

ARC MINERALS LIMITED
Interim Financial Statements
30 September 2018

CHAIRMAN'S STATEMENT 2018 INTERIM RESULTS

During the period under review we made major progress at increasing our ownership and control of Zamsort Limited ("Zamsort"), which holds a large and highly prospective license area for Copper and Cobalt mineralization in northwest Zambia including the exciting and substantially advanced Kalaba Copper and Cobalt Project ("Kalaba") in the south of the license area. Having historically held two convertible loan notes in Zamsort, we now own a direct 66% interest, together with a convertible loan note. There is now only one remaining minority interest in Zamsort, namely Kopara, and we have recently agreed with Kopara to jointly fund all future expenditure at Zamsort.

In July 2018, we commenced an 11,000-metre drilling programme at Kalaba (4,400m of diamond and 6,600m of Reverse Circulation drilling) with the aim to delineate a maiden JORC-code compliant resource. The drilling to date has exceeded our expectations in terms of the size of the potential deposit and we have identified a significant copper / cobalt deposit with copper equivalent grades of approximately 0.60% Copper Equivalent and current metal prices.

We made good progress with the commercial scale demonstration plant ("CSD") and the front end of the plant is being dry commissioned in December 2018 and batch processing to commence early in the new year upon completion of the back end. Test work on the oxide ore is quite advanced, with two potential leaching routes being assessed to optimise the process and significantly reduce operating costs.

In November 2018, we completed a comprehensive high resolution airborne geophysical survey over Zamsort, covering c.1,000 km² which hosts several known targets. The Ultra-Low-Level Magnetic and Radiometric airborne geophysical survey was completed by Xcalibur Airborne Geophysics (Pty) Ltd ("Xcalibur"). The survey covered the whole Zamsort license area and comprises 5,218 line-kilometres. The data is currently being processed, together with the analysis of 28,000 soil geochemical samples with the aim to identify targets and to rank the existing and any new targets that may arise. In line with Zambian mining regulations the c.400 sq. km not being prioritised and developed by Zamsort is in the process of being applied for in a separate joint venture vehicle (Zaco Limited) with existing and new shareholders. Arc Minerals will be the largest shareholder in Zaco Limited going forward. A number of NDA's have been signed in respect of Zamsort and several site visits have been undertaken with the aim of securing possible joint venture partners.

At Casa, the company's 3m oz gold JORC resource in the DRC, several NDA's have been signed with interested third parties for a potential sale and / or joint venture.

In October 2018 the company issued 44,400,000 shares at 4.5 pence per share to raise gross proceeds of £1,998,000 to fund exploration and development work on the Company's Kalaba Copper-Cobalt project in Zambia and for general working capital purposes. In addition to the shares, each subscriber received one share purchase warrant for each share subscribed. Each warrant entitles the holder for a period of 36 months to purchase one new Ordinary Share at 6.5 pence per share.

At the Company's Annual General Meeting that was held on 28 November, Michael Foster announced that he will be stepping down as non-executive director of the Company and from the Boards of the Company's subsidiaries effective 31 December 2018 to focus on his other African interests. On behalf of the board I would like to thank Mike for his efforts in particular relating to the integration of Casa. The Company intends to fill the resulting vacant board seat by appointing a Zambian non-executive director, subject to usual regulatory due diligence.

Shareholders can expect an active programme of news flow over the very near term with further drill results, updates on developments around the new anomalies identified from the airborne survey and commissioning of the small scale demonstration plant.

CHAIRMAN'S STATEMENT 2018 INTERIM RESULTS

Financial & Corporate Overview

This is the first reporting period of the Company that includes the accounts of Zamsort Limited. The purchase of a 66% interest in Zamsort is summarised in Note 4.

The acquisitions of Zamsort Limited and of Casa Mining Limited have contributed significantly to the 108% increase in Total Assets to £35.7M from £17.2M at 30 September 2017.

The loss from continuing operations for the period was £1,174,000 (2017 – £304,000) and the loss per share was 0.23 pence (2017 – 0.22p). The Zamsort share of the loss was £503,000.

The Company continues to classify its investments in the Šturec project in Slovakia and in Andiamo as available-for-sale financial investments.

