**	**-**	**(18,117,853)**
Total comprehensive income for period							
Profit/(loss)	-	-	-	(36,780,802)	(36,780,802)	-	(36,780,802)
Other comprehensive income							
Foreign currency translation differences	-	2,168,954	-	-	2,168,954	-	2,168,954
Employee share options expense	-	-	87,599	-	87,599	-	87,599
Total other comprehensive income	-	2,168,954	87,599	-	2,256,553	-	2,256,553
Total comprehensive income for the period	-	2,168,954	87,599	(36,780,802)	(34,524,249)	-	(34,524,249)
Transactions with equity holders in their capacity as equity holders:							
Conversion of debt to equity	18,774,892	-	-	-	18,774,892	-	18,774,892
Exercise of shareholder options	638	-	-	-	638	-	638
Contributions of equity, net of transaction costs	12,489,727	-	-	-	12,489,727	-	12,489,727
Total transactions with equity holders	31,265,257	-	-	-	31,265,257	-	31,265,257
Total equity at the end of period	**132,058,535**	**558,729**	**271,719**	**(154,265,828)**	**(21,376,845)**	**-**	**(21,376,845)**

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

Arc Exploration Limited and its Controlled Entities

A.B.N. 48 002 678 640

Consolidated interim statement of financial position
As at 30 June 2009

	Note	30 June 2009 $	31 December 2008 $
CURRENT ASSETS			
Cash and cash equivalents		1,162,059	2,075,747
Receivables		27,649	19,818
Other		191,919	329,228
Assets classified as held for sale	**6**	67,483,611	79,259,936
TOTAL CURRENT ASSETS		**68,865,238**	**81,684,729**
NON-CURRENT ASSETS			
Receivables		101,896	101,896
Plant and equipment		147,320	238,679
Exploration and evaluation expenditure		1,266,904	1,057,507
TOTAL NON-CURRENT ASSETS		**1,516,120**	**1,398,082**
TOTAL ASSETS		**70,381,358**	**83,082,811**
CURRENT LIABILITIES			
Trade and other payables		752,715	809,024
Interest bearing liabilities	**9(c)**	2,084,310	-
Provisions		-	14,940
Other		33,190	33,190
Liabilities classified as held for sale	**6**	82,747,484	98,347,536
TOTAL CURRENT LIABILITIES		**85,617,699**	**99,204,690**
NON-CURRENT LIABILITIES			
Interest bearing liabilities	**9**	3,400,951	5,877,058
Provisions		-	648,880
TOTAL NON-CURRENT LIABILITIES		**3,400,951**	**6,525,938**
TOTAL LIABILITIES		**89,018,650**	**105,730,628**
NET ASSETS		**(18,637,292)**	**(22,647,817)**
EQUITY			
Contributed equity		132,058,588	132,058,588
Reserves		(4,359,833)	(6,393,183)
Accumulated losses		(146,336,047)	(148,313,222)
Total equity attributable to equity holders of the Company		(18,637,292)	(22,647,817)
Minority interest		-	-
TOTAL EQUITY		**(18,637,292)**	**(22,647,817)**

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

Arc Exploration Limited and its Controlled Entities
A.B.N. 48 002 678 640
Consolidated interim statement of cash flows
For the six months ended 30 June 2009

	30 June 2009 $	30 June 2008 $
Cash flows from operating activities		
Payments to suppliers and employees	(689,803)	(991,956)
Interest received	22,749	226,485
Finance costs	(25,263)	(636,634)
Net cash used in operating activities	**(692,317)**	**(1,402,105)**
Cash flows from investing activities		
Payments for office furniture, equipment and vehicles	-	(133,608)
Proceeds on sale of plant and equipment	55,741	-
Exploration and evaluation expenditures	(209,396)	(141,057)
Project development expenditures	(1,781,574)	(17,692,708)
Net cash used in investing activities	**(1,935,229)**	**(17,967,373)**
Cash flows from financing activities		
Loan from Cibaliung Project joint venture partner- PT Aneka Tambang Tbk (“Antam”)	1,160,892	-
Gross proceeds from the issue of share capital	-	13,109,376
Proceeds from bank loan	-	6,957,824
Repayments of bank loan	-	(5,352,173)
Payments for share issue costs	-	(82,157)
Net cash from financing activities	**1,160,892**	**14,632,870**
Net increase/(decrease) in cash and cash equivalents	**(1,466,654)**	**(4,736,608)**
Cash and cash equivalents at beginning of the period	3,517,141	12,229,417
Cash included as assets classified as held for sale	(731,078)	-
Effects of exchange rate changes on balances of cash held in foreign currencies	(157,350)	(182,739)
Cash and cash equivalents at the end of the period	**1,162,059**	**7,310,070**

