ARC EXPLORATION

ANNUAL REPORT **2014**

Contents

AGM

The Annual General Meeting of the Company will be held at KPMG, Level 15, 10 Shelley Street, Sydney NSW, Australia at 10.00am on Friday, 22 May 2015.

Arc Exploration Limited ("ARX") is exploring for high-value epithermal gold-silver and large-scale porphyry copper-gold deposits along the highly prospective magmatic arcs and related terranes of Indonesia and Australia.

During the year we exercised our options to farm into the Junee and Oberon gold-base metal projects in New South Wales and maintained our option on the Mount Garnet gold-base metal project in Northern Queensland.

Chairman's letter

Dear Shareholder

2014 has seen a number of changes in emphasis in the strategic direction of our company.

During the year we exercised our options to farm into the Junee and Oberon gold-base metal projects in New South Wales and maintained our option on the Mount Garnet gold-base metal project in Northern Queensland. These all contain established gold deposits. During the year we undertook field work and analysis of the areas to better understand the geology. These have yielded encouraging results leading to the decision to exercise our options. Given ARX has to be careful with its limited cash the intention is to engage with a major, well-funded group to further develop these properties.

In Indonesia at Trenggalek we undertook with our joint venture partner Anglo American scout drilling involving four holes for 1,541 metres accompanied by petrographic evaluation of the drill cores. In addition new targets were identified within the Trenggalek IUP. In September Anglo American globally reorganised its exploration priorities and advised of its intention to withdraw from the project. At the time of withdrawal Anglo American had spent US$3.5 million at Trenggalek with all our activities there last year funded by them. We believe Trenggalek to be extremely prospective and will again seek to joint-venture with another major that shares this view. We retain 95% of Trenggalek.

In Papua ARX had a 20% free carried interest in Anglo's exploration project pursuant to a joint-venture which expired in May 2014. Anglo had only conducted minimal work on the project since 2010. Because of forestry access issues and due to the cost of maintaining the tenement, combined with its global exploration priority realignment Anglo decided to relinquish it. We did not take up our right to maintain these properties ourselves due to the continuation of the forestry issues and the ongoing high costs of keeping them current. We have to be prudent with our funds and they are better applied elsewhere.

During the year we welcomed a new shareholder with a placement to Treasure Key Investments raising just under $700,000. TKI also nominated to our Board Mr Max Ramajaya an Indonesian businessman based in Jakarta. Mr Ramajaya brings strong business skills and a deep knowledge of issues impacting upon business within Indonesia.

We have been judicious with our cash and will continue to be. Funding for junior explorers remains very tight and many have ceased operation. We constantly monitor our cash position and focus our activities on those that give us a greater understanding of our tenements in the most cost effective way. Our strategy remains to involve well-funded majors to participate in and fund our projects once their merits have been established by us. But to press ahead with our program it will be necessary in 2015 to undertake a capital raising. Shareholders will, as always be kept fully informed.

Yours faithfully

Bruce J. Watson
Chairman

Review of Activities

for year ended 31 December 2014

Exploration

The primary focus of activities during the year was on copper-gold exploration at Trenggalek in East Java. This work was fully funded by Anglo American and managed by ARX until September 2014 when Anglo American, due to its reorganisation of its global exploration priorities, withdrew from the Joint Venture. ARX retains a 95% interest of the Trenggalek Project.

The strategic alliance agreement between ARX with Anglo American to explore for copper-gold in West Papua expired in May 2014 and was not extended. Both parties have also agreed to proceed with the relinquishment of the three existing Exploration IUPs held in West Papua due to access issues and the high cost of maintaining these tenements.

ARX exercised its options to farm into the Junee and Oberon gold-base metal projects located in New South Wales and maintained its option on the Mount Garnet gold-base metal project in Northern Queensland. Each of these tenements includes at least one advanced gold prospect together with additional exploration upside for further discoveries in a productive mineral province.

Trenggalek Project, East Java (ARX – 95%)

ARX operates a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara, who holds the Trenggalek Exploration IUP tenement covering about 300 km^2, located in the Southern Mountains of East Java. This tenement is valid until November 2016.

The Southern Mountains is composed of an older segment of the Sunda-Banda magmatic arc which hosts the Tumpangpitu porphyry copper-gold located about 200 kilometres to the east of Trenggalek, and the large Batu Hijau and Elang porphyry copper-gold deposits located on Sumbawa Island. Trenggalek contains a similar package of rocks to those hosting these three major porphyry deposits.

Early exploration work carried out by ARX, prior to the Anglo American JV, concentrated on testing of intermediate-sulphidation epithermal gold-bearing veins, breccias, jasperoid and high-grade float targets at multiple prospects identified within the tenement. These gold targets are hosted by Oligo-Miocene age volcanic and volcaniclastic rocks, limestone, subvolcanic plugs and possible diatreme breccias. Several of the prospects had limited drill testing in 2010 and produced some significant gold-silver intercepts including 9m at 4.5 g/t Au & 8 g/t Ag at Sentul, 13.7m at 3.2 g/t Au & 60 g/t Ag at Buluroto, and 6.6m at 4.9 g/t Au & 149 g/t Ag at Kojan. High-grade gold-vein float occurrences identified at the Jati and Jombok have yet to be traced to source and remain a valid exploration target.

A new phase of exploration commenced in late 2011 with a Joint Venture with Anglo American exploring for porphyry copper-gold targets. This followed the discovery of a high-sulphidation epithermal alteration system at Sumber Bening on the western side of the IUP. Other similar alteration systems have since been identified in the project area and these could be linked to porphyry gold-copper targets at depth.

Work completed under the Joint Venture up until the end of 2013 included:

- High-resolution airborne magnetics-radiometrics survey over the entire IUP tenement area.
- 2D interpretation & targeting from this geophysical data.
- 3D inversion modelling of the magnetic data over selected targets (Sumber Bening & Buluroto block).
- Detailed soil geochemical surveys over selected targets (Sumber Bening & Buluroto block).

INDONESIAN ARCHIPELAGO
Major Gold Deposits

- IP-Resistivity ground survey and 3D inversion modelling (Sumber Bening).
- Scout diamond drilling on the Jerambah Prospect within the Buluroto block (One hole for 1,022 metres).

Work completed under the Joint Venture during 2014 included:

- Scout diamond drilling of the Singgahan prospect within the Buluroto block (Four holes for 1,541 metres).
- Petrographic evaluation of drill cores from Jerambah and Singgahan
- Spectral Analysis on over 4,000 rock samples taken from various prospects.

Multiple new targets were identified from the geophysical interpretations, soil sampling, mapping and rock sampling and spectral surveys. The results of the scout drilling at Jerambah and Singgahan prospects were particularly encouraging, confirming the presence of large porphyry-related alteration systems within the Trenggalek IUP.

In September 2014, Anglo American advised ARX and SMN of its intention to withdraw from the project during the year, due to the depressed market conditions and a global reorganisation of their exploration priorities. Anglo American has spent approximately US$3.5 million on the project.

The partnership with Anglo American provided the first opportunity to test the porphyry potential of the Trenggalek IUP and their contribution has significantly expanded the project database, providing a solid platform on which to plan future exploration.

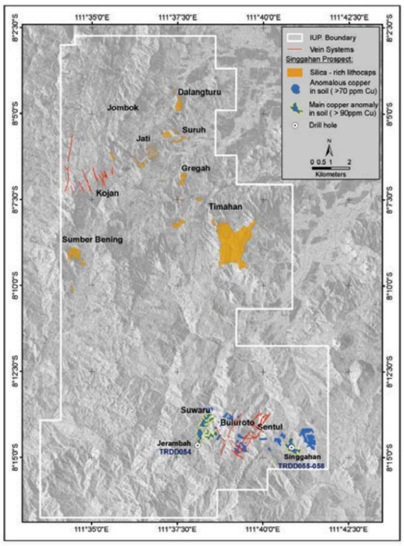
The Company firmly believes that the Trenggalek Project has significant porphyry potential and is substantially underexplored. Multiple targets remain to be tested within the tenement area, including the large high-sulphidation alteration system identified at Sumber Bening and other targets highlighted from the geophysical and spectral interpretations, and follow-up drilling is required at Jerambah and Singgahan. ARX is continuing with further field mapping and prospecting to evaluate the potential new porphyry targets and is re-evaluating some of the original epithermal gold prospects for previously untested potential.

Jombok & Jati
Vein Boulder Field
Au-As-Sb
Epithermal Veins

Kojan
Narrow IS
Epithermal Veins
Au-Ag

Sumber Bening
Altered QFP HSE & PCD
Cu-Bi-Mo-As
Completed 3DIP Survey

Drainage Anomalies
Underexplored
Au-As
Epithermal Veins
& Porphyry?



Dalangturu
Suruh & Gregah
Hydrothermal Breccia
Au-As-Sb-base metal
Underlying IS Epithermal
Veins, HSE & PCD?

Timahan & Bogoran
Silicified Limestone
"Jasperoid" & Stockwork/
Altered DIO /QFP
Au-As-Sb-Mo
Underlying Epithermal
Veins/Porphyry?

Sentul & Buluroto
Large IS Epithermal
Veins/Breccias
Au-Ag-As-base metal
Underlying PCD?

Jerambah
Altered DIO/QFP
HSE, Jasperoid/Skarn & PCD
Cu-Au-Mo
Completed 1 hole for 1022m

Singgahan
Altered DIO/QFP
Jasperoid/Skarn & PCD
Cu-Au-Mo
Completed 4 holes for 1541m

Jerambah Prospect

Jerambah is located about 2 km west of the Buluroto-Sentul vein systems. A previous drill intercept of 24.5m at 0.21% copper and 0.51 g/t gold obtained in an epithermal vein-breccia target at Buluroto provided one of the first indications of copper potential at Trenggalek.

Jerambah was originally identified as a geophysical target from the airborne magnetics survey. Subsequent prospecting and mapping highlighted extensive silica-clay-pyrite alteration occurring within a 2 km by 1.5 km area and showed indications of higher temperature clays (dickite and pyrophyllite). The presence of these higher temperature clays indicated the occurrence of a high-sulphidation epithermal footprint and therefore potential for a porphyry system at depth.

A single scout hole was drilled to 1,022 m depth metres in 2013 to test this target and intersected a thick package of altered breccias cutting volcaniclastic rocks, limestone and various intrusive rock types including diorite, tonalite and andesite porphyry. The breccias were interpreted to occupy a large pipe-like feature, which is common in porphyry systems. A best intercept of 2m at 0.1% Cu with 0.05 g/t Au, 12 g/t Ag & 12 ppm Mo was returned from 459m down-hole. It occurs within a broader intercept of low-grade molybdenum-arsenic-antimony mineralisation, returning 36m at 7 ppm Mo, 125 ppm As & 6 ppm Sb from 451m down-hole, in silicified limestone ("jasperoid").

A petrological study of core samples taken from this hole was completed earlier this year. The study highlighted evidence for porphyry-related alteration minerals in the drill core including garnet, vesuvianite, secondary albite, K-feldspar, biotite, magnetite, epidote, actinolite/tremolite and tourmaline. Porphyry-veined breccia intraclasts, extensive anhydrite veining, common traces of disseminated chalcopyrite and molybdenite mineralisation, and narrow structurally controlled zones of overprinting high-sulphidation epithermal alteration (pyrophyllite-dickite-rich) carrying traces of enargite and tennantite/tetrahedrite mineralisation, were also described and indicate proximity to a porphyry system.

It was concluded from the petrological work that the results are highly encouraging and were interpreted to indicate that the hole intersected a peripheral position in a potential mineralised porphyry system. More detailed mapping and surface sampling are planned prior to further drilling.

Singgahan Prospect

Singgahan Prospect is located about 5-km east of Jerambah and 2-3 km east of the Buluroto-Sentul vein systems. Singgahan was originally highlighted as gold-copper drainage anomaly from a previous stream sediment survey and is also an airborne geophysics target. Benching and scout drilling were conducted during the year.

Soil geochemical sampling and mapping completed in 2013 highlighted an approximately 500-m wide and 1,000-m long coincident gold-copper-molybdenum anomaly underlain by extensive silica-clay-pyrite alteration in a diorite intrusion and andesitic volcanics. It occurs within a prominent northwest-trending structural corridor that extends across the IUP and includes several other major prospects including Sentul, Buluroto, Jerambah and Sumber Bening.

Contour benches were manually cut around the ridgeline to expose the source of the coincident copper-gold-molybdenum soil anomaly. A total of 1,320 metres was completed in three benches. Each bench was continuously rock chip sampled and assayed for gold and a multi-element package including copper and molybdenum. The benches exposed mineralised weathered bedrock with remnants of porphyry-style quartz-limonite-sulphide veining, returning long intercepts of anomalous gold-copper-molybdenum geochemistry including 42m at 0.105 g/t gold, 343 ppm copper & 4 ppm molybdenum and 58m at 0.105 g/t gold, 236 ppm copper & 2 ppm molybdenum. The bench results confirmed that the coherent copper-gold-molybdenum anomaly persists in bedrock over at least 500m strike-length.