Nick von Schirnding
Executive Chairman
19 December 2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period ended 30 September 2018

	Notes	Six Months to 30 Sep 2018 (Unaudited) £ 000's	Six Months to 30 Sep 2017 (Unaudited) £ 000's
Other operating income		-	15
Administrative expenses		(1,193)	(324)
Gain on purchase of shares Casa Mining Limited		199	-
Share based payments		(180)	(15)
Operating loss		(1,174)	(324)
Interest		-	47
Share of loss of associates		-	(27)
Loss before tax		(1,174)	(304)
Income tax expense		-	-
Loss for the period from continuing operations	3	(1,174)	(304)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		305	(300)
Other comprehensive income for the period, net of tax		305	(300)
Total comprehensive income for the period		(869)	(604)
Attributable to:			
Owners of the parent		(869)	(604)
Loss per share from continuing and discontinued operations attributable to the owners of the parent during the period (expressed in pence per share)			
Basic and diluted	3	(0.23)	(0.22)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

GROUP STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

	Notes	As at 30 Sep 2018 (Unaudited) £ 000's	As at 30 Sep 2017 (Unaudited) £ 000's
ASSETS			
Non-current assets			
Intangible assets	4	24,298	12,445
Property, plant and equipment	5	2,674	205
Investments		192	1,006
Available for sale financial investments	6	6,936	791
Total non-current assets		34,100	14,447
Current assets			
Inventories – Zamsort Limited		847	39
Investment in convertible note – Casa Mining Limited		-	1,547
Trade and other receivables		306	202
Available for sale financial investments	6	-	853
Cash and cash equivalents		484	97
Total current assets		1,637	2,738
TOTAL ASSETS		35,737	17,185
LIABILITIES			
Non-current liabilities			
Long term payables	7	(2,792)	-
Total non-current liabilities		(2,792)	-
Current liabilities			
Trade and other payables		(2,246)	(104)
Total current liabilities		(2,246)	(104)
TOTAL LIABILITIES		(5,038)	(104)
NET ASSETS		30,699	17,081
EQUITY			
Share capital	8	-	-
Share premium		45,076	34,666
Share based payments reserve		1,333	1,712
Foreign exchange reserve		1,054	352
Retained earnings		(17,431)	(19,649)
Non-controlling interest		667	-
TOTAL EQUITY		30,699	17,081

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

GROUP STATEMENT OF CHANGES IN EQUITY

for the period ended 30 September 2018

	Share capital	Share premium	Foreign exchange reserve	Share based payment reserve	Retained earnings	Non-controlling interest	Total equity
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
As at 1 April 2017	-	32,774	652	1,697	(19,345)	-	15,778
Profit/(loss) for the period	-	-	-	-	(304)	-	(304)
<i>Items that may be reclassified subsequently to profit or loss:</i>							
Currency translation differences	-	-	(300)	-	-	-	(300)
Other comprehensive income for the period	-	-	(300)	-	-	-	(300)
Total comprehensive income for the period	-	-	(300)	-	(304)	-	(604)
Share capital issued net of share issue costs	-	1,892	-	-	-	-	1,892
Share based payments	-	-	-	15	-	-	15
Total transactions with owners, recognised directly in equity	-	1,892	(300)	15	(304)	-	1,303
As at 30 September 2017	-	34,666	352	1,712	(19,649)	-	17,081
As at 1 April 2018	-	38,324	749	1,333	(16,257)	1,318	25,467
Profit/(loss) for the period	-	-	-	-	(1,174)	-	(1,174)
<i>Items that may be reclassified subsequently to profit or loss:</i>							
Currency translation differences	-	-	305	-	-	-	305
Other comprehensive income for the period	-	-	305	-	-	-	305
Total comprehensive income for the period	-	-	305	-	(1,174)	-	(869)
Share capital issued net of share issue costs	-	6,572	-	-	-	-	6,572
Share based payments	-	180	-	-	-	-	180
Non-controlling interest in Zamsort at acquisition	-	-	-	-	-	845	845
Share of loss for the period	-	-	-	-	-	(171)	(171)
Non-controlling interest of Casa purchased during the period	-	-	-	-	-	(1,325)	(1,325)
Total transactions with owners, recognised directly in equity	-	6,752	305	-	(1,174)	(651)	5,232
As at 30 September 2018	-	45,076	1,054	1,333	(17,431)	667	30,699

