



Arc Exploration Limited

A.B.N. 48 002 678 640

INTERIM REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2014

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by Arc Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Interim Consolidated Financial Report
For The Half Year Ended 30 June 2014

DIRECTORS' REPORT

The directors present their report together with the financial statements of the consolidated entity (the 'Group') consisting of Arc Exploration Limited (the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2014.

DIRECTORS

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

Name	Period of Directorship
Executive	
Mr Jeffrey Malaihollo (Managing Director, CEO)	Appointed October 2013
Non-Executive	
Mr. Bruce J. Watson (Chairman of the Board and the Audit Committee)	Appointed Chairman (Board and Audit Committee) 2005 Director 1998-2001, Director since 2005
Mr John Carlile	Retired as Managing Director remained as Non-Executive Director October 2013 Appointed Managing Director January 2008 Director since 1998
Mr. Robert M. Willcocks	Director since July 2008
Mr. George S. Tahija	Retired on 22 May 2014 Director since 1998

PRINCIPAL ACTIVITIES

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

- the undertaking of gold exploration in Indonesia at Trenggalek (East Java) and
- exploring opportunities in Australia.

REVIEW OF OPERATIONS

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

INDONESIA

Trenggalek Project, East Java

The Group has a joint venture with PT Sumber Mineral Nusantara ("SMN"), an Indonesian company which holds the Trenggalek Exploration IUP tenement that covers an area of approximately 300 km² in the Southern Mountains of East Java.

Anglo American has entered into an agreement with ARX and SMN to farm into the Trenggalek Project to test the porphyry potential. Exploration activities at Trenggalek are currently managed by ARX but fully funded by Anglo American.

SMN holds a *Pinjam-Pakai* ("Borrow Use") Forestry Permit for the Trenggalek IUP which is valid until 3 November 2015 and allows the Company to conduct exploration work on several targets in production forestry areas within the tenement.

Potential for major porphyry copper-gold deposits in the region is highlighted by the discovery of the Tumpangpitu deposit in the Tujuh Bukit district, located some 200 km to the east of Trenggalek. Tumpangpitu is in the same belt of rocks hosting the giant Batu Hijau and Elang copper-gold deposits on Sumbawa within the Sunda-Banda magmatic arc. Trenggalek contains a similar package of rocks to those hosting these three major porphyry deposits.

During the period drilling was undertaken at Singgahan prospect located in the southeast corner of the IUP. A total 1,541 m was drilled in four inclined diamond holes. These holes have tested only part of the extensive copper-gold-molybdenum soil anomaly that is underlain by a discrete magnetic-high target centred on an altered diorite intrusion. The drilling results were supportive of the porphyry potential within the IUP.

Work at Trenggalek for the remainder of the year will focus on modelling of the drilling results and target generation on other parts of the IUP that are considered underexplored but highly prospective for potential porphyry systems.

Arc Exploration Limited and its Controlled Entities
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Interim Consolidated Financial Report
For The Half Year Ended 30 June 2014

DIRECTORS' REPORT (Continued)

REVIEW OF OPERATIONS (CONTINUED)

Strategic Alliance with Anglo American in Papua

The Company's Strategic Alliance with Anglo American and Indonesian parties to explore for copper-gold deposits in Papua and West Papua provinces expired in May 2014. However, the three existing Exploration IUP tenements that are owned by Indonesian parties, pursuant to the Strategic Alliance, remain and they continue to be governed under the terms of the Strategic Alliance Agreement.

These cover nearly 3,000 km² at the centre of the Bird's Head peninsula in West Papua Province which cover prospective ground in the same region that hosts Grasberg - Indonesia's largest porphyry copper-gold deposit.

Anglo American is responsible for managing and funding all exploration activities in West Papua. No work was undertaken during the period. The parties are conducting a review of the three tenements.

AUSTRALIA

During the period the group exercised its respective options to proceed to Farm-in on the Junee and Oberon projects owned by New South Resources Pty Ltd ("NSR"), located in New South Wales.