Scout diamond drilling at Singgahan comprised a total 1,541 metres completed in four inclined diamond holes. The four holes completed a fence across part of the extensive copper-gold-molybdenum geochemical anomaly highlighted by the soil and bench sampling and also tested a coincident magnetic-high anomaly. Drill hole details and a summary of intercepts are presented in Tables 1 and 2.

The source of the Cu-Au-Mo anomaly soil and magnetic high feature is a weakly mineralised, altered diorite and associated intrusion breccia containing abundant secondary magnetite and minor sulphide mineralisation occurring as disseminations in porphyry-style quartz-anhydrite veins and potassic-propylitic alteration. This returned long low-grade copper-molybdenum-gold intercepts of the order of +200-500 ppm Cu, +5-10 ppm Mo and +0.02-0.05 g/t Au in several holes.

A quartz diorite/tonalite intrusion and associated breccias were intersected in one hole on the eastern side of the anomaly and in a magnetic low feature. The very bottom of this easternmost hole yielded the strongest copper-gold intercept of up to 0.14 g/t gold, 855 ppm copper and 7 ppm molybdenum in multiple porphyry-style quartz-pyrite veined, argillic-phyllic altered volcaniclastic rocks beneath the tonalite breccia. This mineralisation is open with potential for increasing copper-gold-molybdenum grades at depth and surrounding this hole.

A petrological study completed on selected core samples from these holes confirmed the porphyry target at Singgahan. Copper sulphide mineralisation occurs in the form of disseminated chalcopyrite and lesser bornite associated with

high-temperature porphyry-related alteration minerals (K-feldspar, magnetite, biotite, actinolite/tremolite) and porphyry-style quartz-magnetite-anhydrite veining. Minor disseminated chalcopyrite and molybdenite also occurs in later overprinting alteration assemblages.

The diorite, quartz diorite, tonalite and associated breccias intrude a thick package of calcareous volcaniclastic rocks that are silicified and skarnified on the margins of the intrusions. These rock types are similar to those hosting the giant Tumpangpitu and Batu Hijau porphyry copper-gold deposits.

It was concluded from the petrological work that the results were highly encouraging and were interpreted to indicate that the hole intersected a peripheral position in a potential mineralised porphyry system, possibly beneath and to the east of the current fence of holes. More detailed mapping and surface sampling are planned prior to further drilling.

Table 1. TRENGGALEK PROJECT – 2014 Program Drill-hole Details

Prospect	Hole ID	mE	mN	mRL	Dip	Azimuth (mag.)	Depth (m)
Jerambah	TRDD054	569,926	9,088,663	653	-60°	300°	1022.3
Singgahan	TRDD055	574,956	9,088,554	351	-50°	285°	331.7
Singgahan	TRDD056	575,099	9,088,517	310	-65°	210°	30.8*
Singgahan	TRDD057	574,958	9,088,554	351	-70°	105°	383.4
Singgahan	TRDD058	574,753	9,098,639	471	-75°	125°	795.8

* Hole TRDD056 abandoned short of targeted depth because of poor ground conditions.

Table 2. TRENGGALEK PROJECT – 2014 Program Significant Intercepts

Prospect	Hole ID	From (m)	To (m)	Interval (m)	Gold (g/t)	Copper (ppm)	Molybdenum (ppm)	Arsenic (ppm)	Antimony (ppm)
Jerambah	TRDD054	82.2	84.0	1.8	0.01	23	88		
		459.0	461.0	2.0	0.05	1040	12		
		735.0	736.8	1.8	0.1	39	1		
Singgahan	TRDD055	16.0	27.5	11.5	0.06	250	3		
		27.5	44.7	17.2	0.65	104	28	5700	61
		98.0	120.0	22.0	0.02	230	5		
		150.0	188.0	38.0	0.05	320	9		
Singgahan	TRDD056	28.7	30.3	1.6	0.17	167	29	3000	42
Singgahan	TRDD057	0.0	6.0	6.0	0.04	346	2		
		148.0	182.0	34.0	0.06	257	1		
		371.4	383.4	12.0	0.10	670	3		
Singgahan	TRDD058	14.0	22.0	8.0	0.16	315	21		
		43.0	104.1	61.1	0.04	313	6		
		108.0	118.0	10.0	0.07	73	6	2180	21
		128.0	142.0	14.0	0.24	122	13	8387	98
		142.0	212.0	70.0	0.05	373	4		
		220.0	256.0	36.0	0.03	252	5		
		306.0	320.0	14.0	0.06	301	3		
		402.0	410.0	8.0	0.21	100	13	3427	50
		410.0	416.0	6.0	0.02	290	5		

ARX-Anglo American Strategic Alliance, Papua

The strategic alliance agreement between ARX with Anglo American to explore for copper-gold in West Papua expired in May 2014 and was not extended.

In September 2014, Anglo American notified ARX of its intention to withdraw from the three existing Exploration IUP's located in West Papua, which are part of the strategic alliance agreement. ARX resolved not to exercise its right to maintain these tenements and notified Anglo American accordingly. This decision took into account the forestry conservation classification affecting much of the area which restricts access to the tenements and the high costs associated with maintaining these tenements. Prior to this minimal activity was undertaken during the year. Anglo American has been responsible for managing and funding all exploration activities in West Papua and is responsible for all costs associated with the relinquishment of these tenements.

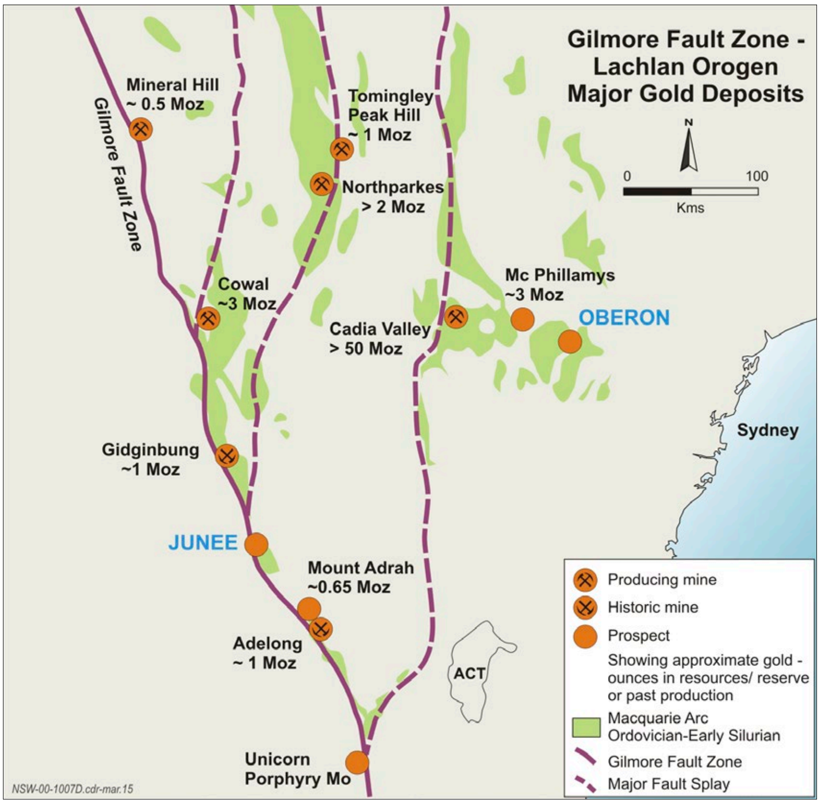
Australia

ARX exercised its option to farm-in to the Junee and Oberon projects in New South Wales and retains its option to farm-in to the Mount Garnet Project in Northern Queensland. The Junee and Oberon projects in New South Wales are owned by New South Resources Pty Ltd ("NSR"), and Mount Garnet Project in Queensland is owned by Snowmist Pty Ltd ("Snowmist"). ARX may earn up to 80% on each of the projects.

The key commercial terms on each of the NSW projects are:

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

These projects offer ARX the opportunity to establish a firm foothold in two major gold and copper producing provinces of Australia that have excellent development infrastructure and potential for further discoveries and growth.



Junee

The Junee Project, located near the major regional centre of Wagga Wagga, comprises four contiguous Exploration Licences (EL's 6516, 6658, 6768 & EL 8152) covering about 87 square-kilometres. These tenements straddle part of the major regional Gilmore Fault Zone and contain rocks of the Junee-Narromine Volcanic Belt, part of the highly prospective Ordovician-Early Siluran Macquarie Volcanic Arc in the Lachlan Orogen. Large porphyry-related gold and gold-copper deposits, such as Northparkes, Gidginbung and Cowal, occur along this fertile volcanic belt and their distribution is also spatially related to the Gilmore Fault Zone and its associated fault splays.

EL 6516 contains the 77,000-ounce *Dobroyde* gold deposit on which historic drilling has produced some spectacular high-grade gold intercepts within a low-grade mineralisation envelope, including 22m at 37.3 g/t gold, 16m at 10.5 g/t gold and 6m at 18.2 g/t gold. *Dobroyde* is a high-sulphidation epithermal gold deposit that was discovered in outcrop by Getty Oil in the early 1980's. It occurs in structurally controlled zones of siliceous alteration and cross-cutting baryte veins surrounded by clay-rich alteration zones in andesitic volcanic host rocks. Gold mineralisation at Dobroyde is controlled by a northwest-trending fault and fracture zone that is up to about 120-m wide and occurs adjacent to the major regional Gilmore Fault Zone. The gold mineralisation envelope is elongated NW-SE and extends over 400-m strike-length.

Dobroyde is located about 50 km south of Gidginbung, another high-sulphidation epithermal gold deposit located adjacent to the Gilmore Fault Zone and in a similar package of volcanic rocks. The Gidginbung deposit was mined in the 1990's by Paragon Resources and subsequent exploration surrounding the mine has produced several porphyry copper-gold prospects beneath younger cover rocks (e.g. The Dam,

Culingerai, Yiddah). No previous exploration for porphyry copper-gold has been undertaken at Dobroyde and the chances for a porphyry discovery are considered to be high.

During the year, metallurgical test work completed on high-grade mineralisation from the Dobroyde gold deposit confirmed a potential gold recovery of up to 80% by ultrafine grinding of flotation concentrate and cyanidation leaching. Independent review of previous metallurgical test work by Tom Gibbons of Veritas Metallica Pty Ltd in Perth has identified various ways to potentially improve recovery using gravity, flotation and more aggressive leaching.

A review of historic geophysical data collected over the Dobroyde gold deposit and surrounding area was undertaken by a Chris Moore of Moore Geophysics Pty Ltd in Melbourne. Three-dimensional ("3D") geophysical inversion modelling was performed on airborne magnetic and ground chargeability and resistivity datasets acquired from a high-resolution airborne survey flown by Kevron Geophysics in 1996 and on IP/Resistivity data from a ground survey done by Fugro in 2007.

Geophysical modelling confirmed the occurrence of extensive chargeability and resistivity anomalies sourced from the intense silica-clay-sulphide alteration footprint that is associated with the Dobroyde gold deposit and supported the conclusions of earlier geological modelling that the gold-bearing alteration system and its controlling structures are open down a shallow plunge to the northwest of Dobroyde.

This target has only been partly tested by historic drilling to a shallow vertical depth of about 200m. There is potential for additional gold resources and possibly more high-grade shoots located below and to the north of the currently defined Dobroyde gold resource.

The results of the geophysical modelling and analysis also highlight magnetic responses and associated chargeability and resistivity anomalies that may indicate the presence of a buried porphyry copper-gold system to the northwest of Dobroyde.

Several targets have been identified and recommended for drill testing. Initial ground validation work on the geophysical targets is in progress. A scout drilling program is being planned to test these targets in 2015.

Oberon

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.

The project area covers Siluro-Devonian and Ordovician volcanic rocks of the Hill End Trough and the Macquarie Volcanic Arc and is located on the eastern side of the Lachlan Orogen. The Siluro-Devonian volcanosedimentary rocks in this region are host to VMS-related gold-base metal (e.g. McPhillamys, Lewis Ponds) and orogenic gold-vein (e.g. Hill End, Lucknow) deposits. Ordovician volcanic rocks within the project area are of a similar age and composition to those hosting the multiple gold-copper porphyry and gold-copper skarn deposits found in the nearby Cadia district. The Oberon Project area is therefore prospective for similar styles of mineralisation. Carboniferous granites intrude both of the older rock sequences and the edges of these intrusions are prospective for gold skarn deposits (e.g. Lucky Draw, Browns Creek).