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

1. Reporting entity

Arc Exploration Limited (the “Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2008 is available upon request from the Company’s registered office at Suite 1502, Level 15, Keycorp Tower B, 799 Pacific Highway, Chatswood NSW 2067, or at www.arcexploration.com.au.

2. Statement of compliance

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

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2008.

This consolidated interim financial report was approved by the Board of Directors on 8 September 2009.

3. Significant accounting policies

Except as described below the accounting policies applied by the Group in this consolidated interim report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2008.

(a) Presentation of financial statements

The Group has applied the revised *AASB 101 Presentation of Financial Statements* and its associated amending standards from 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in the consolidated interim financial report as of and for the six month period ended on 30 June 2009.

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

(b) Determination and presentation of operating segments

The Group has applied *AASB 8 Operating Segments* and its associated amending standards from 1 January 2009. As of 1 January 2009 the Group determines and presents operating segments based on the information that is internally provided to the Chief Executive Officer (“CEO”), who is the Group’s chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, for which discrete financial information is available.

(b) Determination and presentation of operating segments (continued)

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

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

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

4. Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2008, taking into consideration current market conditions.

5. Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 31 December 2008.

6. Discontinued operations

On 9 February 2009 the Company announced that it had entered into a binding Heads of Agreement with PT Aneka Tambang Tbk (“Antam”) and the ANZ Bank for the sale of the subsidiary PT Cibaliung Sumberdaya which is the holder of the Cibaliung Gold Project in Indonesia. As detailed in Note 13 the Cibaliung sale transaction was completed on 6 July 2009.

On 29 June 2009 the Company received advice that the liquidation of the controlled entity PT Eastara Melawi Mineral had been completed. With the completion of the liquidation, the remaining provision balance of $627,291 for liquidation expenses was written back to the comprehensive income statement.

6. Discontinued operations (continued)

	Group	
	30 June 2009	**30 June 2008**
	$	**$**
Results from discontinued operations		
Employee share options relinquished	63,780	-
Impairment loss on Cibaliung project development costs	-	(23,576,323)
Unrealised loss on fair value movements of derivatives	-	(12,190,896)
Write-back of provision for liquidation expenses for PT Eastara Melawi Mineral	627,291	-
Profit/(loss) before income tax	**691,071**	**(35,767,219)**
Income tax	-	-
Profit/(loss) from discontinued operations	**691,071**	**(35,767,219)**
Cash flows from/(used in) discontinued operations		
Net cash used in operating activities	-	-
Net cash used in investing activities	(1,725,833)	(18,346,570)
Net cash from financing activities	1,160,892	20,960,328
Net cash from/(used in) discontinued operations	**(564,941)**	**2,613,758**

	Group	
	30 June 2009	**31 December 2008**
	$	**$**
Assets classified as held for sale		
Cash and cash equivalents	731,077	1,441,394
Other current assets	343,896	307,884
Plant and equipment	392,737	548,087
Project development expenditure	66,015,901	76,962,571
	67,483,611	**79,259,936**
Liabilities classified as held for sale		
Trade and other payables	791,588	2,223,192
Secured bank loans	80,589,015	94,384,999
Provisions	340,191	398,428
Other payables	1,026,690	1,340,917
	82,747,484	**98,347,536**

As detailed in Note 13, with the completion of the sale of the subsidiary PT Cibaliung Sumberdaya post balance date the Group no longer has title to the above assets and is no longer indebted in respect of the above liabilities. The ANZ Bank has released both the guarantee provided by the Company in respect of the Cibaliung Project loans and the fixed and floating charge held by the ANZ Bank over all present and future property, assets and undertakings of the Company.

7. Going concern

The financial report is prepared on a going concern basis, which assumes that the Company and Group will be able to source sufficient funding to finance the minimum forecast corporate operating costs in Australia and Indonesia and limited exploration activities in Indonesia over the next 12 to 18 months.