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

GROUP CASH FLOW STATEMENT

for the period ended 30 September 2018

	As at 30 Sep 2018 (Unaudited) £ 000's	As at 30 Sep 2017 (Unaudited) £ 000's
Cash flows from operating activities		
Loss before tax	(1,174)	(304)
Interest income accrued	-	(47)
Share of loss from associates	-	27
Share based payments	180	15
Gain on acquisition of Casa Mining Ltd	(199)	-
Operating loss before changes in working capital	(1,193)	(309)
(Increase)/decrease in inventories	-	(2)
Decrease/(increase) in trade and other receivables	331	(14)
Increase/(decrease) in trade and other payables	1,065	(3)
Net cash used in operating activities	203	(328)
Cash flows used in investing activities		
Additions to intangible assets	(2,268)	-
Additions to property, plant and equipment	(410)	-
Acquisition of convertible note in Casa Mining Ltd	-	(1,547)
Investment in available-for-sale financial investments	(236)	-
Net cash used in investing activities	(2,914)	(1,547)
Cash flows from financing activities		
Proceeds from issue of ordinary shares net of share issue cost	2,389	1,892
Long term payables	630	-
Net cash inflow from financing activities	3,019	1,892
Net increase/(decrease) in cash and cash equivalents	308	17
Cash and cash equivalents at beginning of period	176	80
Cash and cash equivalents at end of period	484	97

NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the period ended 30 September 2018

1. Basis of preparation

The condensed consolidated interim financial statements have been prepared under the historical cost convention and on a going concern basis and in accordance with International Financial Reporting Standards and IFRIC interpretations adopted for use in the European Union (“IFRS”) and those parts of the BVI Business Companies Act applicable to companies reporting under IFRS.

The condensed consolidated interim financial statements contained in this document do not constitute statutory accounts. In the opinion of the directors, the condensed consolidated interim financial statements for this period fairly presents the financial position, result of operations and cash flows for this period.

The Board of Directors approved this Interim Financial Report on 19 December 2018.

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with the requirements of the AIM Rules for Companies. As permitted, the Company has chosen not to adopt IAS 34 “Interim Financial Statements” in preparing these interim condensed consolidated interim financial statements. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which have been prepared in accordance with IFRS as adopted by the European Union.

Accounting policies

The condensed consolidated interim financial statements for the period ended 30 September 2018 have not been audited or reviewed in accordance with the International Standard on Review Engagements 2410 issued by the Auditing Practices Board. The figures were prepared using applicable accounting policies and practices consistent with those adopted in the statutory annual financial statements for the year ended 31 March 2018.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investment in associates includes any goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group’s share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in the other comprehensive income section of the statement of comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amounts of the associate and its carrying value and recognises the amount adjacent to ‘share of profit/(loss) of associates’ in the statement of comprehensive income.

NOTES TO THE INTERIM FINANCIAL STATEMENTS for the period ended 30 September 2018

Gains and losses resulting from upstream and downstream transactions between the group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

2. Financial risk management and financial instruments

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's medium-term performance and the factors that mitigate those risks have not substantially changed from those set out in the Group's 2018 Annual Report and Financial Statements, a copy of which is available from the Group's website: www.arcminerals.com. The key financial risks are market risk (including currency risk), credit risk and liquidity.

3. Loss per share

Notes	Six Months to 30 Sep 2018 (Unaudited) £ 000's	Six Months to 30 Sep 2017 (Unaudited) £ 000's
Loss from Continuing Operations	(1,174)	(304)
Weighted average number of ordinary shares used in calculating basic loss per share (000's)	510,002	137,144
Basic & diluted loss per share (expressed in pence)	(0.23)	(0.22)

As the inclusion of the share options would result in a decrease in the earnings per share, they are considered to be anti-dilutive and, as such, a diluted loss per share is not included.

4. Intangible Assets

	Zamsort Goodwill £ 000's	Zamsort Deferred Exploration Costs £ 000's	Casa Deferred Exploration Costs £ 000's	Šturec Deferred Exploration Costs £ 000's	Total £ 000's
As at 30 September 2017	-	-	-	12,445 ⁽ⁱ⁾	12,445
As at 30 September 2018	2,557	974	20,767	-	24,298

⁽ⁱ⁾ Classified as available for sale asset at 31 March 2018

NOTES TO THE INTERIM FINANCIAL STATEMENTS for the period ended 30 September 2018

4. Intangible Assets (continued)

Zamsort Limited

On 15 May 2018 the Company announced that it had acquired (i) a 35% interest in Zamsort Limited. Subsequently, further purchases of Zamsort shares were completed.