EL 6525 contains the 150,000-ounce *Murphys* gold deposit on which historic drilling has produced some broad low-grade gold intercepts including 49m at 0.75 g/t gold, 23m at 1.05 g/t gold and 34m at 0.62 g/t gold. Murphys is a VMS-related or orogenic gold deposit discovered by Newmont Mining in the late 1970's. Gold occurs disseminated through quartz-muscovite-sulphide altered rhyodacitic volcaniclastic rocks and in cross-cutting sulphidic quartz-stockworks.

Reconnaissance rock chip sampling was undertaken during the year on several historic prospects. A total of thirty one (31) rock chip samples were collected. The results are summarised below and confirm the potential for multiple targets and mineralisation styles within the project area.

Native Dog – Sixteen (16) rock chip grab samples were taken from outcrops of partly oxidised, silicified and sulphidic quartz-stockworked basaltic andesite breccias and metasedimentary rocks of the Rockley Volcanics. Eleven samples returned gold results ranging from 0.1 to 4.07 g/t Au and five samples returned 0.1 to 0.23% Cu. Arsenic and antimony are also strongly elevated in the results.

Holmwood – Six (6) rock chip grab samples were taken from dumps

on two small historic mine workings located on this prospect. Five samples of partly oxidised quartz-sulphide veins hosted in basaltic andesite of the Rockley Volcanics returned copper results ranging from 1.1 to 7.1% copper and gold results of up to 0.94 g/t Au.

Phoenix/Mabel – Four (4) rock chip grab samples were taken from dumps on two small historic base metal mine workings located about 3-4 km south of the Murphys gold deposit and within the same package of altered felsic volcanic host rocks. One sample of gold-silver-base metal rich massive sulphide dump material taken from the Phoenix workings returned 18.2% zinc, 9.27% lead, 1.56% copper, 1.26 g/t gold and 240 g/t silver. Three samples taken from the Mabel workings returned 0.19 to 1.76 g/t gold and 27 to 93 g/t silver in baryte-rich material containing disseminated base metal sulphide mineralisation.

A 3-Dimensional ("3D") modelling and targeting analysis of the historic drilling database integrated with the interpretative geology of the Murphys gold deposit was conducted by Jun Cowan of Orefind Pty Ltd. The analysis concluded that the gold system has an open plunge work to the south toward some historic high-grade base metal workings and supported the potential to expand the known gold resource at Murphys.

A geophysical consultant was commissioned to undertake a review of historic geophysical data collected over the Native Dog Prospect located at the southern end of EL 6525 late in the year. This includes three-dimensional ("3D") geophysical inversion modelling and a targeting analysis on magnetic/radiometric and gravity data collected from a high-resolution airborne survey flown by Fugro in 2007 and on IP/Resistivity data from a ground survey done by Planetary Geophysics in 2009. Results from this will be used to further assess the potential of the project area for additional gold resources and porphyry copper-gold targets in 2015.

Mount Garnet

The **Mount Garnet** Project, located near the major regional centre of Cairns, comprises three Mining Leases (ML's 4363, 4390, 20018) covering about 150 hectares that are 100% held by Snowmist Pty Ltd, and an exploration tenement (EPM 25343) covering about 17 km^2 that is held by ARX.

The project area lies at the southern end of a discontinuous belt of Siluro-Devonian calcareous metasedimentary rocks (Chillagoe Formation) that is bounded by the major regional Palmerville fault and intruded by Permo-Carboniferous granites that are associated with the occurrence of high-grade gold-base metal-tin skarn and disseminated gold-base metal-tin stockwork/breccia deposits in the region (eg. Red Dome, Mungana and King Vol in the Chillagoe district; Mount Garnet, Gillian and Triple Crown in the Mount Garnet district).

ML 4390 contains the 69,000-ounce *Triple Crown* gold deposit on which historic drilling has produced some broad gold intercepts including 22m at 2.33 g/t gold, 51m at 1.73 g/t gold and 35m at 1.39 g/t gold. The deposit has been drilled to only shallow depth (<200m) and is believed to be open at depth.

Triple Crown is a granite-related gold-breccia deposit discovered by AOG Minerals Ltd in 1983. Gold is disseminated in quartz-sulphide stockworks and hydrothermal crackle breccia hosted that cuts granite porphyry and metasedimentary rocks. Similar but much larger gold deposits occur in the region, including Red Dome/Mungana (+3 Moz) and Kidston (+4 Moz).

A new exploration permit (EPM 25343) located within about 1 km east of the Triple Crown MLs was granted to ARX during the year. This tenement is believed to contain the same package of rocks that is host to Triple Crown and may be prospective for additional gold resources and other metals including tin and base metals.

Soil sampling was conducted over two historic mineral prospects during the quarter, Triple Crown South and Stockies. The Triple Crown South soil grid is located within ML 4363 and ML 20018 about 1 km to the immediate west of the 69,000 oz Triple Crown gold deposit and is underlain by northeast-striking gossanous calc-silicate rocks that might be mineralized skarn. The Stockies soil grid is located within EPM 25343 about 1.5 km east of Triple Crown and is underlain by gossanous, brecciated metasedimentary rocks that could indicate the presence of a mineralised skarn and granite at depth. Both prospects are located close to the old Mount Garnet zinc-copper mine.

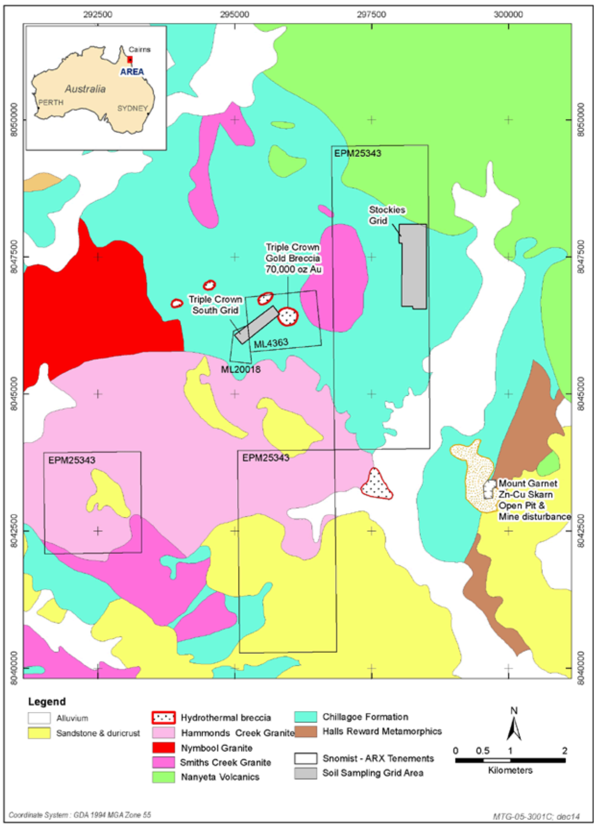
The soil results highlighted large areas (>500 m length) of anomalous base metal geochemistry across both grids. The anomalies are defined by >75 ppm copper, >200 ppm lead, 75 ppm zinc at Stockies and >50 ppm copper, >100 ppm lead, >250 ppm zinc at Triple Crown South. Maximum soil results obtained on both grids were 314 ppm Cu, 3180 ppm Pb, 440 ppm Zn at Stockies and 237 ppm Cu, 1310 ppm Pb, 3290 ppm Zn at Triple Crown South.

These results compare favourably with the size and tenor of zinc, lead and copper anomalies reported from historic fine-fraction soil sampling over the Mount Garnet zinc-copper skarn deposit (Hartley & Williamson, 1995), which is located about 3 km south of Stockies and 4.5 km southeast of Triple Crown South. The Mount Garnet skarn deposit had a zinc-copper resource of about 2 Mt at 9% Zn & 0.5% Cu prior to mining.

Follow-up work at Triple Crown South and Stockies is in progress and includes geological mapping and rock chip sampling to provide further definition of the soil geochemical anomalies.

Summary Statement of Resources

A Statement of Resources relating to each project was prepared by Dr Ian Blayden of Geological & Management resources Pty Ltd on behalf of ARX from internal reports compiled by New South Resources Pty Ltd and Snowmist Pty Ltd and is summarised below. These gold estimates are reported at a 0.3 g/t gold cut-off.



Deposit	Indicated Resource Dry tonnes	Gold (g/t)	Inferred Resource Dry tonnes	Gold (g/t)	Contained Metal Gold (oz)
Dobroyde	2,080,000	1.15			77,000
Murphys			5,300,000	0.89	150,000
Triple Crown	2,100,000	0.98			69,000

The information in this table that relates to:

- the *Dobroyde* and *Murphy* gold resources is extracted from the report entitled Junee and Oberon Projects – Statement of Resources created and released to the ASX on 10 July 2013.
- the *Triple Crown* gold resource is extracted from the report entitled Mount Garnet Project – Statement of Resources created and released to the ASX on 21 August 2013.

There is good potential to increase the gold resources on each of the projects through further exploration beneath the known resources and on the surrounding prospects.

ARX Project Tenement Status

Project	Location	Tenement	Area (km^2)	ARX interest
Trenggalek	East Java, INDONESIA	Exploration IUP	300 km^2	95%
Oberon	New South Wales, AUSTRALIA	EL 6525	160 km^2	Farm-in
		EL 8110	11 km^2	Farm-n
Junee	New South Wales, AUSTRALIA	EL 6516	17 km^2	Farm-in
		EL 6658	14 km^2	Farm-in
		EL 6768	20 km^2	Farm-in
		EL 8152	36 km^2	100%
Mount Garnet	Queensland, AUSTRALIA	ML 4363	129 ha	Under Option
		ML 20018	21 ha	Under Option
		ML 4390	1 ha	Under Option
		EPM 25343	17 km^2	100%

Competent Person Statement

The information in this report that relates to the following were created and reported in accordance with the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.':

- Encouraging petrology results from scout hole drilled at Jerambah Prospect on the Trenggalek Project, Indonesia – created and released to the ASX on 9 April 2014 entitled *Update on Trenggalek Exploration Activities*.
- Drilling results from scout drilling at Singgahan Prospect on the Trenggalek project, Indonesia – created and released to the ASX on 24 July 2014 entitled June 2014 Quarterly Activities Report and 27 October 2014 entitled September 2014 Quarterly Activities Report.
- Expiration of the ARX-Anglo American Alliance in Papua, Indonesia – created and released to the ASX on 21 May 2014 entitled *Update on Papua Alliance*.
- Intention to relinquishment West Papuan Exploration IUP tenements, Indonesia – created and released to the ASX on 10 October 2014 entitled *West Papuan tenements to be relinquished*.
- Metallurgical test work on Dobroyde and review of results on the Junee Project in New South Wales, Australia – created and released to the ASX on 21 March 2014 entitled *Metallurgy results from Dobroyde*.
- Geophysical modelling & targeting on the Dobroyde gold deposit, Junee Project, New South Wales, Australia – created and released to the ASX on 24 September 2014 entitled *Geophysical analysis and targeting at Dobroyde, Junee Project*.
- Reconnaissance rock chip sampling results on the Oberon project in New South Wales, Australia – created and released to the ASX on 21 May 2014 entitled *Encouraging rock chip results from Oberon, NSW, Australia*.
- 3 Dimensional exploration targeting on the Murphys gold deposit on the Oberon Project in New South Wales, Australia – created and released to the ASX on 11 February 2014 entitled *3D geological analysis and targeting at Murphys*.
- New exploration tenement granted on the Mount Garnet Project in Queensland, Australia – created and released to the ASX on 9 July 2014 entitled *New exploration permit at Mount Garnet*.
- New base metal targets from soil survey on the Mount Garnet Project in Queensland, Australia – created and released to the ASX on 17 December 2014 entitled *Two base metal targets identified at Mount Garnet Project, Australia*.

The reports referred to above are available to view on the Company's website: www.arcexploration.com.au.
The Company confirms that it is not aware of any new information or data that materially affects the information included in these original market announcements. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.

With the exception of the above, the information in this report that relates to Exploration Results is based on information compiled by Mr Brad Wake, BSc (Applied Geology), who is a member of the Australian Institute of Geoscientists.
Mr Wake has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which is being undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Wake is a full time employee of Arc Exploration Limited and consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to:

- the *Dobroyde* and *Murphy* gold resources is extracted from the report entitled Junee and Oberon Projects – Statement of Resources created and released to the ASX on 10 July 2013.
- the *Triple Crown* gold resource is extracted from the report entitled Mount Garnet Project – Statement of Resources created and released to the ASX on 21 August 2013.

The reports referred to above are available to view on the Company's website: **www.arcexploration.com.au**.
The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Corporate Responsibilities

SUPPORTING AND TRAINING STUDENTS FROM THE NURUL HIKMAH GEOLOGICAL AND MINING HIGH SCHOOL AT TRENGGALEK

TESTING WATER QUALITY NEAR DRILL HOLE BY LOCAL HEALTH DEPARTMENT

Although the primary goal of the Company is to increase shareholder value, we also recognise our corporate responsibility to all stakeholders and the continual need for sustainable, harmonious development. Arc Exploration Limited and its employees are involved in the promotion of best practice in community development, environmental protection and safety management in all its operations.