The key commercial terms are:

- ARX may earn a 51% interest by sole funding \$500,000 on each of the projects within two years of signing the Farm-in Agreements and
- ARX may then earn up to an 80% interest, in one or both projects, by sole funding a further \$580,000 within a further one year on each project it elects to progress.

These two projects are located within the Lachlan Orogen, a complex geological province endowed with world-class gold and gold-copper deposits.

The Junee Project, NSW

The Junee Project is located close to existing mine operations and development infrastructure near the major regional centre of Wagga Wagga. It comprises four Exploration Licences (EL's 6516, 6658, 6768 & 8152). The total area of this tenement package is about 87 square-kilometres. During the period metallurgical test work was completed and a review of historic geophysical data collected over the Dobroyde gold deposit and surrounding area was undertaken by a geophysical consultant. Three-dimensional geophysical inversion modelling was performed on airborne magnetic and ground chargeability & resistivity datasets acquired from previous detailed surveys. Results were supportive of the additional gold and copper potential of the project area. Further field work will commence in the second half of 2014.

The Oberon Project, NSW

The Oberon Project is located close to existing mine operations and development infrastructure near the major regional centre of Bathurst. It comprises one large licence, EL 6525 and a smaller adjoining licence, EL 8110. The total area of this tenement package is approximately 171 square-kilometres. During the period the Group compiled and reinterpreted historic geophysical data to assess the potential for additional gold resources and porphyry targets in the project area. In addition a 3D analysis of gold-base metal distribution and geology of the Murphys gold deposit was undertaken which highlighted potential for additional gold resources through further exploration and drilling. Reconnaissance rock chip sampling was also undertaken on several historic prospects. A total of thirty one rock chip samples were collected. Results were supportive of the additional gold and copper potential of the project area and will be used to plan further work in the second half of 2014.

The Mount Garnet Project, QLD

The Group also holds an option to farm-in to a gold property owned by Snowmist Pty Ltd ("Snowmist") in the Mount Garnet mining district of Far North Queensland. This option period extends until August 2015.

The Mount Garnet Project is located close to mine operations and development infrastructure west of the major regional centre of Cairns. It comprises three Mining Leases (ML's) covering about 150 hectares that are 100% held by Snowmist.

During the period the Group was granted a new minerals exploration permit, EPM 25343, comprising six sub-blocks that cover about 17 square-kilometres of prospective ground located close to the Mount Garnet Project area. The new exploration permit may be prospective for additional gold resources and other metals including tin and base metals.

Net Loss After Tax

The net loss after tax for the half-year was \$791,645 (2013: loss \$79,224).

Financial

The company made no share issues and no dividend has been declared or paid during the half year.

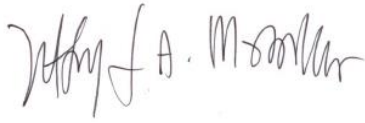
Arc Exploration Limited and its Controlled Entities
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Interim Consolidated Financial Report
For The Half Year Ended 30 June 2014

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on Page 5 and forms part of the Directors' report for the half-year ended 30 June 2014.

Signed at Sydney this 11 September 2014 in accordance with a resolution of the directors.



Jeffrey Malaihollo
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 2014 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

Caoimhe Toouli
Partner

Sydney

11 September 2014

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2014

	2014	Half-year	2013
	\$		\$
Continuing operations			
Other income	481,113		419,813
Employee expenses	(559,723)		(340,890)
Depreciation expenses	(9,743)		(13,813)
Management, administrative and occupancy expenses	(342,849)		(339,665)
Exploration expenditure	(355,783)		(463,124)
Unrealised foreign exchange gain/(loss)	(30,047)		603,222
Loss before financing costs	<u>(817,032)</u>		<u>(134,457)</u>
Interest income	25,387		55,233
Loss before income tax	<u>(791,645)</u>		<u>(79,224)</u>
Income tax (expense)/benefit	-		-
Loss after tax	<u>(791,645)</u>		<u>(79,224)</u>
Other comprehensive income			
Items that will not be reclassified to profit and loss	-		-
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations	17,527		(564,678)
Other comprehensive income for the period, net of tax	<u>17,527</u>		<u>(564,678)</u>
Total comprehensive income for the period	<u>(774,118)</u>		<u>(643,902)</u>
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)	(0.09)		(0.09)