Consideration for the initial purchase was 102,083,333 shares of the Company with a cost of GBP 2,450,000. Subsequently the Company issued 39,500,000 shares at a cost of GBP 1,349,400 to acquire a further 17% of Zamsort Limited increasing its total interest to 66% including the 14% acquired on the 2017 partial conversion of its 19.35% Convertible Loan Note. In addition, the Company incurred other costs of GBP 138,000 which have been capitalised. The Company still holds a Convertible Loan Note with a principal balance of GBP 245,000 convertible into 5.35% of Zamsort Limited.

Net assets acquired of Zamsort Limited:	£ 000's
Cash and cash equivalents	12
Inventories	900
Plant	2,158
Fixed assets, net	236
Deferred exploration expenses	349
	<u>3,655</u>
Creditors and accruals	(376)
Shareholder loan – Arc Minerals Ltd	(420)
Shareholder loan – Other	(676)
Net equity	<u>2,183</u>
66% of net equity	1,440
Cost	<u>4,484</u>
Goodwill	<u>3,044</u>

The amount of goodwill is subject to change owing to foreign exchange movements and other factors.

5. Property, Plant and Equipment

	Zamsort	Šturec	Total
	£ 000's	£ 000's	£ 000's
Net book value at 30 September 2017	-	205 ⁽ⁱ⁾	205
Net book value at 30 September 2018	2,674	-	2,674

⁽ⁱ⁾ Classified as available for sale asset at 31 March 2018

6. Available for Sale Financial Investments

	Zamsort	Andiamo	Šturec	Total
	£ 000's	£ 000's	£ 000's	£ 000's
As at 30 September 2017	791 ⁽ⁱ⁾	853	-	1,644
As at 30 September 2018	-	392	6,544	6,936

⁽ⁱ⁾ Reclassified upon acquisition of a 66% interest

NOTES TO THE INTERIM FINANCIAL STATEMENTS for the period ended 30 September 2018

7. Long Term Payables

	Group 2018 £ 000's	Group 2017 £ 000's
Long term payables		
Shareholder loan	1,257	-
Deferred consideration	1,535	-
	<u>2,792</u>	<u>-</u>

The shareholder loan represents a loan from the 34% minority shareholder in Zamsort Limited. The Company has provided a loan to Zamsort Limited on similar terms which had a balance on the reporting date of £ 1,582,000 including the 5.35% convertible loan note.

The deferred consideration (USD 2,000,000) was incurred by Casa Mining Ltd when that Company purchased from and cancelled shares of a shareholder. The amount is unsecured, non-interest bearing and due for payment in April 2020.

8. Share capital

The authorised share capital of the Company and the called up and fully paid amounts at 30 September 2018 were as follows:

A) Authorised	£ 000's	
Unlimited ordinary shares of no par value		-
B) Called up, allotted, issued and fully paid	Number of shares	Nominal value
As at 1 April 2018	319,703,912	-
Additions:		
10 May 2018, at 2.61p ⁽ⁱ⁾	6,636,731	-
10 May 2018, at 2.45p ⁽ⁱ⁾	6,449,257	-
15 May 2018, at 2.4p ⁽ⁱⁱ⁾	102,083,333	-
15 May 2018, at 2.4p	104,166,667	-
5 June 2018, at 2.4p ⁽ⁱⁱ⁾	17,500,000	-
18 June 2018, at 4.245p ⁽ⁱⁱ⁾	13,000,000	-
11 July 2018, at 4.2p ⁽ⁱⁱ⁾	10,000,000	-
20 August 2018, at 2.4p	1,458,333	-
20 August 2018, at 3.33p	5,400,000	-
As at 30 September 2018	586,398,933	-

⁽ⁱ⁾ These shares were issued in relation to the acquisition of Casa Mining Limited.

⁽ⁱⁱ⁾ These shares were issued in relation to the acquisition of Zamsort Limited.

9. Post balance sheet events

On 10 October 2018 issued 44,400,000 shares to raise gross proceeds of £1,998,000.

10. Other matters

The condensed consolidated interim financial statements set out above do not constitute the Group's statutory accounts for the period ended 30 September 2018 or for earlier periods but are derived from those accounts where applicable.

A copy of this interim statement is available on the Company's website: www.arcminerals.com