The Community

Arc Exploration understands the importance of community relations and development and the paramount need for the Company and its activities to co-exist in harmony with the local population and all its stakeholders.

We acknowledge the fact that whilst we work and live within local communities our relationship with the local people is critical to the development of the Company's business. However, we are also aware that our projects are still at the high-risk exploration stage. We therefore need to correctly manage the expectations of the local communities with respect to risks and rewards of the projects and the benefits. In this respect the Company has a policy to continually assess of the needs of the community, to adequately manage the desires and expectations of the community, and the response of the Company within its available resources.

In our exploration work we have a policy of hiring local labourers and, whenever possible, local staff. In Trenggalek, we are employing up to 150 local villagers during our work and we currently have 12 employees from the local area.

During the year, we also supported local communities in Indonesia by providing financial assistance for schools, youth programmes, road building and mosques. In addition we also consulted and worked closely with the local population on the issues of land use and land compensation.

REPLANTING OF DRILL HOLE LOCATION

REVEGETATED DRILL HOLE LOCATION

The Environment

The Company is also conscious of its responsibility in relation to the environment and we strive to achieve minimal impact as far as possible in our work areas. All Arc Exploration's Directors, management and staff are required to pay the highest respect to the environment as an obligation of employment and ensure that environmental management is carried out to the highest level achievable within the Company's operations. All of our employees and contractors are made aware of this policy.

Exposure to environmental risks are assessed regularly and reported to senior management. Workers are encouraged to report on environmental problems and are trained to recognise and respond to environmental risks, hazards and remediation.

Arc Exploration has ensured that disturbance of land in sampling, trenching and drilling has been carried out in full cooperation with the local people and authorities and we are satisfied that there has been minimal impact to the environment.

Our Employees

We are conscious that our employees are one of the most critical assets of the Company and we aim to protect their health, ensure their safety and improve their capacities and capabilities through various policies and programmes.

Throughout the year, we have continuously trained our employees in the use of various computing softwares and further exploration techniques and management skills, English language and health and safety matters. We have also ensured that our expatriate staff are aware of the need for good cross-cultural management in operating in the local environment.

In the coming year, we will initiate programmes of baseline environmental and social studies in our projects to help us design appropriate action plans.

Corporate Governance

This statement has been approved by the Board of the Company. The statement has been prepared as at 31 March 2015 with reference to the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Principle 1: Lay Solid Foundations for Management and Oversight

Recommendation 1.1

A listed entity should disclose:

a) the respective roles and responsibilities of its Board and management; and

b) those matters expressly reserved to the Board and those delegated to management.

The Board of Directors has been charged by shareholders with overseeing the affairs of the Company to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Group, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which the Board members and management must operate. The Board reviews and monitors management and the Group's performance. The Board has also taken responsibility for establishing control and accountability systems/ processes and for monitoring senior executive performance and implementation of strategy.

The Board has specifically identified the following matters for which it will be responsible:

a) reviewing and determining the Company's strategic direction and operational policies;

b) review and approve business plans, budgets and forecasts and set goals for management;

c) overseeing management's implementation of the Company's strategic objectives and its performance generally;

d) appointment and remuneration of the Managing Director/Chief Executive Officer;

e) review financial performance against Key Performance Indicators on a quarterly basis;

f) approve acquisition and disposal of assets, products and technology;

g) approve operating budgets, capital, development and other large expenditures;

h) review risk management and compliance;

i) oversee the integrity of the Company's control and accountability systems;

j) Oversee the Company's processes for making timely and balanced disclosure of all material information concerning it that a reasonable person would expect to have a material effect on the price or value of the Company's shares

k) reporting to shareholders;

l) ensure compliance with environmental, taxation, Corporations Act and other laws and regulations; and

m) monitoring the effectiveness of the Company's governance practices.

Management is charged with the day to day running and administration of the Company consistent with the objectives and policies as set down by the Board. Within this framework, the Managing Director is directly accountable to the Board for the performance of the management team.

Recommendation 1.2

A listed entity should:

a) **undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and**

b) **provide security holders with all material information in its possession relevant to a decision whether or not to elect or re-elect a Director.**

The Company does undertake checks before it appoints a person, or puts forward to shareholders a new candidate for election, as a Director. These checks include references as to the person's character, experience and education. The Company does not propose to check criminal records or the bankruptcy history for potential new Board members however may consider such checks where necessary or appropriate in the future.

The Company will include all material information in its possession relevant to a decision whether or not to elect or re-elect a Director in the relevant Notice of Meeting. Information relating to each of the Directors is also provided on the Company's website.

Recommendation 1.3

A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.

The Company has not established written agreements with its non-executive directors which set out the terms of their appointment. Accordingly the appointment of Directors is governed by the relevant provisions of the Company's Constitution.

Directors are not appointed for a fixed term but are, excluding any Managing Director, subject to re-election by shareholders at least every three years in accordance with the Constitution of the Company.

A Director appointed to fill a casual vacancy or as an addition to the Board, only holds office until the next general meeting of shareholders and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each Annual General Meeting of shareholders.

The Company does maintain written agreements with each of its executive directors and with senior executives which set out the terms of their appointment.

Recommendation 1.4

The Company Secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary has been appointed on the basis that he will be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

All Directors of the board have access to the Company Secretary who is appointed by the Board. The Company Secretary reports to the Chairman, in particular to matters relating to corporate governance.

Recommendation 1.5

A listed entity should:

a) have a diversity policy which includes requirements for the board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;

b) disclose that policy or a summary of it; and

c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either:

1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or

2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

The Company has established a Diversity Policy Statement which is available on the Company's website.

The Company is committed to an inclusive workplace that embraces and promotes diversity. The Company believes that the promotion of diversity on its Board and within the organisation generally is good practice.

The Company considers that diversity refers to all the characteristics that make individuals different from each other. It includes characteristics or factors such as religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference.

The Company values the unique contributions made by people with diverse backgrounds, experiences and perspectives, and believes that greater diversity of thought throughout the organisation will lead to more informed decision making and ultimately better business outcomes.

The Company's policy is to recruit and manage its employees on the basis of their competence, performance and potential, regardless of the individual's background or points of difference.

The Company is committed to treating of all individuals with respect and to promoting a culture of diversity in the workplace by:

- recruiting and managing on the basis of an individual's competence and performance;
- respecting the unique attributes that each individual brings to the workplace;
- fostering an inclusive and supportive culture to enable people to develop to their full potential;
- taking action to prevent and stop bullying, discrimination or harassment;
- rewarding and remunerating fairly;
- offering flexible work practices which recognise that employees may have different domestic responsibilities throughout their career;
- maintaining policies and procedures to provide employees at all levels of the Company with guidelines for behaviour.

Our commitment to diversity forms part of our culture dedicated to retaining the best qualified employees, management and Board. Our commitment applies in all phases of employee engagement including recruitment, selection, development, promotion, rewards and remuneration.

The Board acknowledges the benefits of and will seek to achieve diversity during the process of employment at all levels without detracting from the principal criteria for selection and promotion of people to work within the Company based on merit.

The measurable objectives for achieving gender diversity will be appropriate for the size and nature of the Company and may include initiatives and programs and/or targets in respect of:

- the number of women on the Board;
- the number of women employed by the Company;
- the nature of the roles in which women are employed, including on full time, part time or contracted bases, and in leadership, management, professional speciality or supporting roles.

At 31 December 2014:

- there were no women on the Board of Arc Exploration Limited;
- there were 5 women employed by the Company;
- the Company's Financial Controller is a woman.

Recommendation 1.6

A listed entity should:

a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and

b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board has adopted an on-going, self-evaluation process to measure its own performance and the performance of its committee and individual directors. The process of evaluation is set out in detail and available on the Company's website.

The Chairman meets periodically with individual directors to discuss the performance of the Board and the director. In addition, an evaluation is undertaken by the Chairman of the contribution of directors retiring by rotation prior to the Board endorsing their candidature.

The review process involves consideration of all of the Board's key areas of responsibility and accountability and is based on an amalgamation of factors including capability, skill levels, understanding of industry complexities, risks and challenges, and value adding contribution to the overall management of the business.

The Board believes that this approach is appropriate given its size and the nature of the Company's operations. No formal evaluation was undertaken in the reporting period ended 31 December 2014.

Recommendation 1.7

A listed entity should:

a) have and disclose a process for periodically evaluating the performance of its senior executives; and

b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board is responsible for approving the performance objectives and measures for executive directors and assessing whether these objectives have been satisfied by the performance of the executive directors during the relevant period and in accordance with agreed terms of engagement.

The Managing Director is responsible for approving the performance objectives and measures of other senior executives in consultation with the Board. The Board provides input into the evaluation of performance by senior executives against the established performance objectives.

Principle 2: Structure the Board to Add Value

Recommendation 2.1

The Board of a listed entity should:

a) have a nomination committee which:

1) has at least three members, a majority of whom are independent Directors, and

2) is chaired by an independent director;

3) and disclose

4) the charter of the committee

5) the members of the committee; and

6) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b) if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively

Due to the size of the Company and the number of Board members, the Board does not have a formal nomination committee. Any new Directors will be selected according to the needs of the Company at that particular time, the composition and the balance of experience on the Board as well as the strategic direction of the Company. Where a vacancy arises or it is considered appropriate to vary the composition of the Board of Directors, the full Board generally participates in any review of the Board's composition and the qualifications and experience of candidates. Directors are selected upon the basis of their specialist skills and business background so as to provide an appropriate mix of skills, perspective and business experience.

Principle 2: Structure the Board to Add Value (continued)

Recommendation 2.1 (continued)

At each annual general meeting, the following Directors retire:

i) one third of Directors (excluding the Managing Director);

ii) Directors appointed by the Board to fill casual vacancies or otherwise; and

iii) Directors who have held office for more than three years since the last general meeting at which they were elected.

Recommendation 2.2

A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

The Company does not have a formal Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

Nevertheless, the Board does review its composition from time to time taking into account the length of service on the Board, age, qualification and experience, any requirements of the Company's constitution, and in light of the needs and direction of the Company, together with such other criteria considered desirable for composition of a balanced Board and the overall interests of the Company.

A Director is expected to resign if the remaining Directors recommend that a Director should not continue in office, but is not obliged to do so.

Details of each Directors experience and length of service can be found on the Company's website and are reported in the Company's Financial Report on an annual basis.

Recommendation 2.3

A listed entity should disclose:

a) the names of the directors considered by the Board to be independent Directors;

b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and

c) the length of service of each Director.

The Board is currently comprised of:

Mr Bruce Watson:	Independent Non-Executive Chairman
Dr Jeffrey Malaihollo:	Managing Director
Mr John Carlile:	Non-Executive Director (former Managing Director)
Mr Robert Willcocks:	Independent Non-Executive Director
Mr Max Ramajaya:	Non-Executive Director

In addition, the Board has adopted a series of safeguards to ensure that independent judgement is applied when considering the business of the Board:

i) Directors are entitled to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required but this is not unreasonably withheld.

ii) Directors having a conflict of interest with an item for discussion by the Board must absent themselves from a Board meeting where such item is being discussed before commencement of discussion on such topic.

Details of each Directors experience and length of service can be found on the Company's website and are reported in the Company's Financial Report on an annual basis.

Recommendation 2.4

A majority of the Board of a listed entity should be independent Directors.

The Company does not comply with this recommendation as a majority of the Board are not independent Directors. Nevertheless, the Board is cognisant of the requirement that they must act in the best interest of the Company and its shareholders.

Recommendation 2.5

The chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.

Mr Bruce Watson is the Chairman of the Board and is an independent Director.

Recommendation 2.6

A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

The Company provides new Directors with an induction package including copies of its relevant policies and procedures.

Directors are encouraged to pursue appropriate professional development opportunities to develop and maintain their skills and knowledge in order to perform their role as Directors effectively.

All Board members have access to professional independent advice at the Company's expense, provided they first obtain the Chairman's approval, with such approval not being withheld unreasonably.

Principle 3: Act Ethically and Responsibly

Recommendation 3.1

A listed entity should:

a) have a code of conduct for its Directors, senior executives and employees; and

b) disclose that code or a summary of it.

The Board has approved a Code of Ethics which applies to all directors, executives, management and employees without exception. In addition, the conduct of directors and executives is also governed by a Directors Code of Conduct. In summary, these Codes provide that directors and senior executives must:

- act honestly, in good faith and in the best interests of the Company;
- use due care, skill and diligence in the fulfilling their duties;
- use the powers of their position for a proper purpose, in the interests of the Company;
- not make improper use of information acquired in their position;
- not allow personal interests, or those of associates, conflict with the interests of the Company;
- exercise independent judgement and actions;
- maintain the confidentiality of company information acquired by virtue of their position;
- not engage in conduct likely to bring discredit to the Company; and
- comply at all times with both the spirit and the letter of the law, as well as, policies of the Company.