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

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	30 June 2014 \$	31 December 2013 \$
CURRENT ASSETS			
Cash and cash equivalents		1,667,760	2,205,476
Receivables		455,433	460,999
Other		141,645	150,005
TOTAL CURRENT ASSETS		<u>2,264,838</u>	<u>2,816,480</u>
NON-CURRENT ASSETS			
Receivables		173,461	177,631
Plant and equipment		7,537	18,188
Exploration and evaluation expenditure		5,309,237	5,117,557
Intangible asset		95,034	276,235
TOTAL NON-CURRENT ASSETS		<u>5,585,269</u>	<u>5,589,611</u>
TOTAL ASSETS		<u>7,850,107</u>	<u>8,406,091</u>
CURRENT LIABILITIES			
Trade and other payables		629,126	592,742
Other		34,861	34,861
TOTAL CURRENT LIABILITIES		<u>663,987</u>	<u>627,603</u>
NON-CURRENT LIABILITIES			
Provisions		205,667	199,752
TOTAL NON-CURRENT LIABILITIES		<u>205,667</u>	<u>199,752</u>
TOTAL LIABILITIES		<u>869,654</u>	<u>827,355</u>
NET ASSETS		<u>6,980,453</u>	<u>7,578,736</u>
EQUITY			
Contributed equity	9	148,437,928	148,387,790
Reserves		1,780,772	1,637,548
Accumulated losses		(143,238,247)	(142,446,602)
Total equity attributable to equity holders of the Company		<u>6,980,453</u>	<u>7,578,736</u>
TOTAL EQUITY		<u>6,980,453</u>	<u>7,578,736</u>

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

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2014

	Notes	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$	\$
Balance at 1 January 2014		148,387,790	734,975	902,573	(142,446,602)	7,578,736
Total comprehensive income for period						
Profit/(loss)		-	-	-	(791,645)	(791,645)
Other comprehensive income						
Foreign currency translation differences		-	17,527	-	-	17,527
Total comprehensive income for the period		-	17,527	-	(791,645)	(774,118)
Transactions with equity holders in their capacity as equity holders						
Employee share options expense		-	-	125,697	-	125,697
Shares issued	9	50,138	-	-	-	50,138
Total transactions with equity holders		50,138	-	125,697	-	175,835
Total equity at the end of period 30 June 2014		148,437,928	752,502	1,028,270	(143,238,247)	6,980,453
		Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$	\$
Balance at 1 January 2013		148,387,790	691,974	902,573	(140,980,585)	9,001,752
Total comprehensive income for period						
Profit/(loss)		-	-	-	(79,224)	(79,224)
Other comprehensive income						
Foreign currency translation differences		-	(564,678)	-	-	(564,678)
Total comprehensive income for the period		-	(564,678)	-	(79,224)	(643,902)
Transactions with equity holders in their capacity as equity holders						
Employee share options expense		-	-	-	-	-
Shares issued	9	-	-	-	-	-
Total transactions with equity holders		-	-	-	-	-
Total equity at the end of period 30 June 2013		148,387,790	127,296	902,573	(141,059,809)	8,357,850

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

Arc Exploration Limited and its Controlled Entities

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2014

Notes	30 June 2014 \$	Half-year 30 June 2013 \$
Cash flows from operating activities		
Consulting fees	61,925	136,824
Partner Contribution	364,098	236,772
Payments to suppliers and employees	(665,199)	(589,576)
Exploration and evaluation expenditure	(119,905)	(463,964)
Interest received	26,812	61,950
Finance costs	-	-
	<u>(332,269)</u>	<u>(617,994)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Payments for office furniture, equipment and vehicles	-	(1,288)
Exploration and evaluation expenditure	(199,271)	-
Net proceeds from sale of asset	-	-
	<u>(199,271)</u>	<u>(1,288)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Repayment of loans	-	-
	<u>-</u>	<u>-</u>
Net cash from financing activities		
Net increase/(decrease) in cash and cash equivalents	(531,540)	(619,282)
Cash and cash equivalents at beginning of the period	2,205,476	3,771,887
Effects of exchange rate changes on balances of cash held in foreign currencies	(6,176)	(5,539)
	<u>1,667,760</u>	<u>3,147,066</u>
Cash and cash equivalents at the end of the period		