As detailed in Note 13 on 6 July 2009 the Company completed the sale of the subsidiary PT Cibaliung Sumberdaya. The sale relieved the Company of its significant obligations to fund the Cibaliung Project and to service the associated project debt obligations to the ANZ Bank. Additionally, with the completion of the sale, the Company has fully redeemed the January 2010 convertible notes with a cash payment of $221,117 and the issuing of 17,775,000 July 2012 Options.

7. Going concern (continued)

With the completion of the sale transaction the ANZ Bank has released both the guarantee provided by the Company on the Cibaliung Project loans and the fixed and floating charge held by the ANZ Bank over all present and future property, assets and undertakings of the Company. Additionally, a Company payable amount of $536,852 in relation to underwriting fees has been forgiven by the ANZ Bank.

As at 30 June 2009 the Group had a negative net asset position and a negative working capital position (current liabilities being in excess of current assets). With the completion of the above transactions for the sale of PT Cibaliung Sumberdaya, the settlement of the convertible notes and the forgiveness of underwriting fees, the net asset position of the Group will improve by around $17.8 million. These transactions also redress the negative working capital position that existed at half-year with the completed transactions returning the Group to a positive working capital position.

A cashflow forecast has been prepared for the Group's continuing operations from 1 July 2009 to 31 December 2010 for the funding of corporate operating costs in Australia and Indonesia and limited exploration activities in Indonesia.

Based on this Group forecast the timing of estimated minimum cash outflows is estimated to be as follows:
- $0.9 million in the second half of 2009 (which includes the settlement of the convertible notes completed in July 2009)
- $0.7 million in the first half of 2010
- $0.6 million in the second half of 2010.

As at 30 June 2009 the cash balance for the Group's continuing operations was around $1.2 million. The Company is seeking further funding to ensure the Group has the required cash resources to meet its minimum cash outflow estimates as detailed above as well as additional capital to allow for an expanded exploration program in Indonesia. The Company has identified a number of potential investors, with these parties presently investigating an investment in the Company. The Company is also exploring alternative capital raising strategies should these potential investments not proceed.

The ability of both the Company and the Group to continue as a going concern is fully dependent upon the Group being able to raise sufficient additional funding before the end of 2009 to meet forecast cash requirements.

At the date of this report, in the Directors' opinion there are reasonable grounds to expect that the Company will be successful in raising sufficient additional funding, such that both the Company and Group will be able to continue as a going concern. However if these efforts are unsuccessful, this would adversely impact the ability of both the Company and Group to continue as a going concern.

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

No adjustments have been made in the financial statements relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should both the Company and Group not continue as a going concern.

8. Segment reporting

The Group is organised into the following business segments:

- Mine Development for the Cibaliung Project in Indonesia (discontinued);
- Exploration activities in Indonesia;

	Exploration	Mine Development (Discontinued)	Consolidated
Half-year ended 30 June 2009	**$**	**$**	**$**
External revenues	8,501	-	8,501
Reportable segment profit/(loss) before income tax	(11,284)	63,780	52,496
Reportable segment assets	1,535,924	67,483,611	69,019,535
Total profit/(loss) for reportable segments			52,496
Elimination of discontinued operations			(63,780)
Unallocated amounts:			
Net financing costs			(276,603)
Other corporate expenses			(258,518)
Relinquishment of employee share options for continuing operations			391,059
Consolidated profit/(loss) before income tax on continuing operations			(155,346)
Half-year ended 30 June 2008			
External revenues	-	-	-
Reportable segment profit/(loss) before income tax	-	(35,767,219)	(35,767,219)
Reportable segment assets	1,358,636	53,713,796	55,072,432
Total profit/(loss) for reportable segments			(35,767,219)
Elimination of discontinued operations			35,767,219
Unallocated amounts:			
Net financing costs			(167,746)
Other corporate expenses			(845,837)
Consolidated profit/(loss) before income tax on continuing operations			(1,013,583)

9. Interest bearing liabilities

(a) Unsecured loans

In September 2008 the lenders entered into a Deed with the Company where it was agreed that interest on the loans would be capitalised quarterly in arrears. The principal and capitalised interest will be repayable in March 2011. This interest rate on these loans is 10% per annum.

As at 30 June 2009 the outstanding principal and capitalised interest amount on these unsecured loans totaled US$2,759,532 (A$3,400,951).