Employees are actively encouraged to report activities or behaviour to senior management, the Company Secretary or the Board, which are a breach of the Code of Ethics, other policies or regulatory requirements or laws.

The Company will investigate any concerns raised in a manner that is fair, objective and affords natural justice to all people involved. The Company is committed to making necessary changes to its processes and taking appropriate action in relation to employees found to have behaved contrary to legal and company standard requirements.

Principle 4: Safeguard Integrety in Corporate Reporting

Recommendation 4.1

The Board of a listed entity should:

a) have an audit committee which:

1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and

2) is chaired by an independent Director, who is not the chair of the Board,

and disclose:

3) the charter of the committee;

4) the relevant qualifications and experience of the members of the committee; and

5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Company has established an audit committee which is comprised of Mr Bruce Watson and Mr Robert Willcocks, both of whom are independent non-executive Directors. Mr Bruce Watson is the Chairman of the Board and also the Chairman of the Audit Committee and accordingly the Company does not comply with this recommendation in that regard. Given the size of the Company and the geographic spread of the Board, the Audit Committee is made up of only two members, while other Directors and the Company's external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

The Company has a formal Audit Committee Charter which has been approved by the Board of Directors and is posted on the Company's website.

Details relating to the relevant qualifications and experience of the members of the committee and the number of times the committee met throughout the reporting period and the individual attendances of the members at those meetings are set out on an Annual Basis in the Directors Report contained in the Company's Year End Financial Report which is released to the market and posted on the Company's website.

Recommendation 4.2

The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Company's Managing Director and Chief Financial Officer will report in writing to the Board on a yearly and half-yearly basis to confirm that:

a) the financial records of the Company for the period have been properly maintained in accordance with Section 286 of the Corporations Act 2001;

b) the financial statements and the notes thereto for the period comply with relevant accounting standards;

c) the financial statements and the notes thereto for the period give a true and fair view, in all material respects, of the financial position, operational results and performance of the consolidated entity;

d) any other matters that are prescribed by the regulations for the purposes of Section 295A of the Corporations Act 2001 in relation to the financial statements and the notes for the financial year are satisfied;

e) the statements given in (b) and (c) above are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board;

f) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Recommendation 4.3

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Company's external auditor attends the AGM and is available to answer questions from shareholders relating to the conduct of the audit.

Principle 5: Make Timely and Balanced Disclosure

Recommendation 5.1

A listed entity should:

a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and

b) disclose that policy or a summary of it.

The Board is committed to keeping its shareholders, and the market, fully informed of major developments having an impact on the Company.

Currently the Managing Director and the Company Secretary are charged with the responsibility to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Board has approved a Continuous Disclosure Policy which is reproduced on the Company's website.

Senior management and the Board are responsible for scrutinising events and information to determine whether the disclosure of the information is required in order to maintain the market integrity of the Company's shares listed on the ASX.

The Company Secretary is responsible for all communications with the ASX.

Principle 6: Respect the Rights of Security Holders

Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

Information about the Company and its governance are available on the Company's website. The Company's website provides detailed corporate information and has a specific section relating to corporate governance.

Recommendation 6.2

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Company recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the company.

The Company has not established a formal policy for communicating with shareholders however the Company communicates information to shareholders through:

- announcements to the ASX including the Company's Annual Report;
- notices and explanatory memoranda of annual general meetings and general meetings; and
- the Company's website at www.arcexploration.com.au. The Company's website provides a description of the Group's projects and all material announcements released to the ASX.

It is the Company's communication policy to communicate with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

Investors and other stakeholders are invited to subscribe to an email alert facility on the Company's website so that they can receive material announcements which have been released by the Company to the market via email in a timely manner.

Recommendation 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Board encourages active participation by shareholders at each Annual General Meeting, or other general meetings of the Company.

The Company does not have formal policies or process in place to facilitate or encourage participation at shareholder meetings. The Company will despatch a Notice of Meeting and Explanatory Statement to shareholders in accordance with statutory requirements. In addition details of any shareholder meeting will be posted on the Company's website.

At any meeting of shareholders, shareholders will be encouraged to ask questions of the Board of Directors in relation to the matters to be considered at such meeting and where appropriate relating to the operation of the Company.

Recommendation 6.4

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The Company provides shareholders with the option to receive communications from, and send communications to, the entity and its security registry electronically.

Principle 7: Recognise and Manage Risk

Recommendation 7.1

The Board of a listed entity should:

a) have a committee or committees to oversee risk, each of which:

  1) has at least three members, a majority of whom are independent Directors; and

  2) is chaired by an independent director,

  and disclose:

  3) the charter of the committee;

  4) the members of the committee; and

  5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

The Board of the Company has not established a specific committee to oversee risk however the Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks. The Company has adopted a Risk Management Statement and a Financial and Commodity Risk Management Policy. The Risk Management Statement is reproduced on the Company's website.

The Board is provided with regular reporting on the management of operations and the financial condition of the Group aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

The Board recognises that there are inherent risks associated with exploration and particularly in Indonesia where there has been some uncertainty regarding the implementation of the Mining Law and its regulations.

The Audit Committee assists the Board in its risk management role by reviewing the financial and reporting aspects of the group's risk management and control practices.

Recommendation 7.2

The Board or a committee of the Board should:

a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and

b) disclose, in relation to each reporting period, whether such a review has taken place.

The Managing Director and Chief Financial Officer are both based in Jakarta and manage the implementation of risk management and internal control systems to manage the company's material business risks.

Management has confirmed to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board regularly monitors the operational and financial performance of the Company. The Board also receives and reviews advice on areas of operational and financial risk and develops strategies, in conjunction with management, to mitigate those risks.

The Board has not reviewed its risk management framework in respect of the year ended 31 December 2014.

Recommendation 7.3

A listed entity should disclose:

a) if it has an internal audit function, how the function is structured and what role it performs; or

b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

In light of the nature and extent of the Company's operations and activities, the Company has not established an internal audit function.

The Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks and where approval to establish appropriate internal control processes.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Company recognises its corporate responsibility to all stakeholders and the continual need for sustainable, harmonious operations. The Company and its employees promote best practice in terms of community development, environmental protection and safety management in all its operations.

The Company's projects are all at the high-risk exploration stage and accordingly the Company recognises the need to correctly manage the expectations of local communities with respect to risks and rewards. In this regard the Company continually assesses the needs of the local communities where it operates and aims to respond where appropriate to their desires and expectations within its available resources.

The Company is also conscious of its responsibility in relation to the environment and strives to achieve minimal impact as far as possible in its work areas. All management and staff are required to pay the highest respect to the environment and ensure that environmental management and rehabilitation is carried out to the highest level achievable.

Environmental risks are assessed regularly and reported to senior management. Workers are encouraged to report on environmental issues and are trained to recognise and respond to environmental risks and hazards. The Company seeks to ensure that any disturbance of land which may arise as a result of sampling, trenching or drilling is carried out in full cooperation with the local people and authorities and with minimal impact on the environment.

The Company recognises that its employees are key to the success of its operations and we aim to protect their health, ensure their safety and improve their capacities and capabilities through various policies and programs. The Company maintains ongoing employee training in the use of information technology, exploration techniques, management skills, English language and health and safety matters. The Company's expatriate staff in Indonesia are focussed on delivering strong cross-cultural management.

Principle 8: Remunerate Fairly and Responsibly

Recommendation 8.1

The Board of a listed entity should:

a) have a remuneration committee which:

1) has at least three members, a majority of whom are independent Directors; and

2) is chaired by an independent director,

and disclose:

3) the charter of the committee;

4) the members of the committee; and

5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Board has not maintained a formal Remuneration Committee due to the limited number of directors available and the positions that each of the directors hold. Remuneration matters are dealt with by the full Board of Directors. The full Board of Directors is responsible for establishing and reviewing the remuneration for the Managing Director.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.

The aggregate remuneration of non-executive directors is approved by shareholders. Individual directors' remuneration is determined by the board within the approved aggregate total. All Non-Executive Directors are entitled to remuneration of $30,000 each per annum (plus statutory superannuation where applicable) inclusive of Committee responsibilities. The Chairman receives remuneration of $45,000 per annum (plus statutory superannuation). No retirement benefits are payable to Non-Executive Directors.

The Board has determined the level of remuneration for the Managing Director taking into account his experience, the nature of his responsibilities, the Group's objectives and market conditions.

The remuneration of senior executives in Indonesia is determined by the President Director of the Company's operating subsidiaries in conjunction with the Managing Director taking into account each employees experience, the nature of responsibilities, and both market and country conditions.

The Company's broad remuneration policy for senior executives is to ensure that remuneration provided properly reflects the person's duties and responsibilities and is designed to attract, retain and motivate executives of the highest possible quality and standard to enable the Company to achieve its corporate objectives.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and

b) disclose that policy or a summary of it.

Officers and employees in both Australia and Indonesia are entitled to participate in the Company's Employee and Contractor Options Plan.

The Company has not yet established a formal policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.

The Corporations Act prohibits the key management personnel, or a closely related party of such personnel, from entering into an arrangement that would have the effect of limiting their exposure to risk relating to an element of their remuneration that either has not vested or has vested but remains subject to a holding lock.

Arc Exploration Limited
ABN 48 002 678 640

Annual Consolidated Financial Report

For the year ended 31 December 2014

Contents

Annual Consolidated Financial Report

for year ended 31 December 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 year ended 31 December 2014.

Directors

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

Name	Period of Directorship
Executive	
Dr Jeffrey Malaihollo (Managing Director, CEO)	Director since October 2013
Non-Executive	
Mr Bruce 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 Liem Max Ramajaya (Mr Max Ramajaya)	Appointed Director 1 September 2014
Mr Robert Willcocks	Director since July 2008
Mr George Tahija	Director since 1998 resigned 22 May 2014

Principal Activities

During the year the principal activities of Arc Exploration Limited and its controlled entities were copper-gold exploration in Asia Pacific region concentrating on high impact gold and porphyry copper-gold deposits with existing operations in both Indonesia and Australia.

Review of Operations

The Group is exploring for high-value epithermal gold-silver and large-scale porphyry copper-gold deposits along the highly prospective magmatic arcs and related terranes of Indonesia and Australia.

Indonesia

Trenggalek Project, East Java

The Trenggalek Exploration IUP tenement covers about 300 km^2 in the Southern Mountains of East Java. Work completed at Trenggalek during 2014 included:

- Scout diamond drilling of the Singgahan prospect within the Buluroto block (Four holes for 1,541 metres)
- Petrographic evaluation of drill cores from Jerambah and Singgahan
- Spectral Analysis on over 4,000 rock samples taken from various prospects.

Multiple new targets were identified from the geophysical interpretations, soil sampling, mapping and rock sampling and spectral surveys. The results of the scout drilling were particularly encouraging, supporting the presence of large porphyry-related alteration systems within the Trenggalek IUP.

In September 2014, Anglo American advised of its intention to withdraw from the project, due to the depressed market conditions and a global reorganisation of their exploration priorities. Anglo American had spent approximately US$3.5 million on the project.

The Group retains a 95% interest in the Trenggalek project in a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara which holds the Trenggalek tenement.

ARX-Anglo American Strategic Alliance, Papua

The strategic alliance agreement between the Group and Anglo American to explore for copper-gold in West Papua expired in May 2014 and was not extended. Anglo American also withdrew from the three existing Exploration IUP's in West Papua in September 2014. The Group resolved not to exercise its right to retain these tenements taking into account the forestry conservation classification and the high costs associated with maintaining these tenements. Minimal activity was undertaken during the year. Anglo American is responsible for all costs associated with the relinquishment of these tenements.

Australia

The Group exercised its option to farm-in to the Junee and Oberon projects in New South Wales and retains its option to farm-in to the Mount Garnet Project in Northern Queensland. The Junee and Oberon projects in New South Wales are owned by New South Resources Pty Ltd ("NSR"), and Mount Garnet Project in Queensland is owned by Snowmist Pty Ltd ("Snowmist"). The Group may earn up to 80% on each of the projects.

Junee

The Junee Project, located near the major regional centre of Wagga Wagga, comprises four contiguous Exploration Licences (EL's 6516, 6658, 6768 & EL 8152) covering about 87 square-kilometres straddling part of the major regional Gilmore Fault Zone. Work on the Junee Project during the year included a review of previous metallurgical test work and geophysical modelling.