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

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

1 Reporting Entity

Arc Exploration Limited (the "Company") is a publicly listed company that is incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the period ended 30 June 2014 comprise the Company and its controlled entities (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2013 is available upon request from the Company's registered office at Level 8, 65 York Street, Sydney NSW 2000, or at www.arcexploration.com.au.

2 Statement of Compliance

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

This consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2013.

The consolidated interim financial statements were approved by the Board of Directors on 11 September 2014.

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 2013.

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 2013.

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 2013.

6 Going concern

The financial report is prepared on a going concern basis which reflects the Directors' expectation that the Group will be able to realise its assets and settle its obligations in the normal course of business. In making this assessment the Directors have prepared cash flows forecasts until 30 September 2015 to maintain the Group's cash burn rate at a relatively low level, taking the following into consideration:

- The Group will fund minimum holding costs in respect of the Trenggalek tenement in order to keep the project in good standing while it looks for a new joint venture partner / funding to continue the exploration program;
- The Group will minimise expenditure in respect of the tenements held in West Papua. The Group is currently considering its options in respect of these tenements and may elect to relinquish some areas to reduce holding costs while the Group also seeks to identify a new joint venture partner to participate in this project;
- The Group having exercised options to earn an interest in two projects in Australia and is expecting a relatively low level of expenditure during the initial earn in period, while also retaining an option to earn into a third Australian project;
- The Group is in a strong cash position with \$1,668,000 in cash as at 30 June 2014 and having raised an additional \$692,500 through a placement to Treasure Key Investment Limited on 1 September 2014 which together is expected to be sufficient to meet the Group's cash burn rate and committed obligations; and
- The Group contemplates that it may raise additional new capital at some stage during the remainder of the year ended 31 December 2014 or in early 2015 to fund other future exploration works subject to suitable market conditions.

If the 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 the funding was not obtained the Company would take steps to reduce its operating expenditures and would likely operate on a basis such that it 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.

7 Segment reporting

In 2013 half year, the Group had one single operating segment, being exploration activities in Indonesia, which was reported to the Managing Director and thus no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items were made.

During the second half of financial year end 2013, the Group determined it had two operating segments, being exploration activities in Indonesia and Australia. The managing Director only reviews the expenses, profit or loss, assets and liabilities relating to exploration activities separately. The disclosures set out below have been prepared on this basis.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

7 Segment reporting (continued)

Segment assets and liabilities	June	December
	2014	2013
Information about reportable segments	\$	\$

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

Assets		
Australia exploration	445,479	435,000
Indonesia exploration	4,958,792	4,958,792
Corporate	<u>2,445,836</u>	<u>3,012,299</u>
	<u>7,850,107</u>	<u>8,406,091</u>
Liabilities		
Australia exploration	95,034	276,235
Indonesia exploration	-	-
Corporate	<u>774,620</u>	<u>551,120</u>
	<u>869,654</u>	<u>827,355</u>

2014 - June

	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income *	-	-	481,113	481,113
Employee expenses	-	-	(559,723)	(559,723)
Depreciation expenses	-	-	(9,743)	(9,743)
Other expenses	-	-	(342,849)	(342,849)
Exploration expenses	-	(355,783)	-	(355,783)
Foreign exchange losses	-	-	(30,047)	(30,047)
Loss before financing costs	-	(355,783)	(461,249)	(817,032)
Interest income	-	-	25,387	25,387
Loss before income tax	-	(355,783)	(435,862)	(791,645)
Income tax (expense)/benefit	-	-	-	-
Loss after tax	-	(355,783)	(435,862)	(791,645)