(b) ANZ Bank Cibaliung project facility

The details of the Secured Bank Loans as at 30 June 2009 are described below. As detailed in Note 13, the transaction for the sale of the subsidiary PT Cibaliung Sumberdaya was completed on 6 July 2009 with Antam acquiring the subsidiary and the ANZ Bank's interest in the Project. With the completion of the sale transaction the Group liability for indebtedness in respect of the Cibaliung Gold Project was discharged. The ANZ Bank has also released both the guarantee provided by the Company on the Cibaliung Project loans and the fixed and floating charge held by the ANZ Bank over all present and future property, assets and undertakings of the Company.

As at 30 June 2009 the terms and conditions of Secured Bank Loans entered into by PT Cibaliung Sumberdaya with the ANZ Bank to fund the Cibaliung Gold Project Facility were principally governed by the following agreements:

- December 2005 Cibaliung Gold Project Facility Agreement
- March 2008 Deed of Amendment and Restatement to the Project Facility Agreement
- September 2008 Second Deed of Amendment and Restatement to the Project Facility Agreement
- September 2008 Hedging Agreements Payment Deed

Under the September 2008 Second Deed of Amendment and Restatement to the Project Facility Agreement and the September 2008 Hedging Agreements Payment Deed the Secured Bank Loans were to be fully repaid by March 2010.

As security for these loans, under the December 2005 Project Facility Agreement, the ANZ Bank had executed a number of deeds of security over PT Cibaliung Sumberdaya's receivables, fixed assets, project bank accounts, inventories, any potential insurance proceeds as well as future mining and refining rights. In March 2008 Arc Exploration Limited entered into a Deed of Charge with the ANZ Bank whereby the ANZ Bank had a fixed and floating charge over all present and future property, assets and undertakings of the Company.

Under both the December 2005 Project Facility Agreement and subsequent Deeds, PT Cibaliung Sumberdaya was required to demonstrate on an on-going basis that the total project development costs are fully funded. As reported in the 2008 Annual Report with the Group unable to secure adequate funding arrangements for the Cibaliung Project, it was in breach of this requirement and the Group continued to be in breach of this requirement during the 2009 half-year.

During the half-year with the Company having entered into a binding Heads of Agreement with Antam and the ANZ Bank for the sale of the subsidiary PT Cibaliung Sumberdaya, the Secured Bank Loans were classified as held for sale liabilities in the 30 June 2009 statement of financial position.

As detailed above and in Note 13 on 6 July 2009 the Group was discharged of all liability in relation to the Secured Bank Loans.

9. Interest bearing liabilities (continued)

(c) Convertible notes

As at 30 June 2009 the unsecured convertible notes had a face value of $2,084,310 and were able to be converted into 694,770 ordinary shares, at a conversion price of $3 per share, on or before 29 January 2010. Interest on the convertible notes was calculated at 10% and capitalised.

In February 2009 the Company entered into a binding Heads of Agreement with Antam and the ANZ Bank for the sale of the subsidiary PT Cibaliung Sumberdaya. As part of entering into this agreement the Company was also required to renegotiate the terms of the convertible notes, whereby the note holders agreed to the redemption of the convertible notes at the completion of the sale of PT Cibaliung Sumberdaya. The notes were to be redeemed on the basis of a payment of $0.10 in the $1.00 of both the issue price and all unpaid interest on the notes and the issuing of a total of 17,775,000 options exercisable at any time until the third anniversary date of their issue at $0.025 each.

As detailed in Note 13 with the completion of the Cibaliung sale transaction on 6 July 2009 the convertible notes were redeemed on that date with a cash payment of $221,117 and the issuing of 17,775,000 July 2012 Options.

10. Share-based payment reserve

During the half year the Company assessed the probability of any employee share options being exercised as being nil. The vast majority of these options (over 95%) were unvested and had performance conditions attached to the options relating to the successful operation of the Cibaliung Gold Mine which was in the process of being sold. During the half-year all holders of options agreed to relinquish their options for no consideration. In accordance with AASB 2 *Share Based Payments,* the expense previously recognised in relation to the unvested options has been reversed to the statement of comprehensive income. For the relinquished vested options the amount pertaining to these options recognised in the share-based payment reserve was transferred to the accumulated losses account.