The results of the geophysical modelling and analysis also highlight magnetic responses and associated chargeability and resistivity anomalies that may indicate the presence of a buried porphyry copper-gold system to the northwest of Dobroyde. Several targets have been identified and recommended for drill testing.

Oberon

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.

Reconnaissance rock chip sampling was undertaken during the year on several historic prospects. A total of thirty one rock chip samples were collected. The results confirmed the potential for multiple targets and mineralization styles within the project area.

A 3-Dimensional ("3D") modelling and targeting analysis of the historic drilling database integrated with the interpretative geology concluded that the gold system has an open plunge work to the south toward some historic high-grade base metal workings and supported the potential to expand the known gold resource at Murphys.

Mount Garnet

The Mount Garnet Project, located near the major regional centre of Cairns, comprises three Mining Licences (ML's 4363, 4390, 20018) covering about 150 hectares that are held by Snowmist Pty Ltd, and an exploration tenement (EPM 25343) covering about 17 km^2 that is held directly by the Group.

Soil sampling was conducted over two historic mineral prospects during the year. The soil results highlighted large areas of anomalous base metal geochemistry across both grids.

Consolidated Results

The loss after tax for the year was $1,616,409 (2013: loss of $1,466,017).

Significant Changes in the State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year not otherwise disclosed in this Review of Operations in this report or the consolidated financial statements.

Directors’ Report

for year ended 31 December 2014

Matters Subsequent to end of the Financial Year

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

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

Likely Developments and Expected Results of Operations

Likely developments in the operations of the Group include ongoing exploration at Trenggalek in Indonesia and both Oberon and Junee in New South Wales, Australia and the possibility of the Group exercising its option to earn a direct interest in the Mount Garnet project in Queensland, Australia which the Group currently holds an option over.

Dividends

No dividend has been declared, or paid, by the Company since the end of the previous financial year.

Statement of Interests of Directors

As at the date of this report, the interests of the Directors and their associates in the issued shares and options of the Company were:

Directors	Shares	Director & Employee Options
Jeffrey Malaihollo	8,025,000	16,215,435
Bruce Watson	14,006,240	7,460,145
John Carlile	30,882,839	9,768,430
Max Ramajaya*	–	–
Robert Willcocks	5,125,000	4,973,430
George Tahija**	–	–
	58,039,079	38,417,440

* Appointed 1/09/2014

** Resigned 22/05/14

Indemnities and Insurance of Directors, Officers and Auditors

In accordance with the Constitution of the Company, to the extent permitted by law, the Company indemnifies every director, officer and employee of the Company and each officer of a related body Corporate of the Company against any liability incurred by that person:

a. in his or her capacity as a director, officer or employee of the Company; and

b. to a person other than the Company or a related body corporate of the Company.

Arc Exploration Limited during the financial year, paid an insurance premium in respect of an insurance policy for the benefit the Directors of the Company, Company Secretaries, executive officers and employees of the Company and any subsidiary bodies corporate as defined in the insurance policy, against a liability incurred as such a director, company secretary, executive officer or employee to the extent permitted by the *Corporations Act 2001*.

In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

Details of Directors (as at the date of this report)

Dr Jeffrey Malaihollo – Dr Jeffrey Malaihollo is originally from Indonesia with a PhD in Geological Sciences from the University of London researching the tectonics of eastern Indonesia. Dr Malaihollo has been involved in the exploration and mining industry for over 20 years working with both major and junior exploration companies in Indonesia, Australia and elsewhere. He was the Managing Director and a founder of AIM-ASX listed GGG Resources Plc, which in 2010 acquired a four hundred thousand ounce gold resource in Western Australia and within less than three years, increased this to over three million ounces. Prior to this he was the Head of Research at a specialist mining finance house in London.

Dr Malaihollo was appointed as Managing Director of the Company on 1 October 2013.

Mr Bruce Watson – Mr Watson is the Managing Director of Cubic Corporate Advisory Pty. Limited and was previously Head, Corporate Advisory & Equities at Westpac Institutional Bank and prior to that a founding director of Grant Samuel & Associates Pty. Limited. Mr Watson has a diverse and comprehensive background across the Australian banking and investment community and a high level of technical capability within the core areas of legal and financial structuring. Mr Watson was also formerly a director of Arc Exploration Limited from 1998 until April 2001.

Mr Watson was appointed as a Director of the Company on 3 April 2005 and as Non-Executive Chairman on 23 June 2005. Mr Watson is also a member of the Audit Committee. He holds degrees in Commerce and Law and a Master of Arts in History.

Mr John Carlile – Mr Carlile is a geologist with a BSc. (Hons) degree in Geology from the University of Reading and a MSc. (DIC) in Mineral Exploration from the Royal School of Mines, University of London. Mr Carlile is a Fellow of The Aus.I.M.M. and Geo.Soc.Lond. He has over 30 years experience in the mining industry, primarily in gold exploration, and has previously held senior positions in the Asian region with major mining companies including BHP and Newcrest Mining Limited.

Mr Carlile was appointed as a Director of the Company on 3 March, 1998 and was the Managing Director and Chief Executive Officer of the Company until 17 November 2002. From 18 November 2002 until 13 January 2008, Mr Carlile was a Non-Executive Director. From 14 January 2008 to 30 September 2013, Mr Carlile again served as the Managing Director of the Company. On 1 October 2013, he retired from the position of Managing Director and now remains as a member of the Board as a Non-Executive Director. Mr Carlile was formerly a Director of Castlemaine Goldfields Limited and formerly Chairman of PEARL Energy Limited, a Singapore company focused on oil and gas exploration and production in South-East Asia.

Mr Max Ramajaya – Mr Ramajaya is the Head of Business for Katingan Timber Group responsible for the group’s operation and performance in the forestry, agro forest plantation and related downstream industries. He is a graduate of the Indonesian Business and Information Institute (IBII, now the Kwik Kian Gie School of Business).

Mr Ramajaya was appointed as a Non-Executive Director of the Company on 1 September 2014.

Mr Robert Willcocks – Mr Willcocks is a former senior partner with King and Wood Mallesons (formerly Mallesons Stephen Jaques), a major Australian law firm and is now a corporate adviser. Mr Willcocks has represented clients in the energy and mining sectors for more than 30 years. He has a Bachelor of Arts and Bachelor of Laws (Australian National University) and Master of Laws (University of Sydney).

Mr Willcocks is and has been a director of a number of listed and unlisted public companies.

Mr Willcocks was appointed as a Non-Executive Director of the Company on 14 July 2008, and is also a member of the Audit Committee.

Mr George Tahija – Mr Tahija is the Commissioner of the Austindo Group of Indonesia. His qualifications include a BSc. in Mechanical Engineering from Trisakti University, Jakarta, Indonesia and an MBA from the University of Virginia, USA. He has extensive involvement in the principal activities of the Austindo Group of Indonesia which include agriculture and health care.

Mr Tahija was appointed as a Director of the Company on 3 March 1998 and resigned on 22 May 2014.

Directors' Report

for year ended 31 December 2014

Company Secretary

Mr Andrew J Cooke LLB, FAICS – Mr Cooke has extensive experience in law, corporate finance and as a Company Secretary of listed resource companies. He is responsible for corporate administration together with stock exchange and regulatory compliance.

Directorships of Other Listed Companies

Directorships of other listed companies held by current directors in the 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of Directorship
Jeffrey Malaiholloo	Marshall Lake Mining Plc	Director from 30 April 2013 to now
	Bullabulling Gold Ltd	Managing Director from 15 September 2011 to 30 April 2012
		Director from 1 May 2012 to 2 July 2012
	GGG Resources Plc (formerly Central China Goldfields Plc)	Managing Director from 3 November 2004 to 15 March 2012
Bruce Watson	Nil	–
John Carlile	Nil	–
Max Ramajaya*	Nil	–
Robert Willcocks	APAC Resources Limited	Director since July 2007
	Living Cell Technologies Limited	Director since March 2011
George Tahija**	PT Austindo Nusantara Jaya Tbk (listed 8 May 2013)	Commissioner

* Appointed 1/09/2014
** Resigned 22/05/14

Remuneration Report

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

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the directors of the Company and executives for the Company and the Group.

The Company's policy in respect of senior executives is to remunerate them on the basis of their job function, taking into account their qualifications and experience. The level of remuneration is determined by the Executive Management in consultation with the Board taking into account the position and responsibilities for which each senior executive is charged.

The Group's remuneration policy is not based on the Group's earnings as the Group to date has no earnings from its exploration activities.

The objective of the Board has been to minimise the number of senior executives it employs to maintain the total remuneration of such executives at a level that is commensurate with the resources of the Group and the level of activity undertaken.

From time to time, the Board considers the issue of options to employees and contractors as an additional incentive for them to generate shareholder wealth and for them to participate in the success of the Company. In the past, options have been priced at a premium above market at the time of grant. No Directors have entered into hedging strategies with regard to the options.

Non-Executive Directors

The Chairman (non-executive) is entitled to receive directors fees of $45,000 per annum. Other non-executive directors are entitled to receive directors fees of $30,000 per annum. In order to preserve the Group's cash, some Directors have elected part payment in shares, subject to shareholder approval. Total remuneration for all non-executive directors was last voted on by shareholders at the 2005 Annual General Meeting and is not to exceed $250,000 per annum. No additional fees are paid for duties carried out in relation to the Audit Committee. Compulsory superannuation contributions of 9.5% are paid in relation to the directors fees where appropriate for the Australian based non-executive directors.

Under the Employees and Contractors Option Plan of the Group established in 2001, the Board, subject to the Rules of the Plan and shareholder approval, may grant options to non-executive directors.

Share Performance and Shareholder Wealth

	2014 $	2013 $	2012 $	2011 $	2010 $
Profit (loss) attributable to owners of the company	(1,616,409)	(1,466,017)	(1,198,304)	(3,245,959)	(2,686,180)
Dividends paid	–	–	–	–	–
Change in share price	(0.0030)	0.0020	(0.0100)	(0.0200)	–
Return on capital employed	–	–	–	–	–

Share performance and shareholder wealth are not used to determine the nature and amount of remuneration as the Board does not consider that these indicators are particularly relevant in the junior resource sector which is generally speculative in nature and where exploration success cannot be assured.

While the Group's main activities relate to early stage exploration the nature and amount of remuneration cannot be related to traditional financial measures or to share price performance and shareholder value. If the Group does in due course have exploration success and prove up an economic resource and ultimately develop an economically viable mining project then it is likely that some component of the remuneration of key management personnel would relate to financial performance measures that would be expected to enhance share performance and shareholder wealth.

Directors' post employment benefits

The Company does not have a retirement benefit scheme for non-executive directors.

Executive directors and other key management personnel

Executive remuneration packages comprise a mix of the following components:

- Fixed remuneration;
- Long term incentives provided by the issuing of options; and
- Post employment benefits.

Post employment benefits are accrued for Indonesian executives in accordance with Indonesian Labour Law No. 13/2003 and are payable upon retirement or termination by the entity.

No short term performance bonuses are payable to executive directors or other key management personnel.

Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and competitive in the market. Fixed remuneration for most executives is comprised of base salary, superannuation contributions, and in some cases with Indonesian-based executives includes other benefits such as housing, medical care and vehicles.

Directors' Report

for year ended 31 December 2014

Remuneration Report (continued)

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

Long term incentives

The Company issues options either pursuant to shareholder approval or in accordance with Em*ployees and Contractors Option Plan ("ECOP", "Plan")*. The ECOP was established in 2001.

i. Options issued under the Employees and Contractors Option Plan

The ECOP of the Group was established in 2001.

The objective of the Plan is to provide an opportunity for senior executives and contractors to participate as equity owners in the Company and to reward key executives and contractors in a manner which aligns this element of remuneration with the creation of shareholder wealth.

At the discretion of the Board and subject to the rules of the Plan, executives may be granted options under the Plan.

No consideration is payable by any person at the time of the granting of the options pursuant to the Plan. Option holders must pay the full exercise price to the Company at the time that they elect to exercise any options.

The Directors are permitted to specify the exercise price of options granted pursuant to the Plan. In so doing they may specify the exercise price as a fixed amount or as an amount determined by reference to the market price of the shares of the Company. In addition the Directors may specify the period within which options may be exercised, any performance hurdles that must be satisfied and any other requirements that must be satisfied in relation to the exercise of options.

There are no performance hurdles for any share options granted as at 31 December 2014 because the main activities of the Group relate to early stage exploration, the success of which cannot be judged in terms of traditional financial measures. If the Group does in due course have exploration success and prove up an economic resource and ultimately develop an economically viable mining project then it is likely that appropriate performance hurdles would be introduce to apply to any options that may be granted at that time to key management personnel.