2013 - June

	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income *	-	-	419,813	419,813
Employee expenses	-	-	(340,890)	(340,890)
Depreciation expenses	-	-	(13,813)	(13,813)
Other expenses	-	-	(339,665)	(339,665)
Exploration expenses	(44,670)	(418,454)	-	(463,124)
Foreign exchange losses	-	-	603,222	603,222
Loss before financing costs	(44,670)	(418,454)	328,667	(134,457)
Interest income	-	-	55,233	55,233
Loss before income tax	(44,670)	(418,454)	383,900	(79,224)
Income tax (expense)/benefit	-	-	-	-
Loss after tax	(44,670)	(418,454)	383,900	(79,224)

* From the total other income recognised for the half year ended 30 June 2014 \$397,971 (30 June 2013: \$419,813) relates to consulting services provided to other exploration entities in Indonesia.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

8 Share-based payment reserve

Following shareholder approval at the Annual General Meeting held 22 May 2014 the Company issued 55,772,136 options at an exercise price of 0.9 cents per share with an expiry date of 31 December 2018. The options vest on 31 December 2014 subject to the option holder still being a Company director or Group employee at the relevant vesting date. The options shall not expire by reason of the option holder subsequently resigning or ceasing to be a director or employee. The options shall also vest if a person becomes entitled to in excess of 30% of the shares in the company. The options shall immediately vest in the event of death for the benefit of the option holder's estate.

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 inputs used in the measurement of the fair values at grant date of the equity-settles share-based payment options can be summarised as follows:

Grant date	22/05/2014
Fair value at grant date	\$0.004
Share price at grant date	\$0.005
Exercise price	\$0.009
Expected volatility	150%
Expiry date	31/12/2018
Expected dividends	0%
Risk-free interest rate	2.90%

Cost of options issued to directors and key management personnel charged to the statement of comprehensive income for 30 June 2014 was \$125,697 (30 June 2013: nil).

9 Contributed Equity

The company issued 8,356,333 shares during the half year to settle part of Directors Fees / Salary to preserve existing cash resources.

	30/06/2014	31/12/2013	30/06/2014	31/12/2013
	Number	Number	\$	\$
Fully paid ordinary shares				
At the beginning of the period	916,533,798	916,533,798	148,387,790	148,387,790
Shares issued to settle part of Directors Fees / Salary	8,356,333	-	50,138	-
Transaction costs relating to share issues			-	-
	924,890,131	916,533,798	148,437,928	148,387,790

10 Subsequent events

The Company is continuing its examination of new opportunities in both Indonesia and Australia to spread its project and country risk profile.

On 1 September 2014 the Company allotted to Treasure Key Investments Limited a total of 138,500,000 shares at a subscription price of \$0.005 per share raising a total of \$ 692,500 for additional working capital purposes.

On 9 September 2014 the Company advised the market that it had been verbally advised by Anglo American that it would not be proceeding with the three tenements located in the Province of West Papua, Indonesia, or with further exploration at the Company's Trenggalek Project in East Java. As at the date of this report the Company has still not received formal notification of this decision from Anglo American.

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, 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.

Arc Exploration Limited and its Controlled Entities
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2014

DIRECTORS' DECLARATION

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

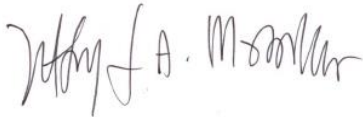
1. The financial statements and notes set out in this report are in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the six month period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the directors:

Dated 11 September 2014



Jeffrey Malaihollo
Managing Director



Bruce J Watson
Non-Executive Chairman



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

Report on the financial report

We have reviewed the accompanying interim financial report of Arc Exploration Limited, which comprises the consolidated statement of financial position as at 30 June 2014, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Arc Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the interim period 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 modifying our opinion, we draw attention to Note 6 in the interim financial report which indicates that the preparation of the financial statements on a going concern basis is dependent on future capital raisings to fund the Group's operations, including the continuation of exploration activities in Australia and Indonesia. As set out in Note 6 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.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney

11 September 2014