11. Liquidation of subsidiary

On 29 June 2009 the Company received advice that the liquidation of the subsidiary PT Eastara Melawi Mineral had been completed. With the completion of the liquidation, the remaining provision balance of $627,291 for liquidation expenses was written back to the comprehensive income statement. An amount of $17,436 was paid by PT Eastara Melawi Mineral to the Company as a final return of contributed equity.

12. Contingent liabilities

Since the last annual report there has been a significant reduction in the contingent liability amounts associated with the subsidiary PT Cibaliung Sumberdaya. During the half-year the Group continued to monitor the status of these claims, and as at 30 June 2009 the Directors remained of the opinion that provisions were not required as it was not probable that a future sacrifice of economic benefits would be required or the amount was not capable of reliable measurement. Total contingent liabilities for the Group as at 30 June 2009 were US$34,806 (31 December 2008: US$544,946). As detailed in Note 13, post balance date with the sale of this subsidiary the Group is no longer liable for these contingent amounts in relation to PT Cibaliung Sumberdaya.

As at the 30 June 2009, the Company was a guarantor under the December 2005 Project Facility Agreement for the loans provided by the ANZ Bank for the Cibaliung Project. Additionally, in March 2008 the Company entered into a Deed of Charge with the ANZ Bank whereby the ANZ Bank had a fixed and floating charge over all present and future property, assets and undertakings of the Company. As detailed in Note 13, post balance date these Company guarantees and charges over assets have been released with the successful completion of the sale transaction for PT Cibaliung Sumberdaya.

13. Subsequent events

On 6 July 2009 the Company announced that it had completed the sale of the subsidiary PT Cibaliung Sumberdaya.

The sale relieved the Company of its significant obligations to fund the Project and to service the associated project debt obligations to the ANZ Bank.

With the completion of the sale transaction the ANZ Bank has released both the guarantee provided by the Company on the Cibaliung Project loans and the fixed and floating charge held by the ANZ Bank over all present and future property, assets and undertakings of the Company. Additionally a Company payable amount of $536,852 in relation to underwriting fees has been forgiven by the ANZ Bank.

Additionally under the terms of the Heads of Agreement, at the completion of the sale of PT Cibaliung Sumberdaya, the Company has fully redeemed the January 2010 convertible notes on the basis of a payment of $0.10 in the $1.00 of both the issue price and all unpaid interest on the notes and the issuing of a total of 17,775,000 options exercisable at any time until the third anniversary date of their issue at $0.025. This redemption was completed on 6 July 2009 with a cash payment of $221,117 and the issuing of 17,775,000 July 2012 Options.

The subsidiary PT Cibaliung Sumberdaya had significant negative net assets at balance date, and with the sale the Group has recognised a non-cash gain of around $10.7m upon deconsolidation of this subsidiary from the Group.

After the completion of the above transactions for the sale of PT Cibaliung Sumberdaya, the settlement of the convertible notes and the forgiveness of underwriting fees the net asset position of the Group will improve by around $17.8 million. These transactions also redress the negative working capital position (current liabilities being in excess of current assets) that existed at half-year, with the completed transactions returning the Group to a positive working capital position.

Other than the matters discussed above, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

DIRECTORS' DECLARATION

In the opinion of the directors of Arc Exploration Limited:

1. The financial statements and notes set out on pages 7 to 18 are in accordance with the Corporations Act 2001 including:

    (a) giving a true and fair view of the Group's financial position as at 30 June 2009 and of its performance for the six month ended on that date; and

    (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. As disclosed in Note 7 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

John C. Carlile
Managing Director

Jakarta, 8 September 2009

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

Report on the financial report

We have reviewed the accompanying interim financial report of Arc Exploration Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies and other explanatory notes 1 to 13 and the directors' declaration set out on pages 7 to 19 of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 30 June 2009 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As auditor of Arc Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2009 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualification to the conclusion provided above, attention is drawn to the following matter. As a result of the matters described in note 7, the Group is reliant upon raising additional funds to support the Group's operations including the continuation of exploration activities at the Trenggalak and Bima project sites. At the date of this report the fund raising transactions are incomplete, and the outcome of these transactions cannot presently be determined with certainty. Because of this and the matters referred to in note 7 there is material uncertainty regarding the ability of the Group to continue as a going concern. Should the Group be unable to continue as a going concern, it is unlikely that it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the interim financial report.

KPMG

KPMG

Chris Sargent
Partner

Melbourne

8 September 2009