Options granted pursuant to the Plan lapse at the end of any expiry date (if one is specified) or when the option holder ceases to be an "Eligible Person" as defined by the Plan.

ii. Options issued pursuant to shareholder approval

The objective of issuing such options is to provide an opportunity for directors and senior executives to participate as equity owners in the Company and to reward them in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Shareholder approval is sought at either the Annual General Meeting or a General Meeting. Such options granted typically have an exercise price which is at a premium to a certain period's volume weighted average price established prior to the relevant meeting. The number of options to individual directors and senior executives, pricing and terms of options, is at the Board's discretion, with these option proposals being subject to shareholder approval.

No consideration is payable by any person at the time of the granting of these options approved by shareholders. Option holders must pay the full exercise price to the Company at the time that they elect to exercise any options.

Service/Employment agreements

Remuneration and other terms of employment for executive directors and senior executives are formalised in service/employment contracts. Each of these agreements provide for participation, when eligible, in the Arc Exploration Limited Employee & Contractors Option Plan ("ECOP"). The initial term of contract is for 2 years with an option to extend.

All contracts with executives may be terminated early by either party with three months notice, subject to termination payments. Upon termination executive directors and senior executives are entitled to payments of salary and statutory entitlements accrued up to and including date of terminations as well as reimbursement of any business related expenses incurred in the course of employment. If termination occurs pursuant to Arc Exploration Limited breaching the agreement, entering into voluntary administration or a liquidator is appointed then in addition to the standard termination payment the Group will pay an amount equal to that proportion of salary which would have been payable to them for a period of three months commencing the day after termination.

The Group has service/employment agreements with fixed remuneration rates based on both market rates and the Group's ongoing financial capacity.

Director	Remuneration
Jeffrey Malaihollo	$23,000 per month
Executives	
Cahyono Halim	$18,500 per month
Andrew Cooke	$7,500 per month (based on a 2 day week)
Brad Wake	$18,500 per month

b. Details of remuneration (audited)

Details of the remuneration of each Director of Arc Exploration Limited and each of the other key management personnel (KMP) of the Group are disclosed in accordance with AASB 124 *Related Party Disclosures* and are set out in the following tables.

Name of Executive	Title	Period of Responsibility
Jeffrey Malaihollo	Managing Director, CEO	Full year
Cahyono Halim	Chief Financial Officer	Full year
Andrew Cooke	Company Secretary	Full year
Brad Wake	Exploration Manager	Full year

Remuneration details of Non-Executive Directors

	Directors Fees					
2014	Cash $	Shares in lieu of Salary* $	Advisory fees $	Superannuation $	Options (e) $	Total $
Bruce Watson	33,186	11,814		4,163	21,707	70,870
John Carlile	22,125	7,875	12,500	–	14,472	56,972
Max Ramajaya[a]	–	–		–	–	–
Robert Willcocks[b]	30,000	–		–	14,472	44,472
George Tahija[c]	–	–		–	–	–
Total	**85,311**	**19,689**	**12,500**	**4,163**	**50,651**	**172,314**
2013						
Bruce Watson	45,000	–	–	4,078	–	49,078
John Carlile[d]	7,500	–	–	–	–	7,500
Robert Willcocks[b]	30,000	–	–	–	–	30,000
George Tahija[c]	–	–	–	–	–	–
Total	**82,500**	**–**	**–**	**4,078**	**–**	**86,578**

a. Mr Ramajaya was appointed 1 September 2014

b. Mr Willcocks elected up until 31 March 2010 to have his entitlement to fees paid as a superannuation contribution. From 1 April 2010 he elected to be paid through Dunraven Holdings Pty Ltd.

c. Mr Tahija has waived his entitlement to directors' fees, and no amounts were paid to Mr Tahija for the provision of his services during the current or the previous year.

d. Mr Carlile retired as Managing Director but remained as Non-Executive Director as of 1 October 2013.

e. The value of options granted during the prior year was calculated at grant date using a Black-Scholes option-pricing model.

Remuneration Report (continued)

b. Details of remuneration (audited) (continued)

***Shares in lieu of Salary**

Following shareholder approval at the Annual General Meeting held 22 May 2014 the Company issued ordinary shares in the capital of the Company to each of Bruce Watson, Jeffrey Malaihollo, John Carlile and Cahyono Halim in lieu of directors' fees/salary owed by the Company to each of them for the June Quarter 2014.

Each of Bruce Watson, Jeffrey Malaihollo and John Carlile are Directors of the Company and accordingly are related parties of the Company. Mr Halim is the Company's Chief Financial Officer.

The shares were issued as part of an arrangement designed to preserve the Company's cash resources. Pursuant to this arrangement Directors and Employees could elect to take 35% of their gross monthly salaries for the months of April, May and June 2014 in shares instead of cash.

The shares were allotted on Friday 20 June 2014.

The issue price for the shares that were issued was 0.6 cents being the volume weighted average price of the Company's ordinary shares as traded on the Australian Securities Exchange (ASX) over the 10 days on which the shares traded prior to 4 April 2014, which the Directors considered to be arms length and reasonable in the circumstances.

These arrangements continued in subsequent quarters of 2014 and are held as a current liability subject to shareholder approval at the next Annual General Meeting of the Company which is to be held on 22 May 2015. Should shareholders not approve the issue of shares contemplated the outstanding Directors Fees and Salaries will be paid in cash.

Other Key Management Personnel of the Group and Specified Remunerated Executives

	Short-term benefits			Post-employment benefits		Share Based Payments		
2014	Cash Salary and Fees $	Shares in lieu of Salary* $	Non-monetary Benefits $	Super-annuation $	Termination Benefits $	Options[a] $	Total $	Proportion of remuneration performance related %
Director								
Jeffrey Malaihollo	194,350	72,450	53,143	–	–	65,122	385,065	–
Executives								
Cahyono Halim	163,725	58,275	6,430	6,080	–	43,415	277,925	–
Andrew Cooke	90,000	–	–	–	–	17,366	107,366	–
Brad Wake	222,000	–	21,126	–	–	43,415	286,541	–
Total	**670,075**	**130,725**	**80,699**	**6,080**	**–**	**169,318**	**1,056,897**	
2013								
Director								
Jeffrey Malaihollo^	41,400	–	10,397	–	–	–	51,797	–
John Carlile^^	226,595	–	54,800	5,216	–	–	286,611	–
Executives							–	
Cahyono Halim	192,757	–	6,796	6,764	–	–	206,317	–
Andrew Cooke	90,000	–	–	–	–	–	90,000	–
Brad Wake	228,153	–	16,891	–	–	–	245,044	–
Total	**778,905**	**–**	**88,884**	**11,980**	**–**	**–**	**879,769**	

a. The fair value of options was calculated at grant date using a Black-Scholes option-pricing model.

^ Appointed 1/10/2013

^^ Retired as Managing Director 30/09/2013

^^ Non-Executive Director from 1/10/2013

***Shares in lieu of Salary**

Following shareholder approval at the Annual General Meeting held 22 May 2014 the Company issued ordinary shares in the capital of the Company to each of Bruce Watson, Jeffrey Malaihollo, John Carlile and Cahyono Halim in lieu of directors' fees/salary owed by the Company to each of them for the June Quarter 2014.

Each of Bruce Watson, Jeffrey Malaihollo and John Carlile are Directors of the Company and accordingly are related parties of the Company. Mr Halim is the Company's Chief Financial Officer.

The shares were issued as part of an arrangement designed to preserve the Company's cash resources. Pursuant to this arrangement Directors and Employees could elect to take 35% of their gross monthly salaries for the months of April, May and June 2014 in shares instead of cash.

The shares were allotted on Friday 20 June 2014.

The issue price for the shares that were issued was 0.6 cents being the volume weighted average price of the Company's ordinary shares as traded on the Australian Securities Exchange (ASX) over the 10 days on which the shares traded prior to 4 April 2014, which the Directors considered to be arms length and reasonable in the circumstances.

These arrangements continued in subsequent quarters of 2014 and are held as a current liability subject to shareholder approval at the next Annual General Meeting of the Company which is to be held on 22 May 2015. Should shareholders not approve the issue of shares contemplated the outstanding Directors Fees and Salaries will be paid in cash.

Options

Following shareholder approval at the Annual General Meeting held 22 May 2014 the Company issued 54,772,136 options to Directors and Employees at an exercise price of 0.9 cents per share with an expiry date of 31 December 2018. The options have a fair value of 0.4 cents and vested on 31 December 2014. Fair value was calculated at grant date using a Black-Sholes option-pricing model.

Details of options that were granted or vested during the year to Directors or key management personnel, held directly or beneficially, were as follows:

	Number of options granted during the year		Number of options vested during the year	
	2014	2013	2014	2013
Directors				
Jeffrey Malaihollo^	16,215,435	–	16,215,435	–
Bruce Watson	5,405,145	–	5,405,145	–
John Carlile^^	3,603,430	–	3,603,430	–
Robert Willcocks	3,603,430	–	3,603,430	–
Max Ramajaya^^^	–	–	–	–
George Tahija^^^^	–	–	–	–
Executives				
Andrew Cooke	4,324,116	–	4,324,116	–
Brad Wake	10,810,290	–	10,810,290	–
Cahyono Halim	10,810,290	–	10,810,290	–
Total	**54,772,136**	**–**	**54,772,136**	**–**

Remuneration Report (continued)

b. Details of remuneration (audited) (continued)

Details of the Directors and other key management personnel who have option based remuneration are set out below:

2014	Balance at 1 January	Granted during year	Lapsed during year	Exercised during the year	Other changes*	Balance at 31 December or date ceased to be KMP	Vested during the year	Vested and exercisable at 31 December
Directors								
Jeffrey Malaihollo	–	16,215,435	–	–	–	16,215,435	16,215,435	16,215,435
Bruce Watson	5,383,766	5,405,145	(3,328,766)	–	–	7,460,145	5,405,145	7,460,145
John Carlile	16,151,298	3,603,430	(9,986,298)	–	–	9,768,430	3,603,430	9,768,430
Robert Willcocks	3,589,177	3,603,430	(2,219,177)	–	–	4,973,430	3,603,430	4,973,430
George Tahija^^^^	3,589,177	–	(2,219,177)	–	(1,370,000)	–	–	–
Executives								
Andrew Cooke	10,767,532	4,324,116	(6,657,532)	–	–	8,434,116	4,324,116	8,434,116
Cahyono Halim	10,767,532	10,810,290	(6,657,532)	–	–	14,920,290	10,810,290	14,920,290
Brad Wake	10,767,532	10,810,290	(6,657,532)	–	–	14,920,290	10,810,290	14,920,290
Total	**61,016,014**	**54,772,136**	**(37,726,014)**	**–**	**(1,370,000)**	**76,692,136**	**54,772,136**	**76,692,136**

2013								
Directors								
Jeffrey Malaihollo^	–	–	–	–	–	–	–	–
Bruce Watson	5,383,766	–	–	–	–	5,383,766	–	5,383,766
John Carlile^^	16,151,298	–	–	–	–	16,151,298	–	16,151,298
Robert Willcocks	3,589,177	–	–	–	–	3,589,177	–	3,589,177
George Tahija	3,589,177	–	–	–	–	3,589,177	–	3,589,177
Executives								
Andrew Cooke	10,767,532	–	–	–	–	10,767,532	–	10,767,532
Cahyono Halim	10,767,532	–	–	–	–	10,767,532	–	10,767,532
Brad Wake	10,767,532	–	–	–	–	10,767,532	–	10,767,532
Total	**61,016,014**	**–**	**–**	**–**	**–**	**61,016,014**	**–**	**61,016,014**

^ Appointed 1/10/2013
^^ Retired as Managing Director 30/09/2013
^^ Non-Executive Director from 1/10/2013
^^^ Appointed 1/09/2014
^^^^ Resigned 22/05/14
* Resigned 22/05/14

2014	A Remuneration consisting of options %	B Granted during year $	C Exercised during year $
Directors			
Jeffrey Malaihollo	17%	65,122	–
Bruce Watson	31%	21,707	–
John Carlile	25%	14,472	–
Robert Willcocks	33%	14,472	–
Max Ramajaya^^^	0%	–	–
George Tahija^^^^	0%	–	–
Executives			
Andrew Cooke	16%	17,366	–
Cahyono Halim	16%	43,415	–
Brad Wake	15%	43,415	–
2013			
Directors			
Jeffrey Malaihollo^	0%		
Bruce Watson	0%	–	–
John Carlile^^	0%	–	–
Robert Willcocks	0%	–	–
George Tahija	0%	–	–
Executives			
Andrew Cooke	0%	–	–
Cahyono Halim	0%	–	–
Brad Wake	0%	–	–

A = The percentage of the value of remuneration consisting of options, based on fair value at grant date, allocated to remuneration over the vesting period.

B = The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

C = The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

^ Appointed 1/10/2013

^^ Retired as Managing Director 30/09/2013

^^ Non-Executive Director from 1/10/2013

^^^^ Resigned 22/05/14

Directors' Report

for year ended 31 December 2014

Remuneration Report (continued)

b. Details of remuneration (audited) (continued)

Unissued shares under option

At the date of this report unissued shares of the Group under option are:

Expiry date	Exercise price	Number of shares
27 May 2016	4.2 cents	23,290,000
31 December 2018	0.9 cents	54,772,136

All unissued shares are ordinary shares of the Company. Options granted to employees expire on the earlier of their expiry date or within three months of the employee ceasing to be an eligible participant in the Groups Employee and Contractor Option Plan. Once vested, the options granted to Directors and some officers of the Company do not expire by reason of the optionholder ceasing to be a Director or an officer of the Company. None of the options on issue entitle the holder to participate in any share issue of the Company

c. Shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, or beneficially, by each by the Directors and other key management personnel, including their related parties, is as follows:

2014	Balance as at 1 January	Purchases	Sales	Subscription to capital raisings, rights issue or rights issue shortfall	Other changes*	Balance as at 31 December
Directors						
J Malaihollo^	–	8,025,000	–	–	–	8,025,000
B Watson	13,349,907	656,333	–	–	–	14,006,240
J Carlile^^	30,445,339	437,500	–	–	–	30,882,839
R Willcocks	5,125,000	–	–	–	–	5,125,000
M Ramajaya^^^	–	–	–	–	–	–
G Tahija^^^^	10,597,472	–	–	–	(10,597,472)	–
Other Key Management Personnel						
A Cooke	1,163,587	–	–	–	–	1,163,587

^ Appointed 1/10/2013
^^ Retired as Managing Director 30/09/2013
^^ Non-Executive Director from 1/10/2013
^^^ Appointed 1/09/2014
^^^^ Resigned 22/05/14
* Resigned 22/05/14

Environmental Performance

The Group's maintains operations in both Indonesia and Australia and accordingly the Group is subject to environmental regulations in both jurisdictions.

In Australia, the Group's activities are carried out in accordance with Commonwealth and State laws and statutory regulations relating to exploration, mining, heritage and the environment.

In Indonesia, the Group's activities are carried out in accordance with environmental regulations as determined by the Ministry of Mines and Energy. All field operations in both Indonesia and Australia are conducted on the premise of respect for the environment and a commitment to regeneration.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately following this Directors' Report and forms part of this Directors' Report.

Non-Audit Services

During the year the Company did employ the Company's auditor, KPMG, on assignments additional to their statutory audit duties.

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

KPMG, received, or is due to receive the following amounts for the provision of non-audit services:

	$
Tax compliance and consultancy services	13,620
Total non-audit services	**13,620**

Meetings of Directors

The following table sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the year ended 31 December 2014 and the number of meetings attended by each Director:

	Meetings of Directors *		Audit Committee *	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Jeffrey Malaiholло	6	6	#	#
Bruce Watson	6	6	6	6
John Carlile	6	6	#	#
Robert Willcocks	6	6	6	5
Max Ramajaya^^^	2	1	#	#
George Tahija	2	–	#	#

* Including meetings by circular resolution

\# Not a member of the relevant committee

^^^ Appointed 1/09/2014

This report is made on behalf of the Board of Directors pursuant to a resolution of Directors.

Dated this 24th day of March 2015.

Jeffrey Malaihollo
Managing Director

Bruce Watson
Non-Executive Chairman

Auditor’s Independence Declaration

for year ended 31 December 2014

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 audit for the financial year ended 31 December 2014 there have been:

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

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

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney

24 March 2015

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for year ended 31 December 2014

	Notes	2014 $	2013 $
Continuing operations			
Other income	6a (i)	784,187	875,488
Employee expenses	6b	(1,078,857)	(859,157)
Depreciation expenses		(16,018)	(28,372)
Management, administrative and occupancy expenses		(652,829)	(750,458)
Exploration expenses		(697,974)	(770,267)
Foreign exchange gains/(losses)		(1,851)	(26,625)
Loss before financing costs		**(1,663,342)**	**(1,559,391)**
Interest income	6a (ii)	46,933	93,374
Finance expenses		–	–
Loss before income tax		**(1,616,409)**	**(1,466,017)**
Income tax (expense)/benefit		–	–
Loss after tax		**(1,616,409)**	**(1,466,017)**
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		(307)	43,001
Tax on items that may be reclassified subsequently to profit or loss		–	–
Other comprehensive income/(loss) for the period, net of tax		**(307)**	**43,001**
Total comprehensive income/(loss) for the period		**(1,616,716)**	**(1,423,016)**
Loss attributable to:			
Equity holders of the Company		(1,616,409)	(1,466,017)
Loss for the period		(1,616,409)	(1,466,017)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(1,616,716)	(1,423,016)
Total comprehensive income/(loss) for the period		**(1,616,716)**	**(1,423,016)**
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)		(0.17)	(0.16)

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

Consolidated Statement of Financial Position

as at 31 December 2014

	Notes	2014 $	2013 $
Current Assets			
Cash and Cash Equivalents	9	1,506,317	2,205,476
Receivables	10	61,615	460,999
Other	12	192,885	150,005
Total Current Assets		**1,760,817**	**2,816,480**
Non-Current Assets			
Receivables	11	**189,083**	**177,631**
Plant and Equipment	13	3,825	18,188
Exploration and Evaluation Expenditure	14	5,522,719	5,117,557
Intangible Asset	15	33,864	276,235
Total Non-Current Assets		**5,749,491**	**5,589,611**
Total Assets		**7,510,308**	**8,406,091**
Current Liabilities			
Trade and Other Payables	16	296,191	592,742
Other	18	34,861	34,861
Total Current Liabilities		**331,052**	**627,603**
Non-Current Liabilities			
Provisions	17	254,629	199,752
Total Non-Current Liabilities		**254,629**	**199,752**
Total Liabilities		**585,681**	**827,355**
Net Assets		**6,924,627**	**7,578,736**
Equity			
Contributed Equity	19	149,130,428	148,387,790
Reserves	20	1,857,210	1,637,548
Accumulated Losses	21	(144,063,011)	(142,446,602)
Total Equity Attributable to Equity Holders of the Company		6,924,627	7,578,736
Total Equity		**6,924,627**	**7,578,736**

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

Consolidated Statement of Changes in Equity

for year ended 31 December 2014

	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)	–	–	–	(1,616,409)	(1,616,409)
Other comprehensive income					
Foreign currency translation differences	–	(307)	–	–	(307)
Total other comprehensive income	–	(307)	–	–	(307)
Total comprehensive income for the year	–	(307)	–	(1,616,409)	(1,616,716)
Transactions with equity holders in their capacity as equity holders					
Share options expense	–	–	219,969	–	219,969
Share issue in lieu of salary	50,138	–	–	–	50,138
Contribution of equity, net of transaction costs	692,500	–	–	–	692,500
Total transactions with equity holders	742,638	–	219,969	–	962,607
Total equity at the end of period	**149,130,428**	**734,668**	**1,122,542**	**(144,063,011)**	**6,924,627**

	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)	–	–	–	(1,466,017)	(1,466,017)
Other comprehensive income					
Foreign currency translation differences	–	43,001	–	–	43,001
Total other comprehensive income	–	43,001	–	–	43,001
Total comprehensive income for the year	–	43,001	–	(1,466,017)	(1,423,016)
Transactions with equity holders in their capacity as equity holders					
Employee share options expense	–	–	–	–	–
Contribution of equity, net of transaction costs	–	–	–	–	–
Total transactions with equity holders	–	–	–	–	–
Total equity at the end of period	**148,387,790**	**734,975**	**902,573**	**(142,446,602)**	**7,578,736**

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

Consolidated Statement of Cash Flows

for year ended 31 December 2014

	Notes	2014 $	2013 $
Cash flows from operating activities			
Consulting fees		73,393	247,590
Partner Contribution		775,689	1,277,119
Payments to suppliers and employees		(755,661)	(2,368,392)
Exploration and evaluation expenditure		(1,078,266)	(618,441)
Interest received		44,757	102,877
Finance costs		–	–
Net cash used in operating activities	27b	**(940,088)**	**(1,359,247)**
Cash flows from investing activities			
Payments for office furniture, equipment and vehicles		–	(3,123)
Security deposits		–	(10,000)
Exploration and evaluation expenditures		(411,932)	(169,420)
Net cash used in investing activities		**(411,932)**	**(182,543)**
Cash flows from financing activities			
Proceeds from issue of shares	19	692,500	–
Net cash (used in)/from financing activities		**692,500**	**–**
Net increase/(decrease) in cash and cash equivalents		**(659,520)**	**(1,541,790)**
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		(39,639)	(24,621)
Cash and cash equivalents at the end of the period		**1,506,317**	**2,205,476**

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2014

1. Reporting Entity

Arc Exploration Limited ("Arc" or the "Company") is a publicly listed company that is incorporated and domiciled in Australia and is a for-profit entity. The consolidated financial statements of the Company as at and for the year ended 31 December 2014 comprise the Company and its controlled entities (together referred to as the "consolidated entity" or "Group") and the Group's interest in associates and jointly controlled entities.

The registered office and principal place of business of Arc Exploration Limited is located at:

Level 8
65 York Street
Sydney NSW 2000

During the year the principal activities of Arc Exploration Limited and its controlled entities were copper-gold exploration in Asia Pacific region concentrating on high impact gold and porphyry copper-gold deposits with existing operations in both Indonesia and Australia.

2. Summary of Significant Accounting Policies

a. Basis Of Preparation

Statement of Compliance

The consolidated financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

Except where noted, all amounts are presented in Australian dollars.

The financial statements were approved by the Board of Directors on 24th day of March 2015.

Going Concern Basis

The accounts are prepared on a going concern basis. Risks and uncertainties associated with the ability of the Group to continue as a going concern are detailed in Note 4.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are as follows:

- Exploration and evaluation expenditure
- Recognition of tax losses

Refer to Note 5 for further details.

2. Summary of Significant Accounting Policies (continued)

b. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Changes to accounting policies

The Group has consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated financial statements.

Basis of Consolidation

Controlled entities

A controlled entity is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date of which control ceases.

All inter-company balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated financial report.

Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Arc Exploration Limited is Australian Dollars and the functional currency of the Group's main operating entities in Indonesia is United States dollars.

A reporting entity's presentation currency is the currency in which the entity chooses to present its financial reports. The consolidated financial statements are presented in Australian dollars which is Arc Exploration Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Group Entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are converted into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rate at the date of the statement of financial position;
- income and expenses are translated at the average exchange rate for the period (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the dates of the transaction); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entity, including long term loans, are taken to shareholders' equity.

Derivative Financial Instruments

The Group did not hold any derivative financial instruments during this or the previous year.

Fair value estimation

The Group has an established control framework with respect to the measurement of fair values. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categories into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categories in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar transactions.

Acquisition of Assets

All assets acquired, including property, plant, equipment and intangibles, other than goodwill, are initially recorded at cost, at the date of acquisition.

Plant and Equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and any accumulated impairment losses. The cost of self-constructed assets includes the costs of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the initial estimate, where relevant, of the costs of dismantling and removing items, restoring the site and an appropriate proportion of production overheads. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

For the Indonesian entities, when assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resultant gain or loss is credited or charged to capitalised exploration expenditures or development expenditures. For non-exploration or asset items, gains and losses on disposal are determined by comparing proceeds with asset carrying amounts. These are included in the statement of profit or loss and comprehensive income.

Construction in progress is stated at cost and it is transferred to the respective property and equipment accounts when completed and ready for use.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount.

Depreciation

Plant and equipment, motor vehicles, office equipment, and furniture are recorded at cost and are depreciated over their estimated useful economic lives to their estimated residual values using either straight line or diminishing value methods.

The estimated useful lives for the current and comparative periods are as follows:

Office equipment	4 to 10 years
Office furniture	5 to 10 years
Plant and equipment	4 to 7 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2. Summary of Significant Accounting Policies (continued)

Exploration and Evaluation Expenditure

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Group in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

a. The rights to tenure of the area of interest are current; and
b. At least one of the following conditions is also met:
   (i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; or
   (ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

When the technical feasibility and commercial viability of the extraction of a mineral resource has been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mining and project development expenditure. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of no value, accumulated costs carried forward are written-off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;

- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash-generating-unit which is no larger than the area of interest.

Intangible assets

Intangible assets relate to the option right to farm-in on exploration projects measured at cost. As costs are being incurred with respect to the option commitment, it is capitalised and recognised in exploration and evaluation expenditure asset.

Cash

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks or financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

Trade Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of profit or loss and comprehensive income.

Trade and other Payables

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are non-interest bearing, unsecured and generally paid within 30 days of recognition. They are recognised initially at fair value less directly attributable transaction costs and subsequently at amortised cost using the effective interest rate method.

Impairment of Assets

The carrying values of all plant and equipment are reviewed at the each reporting date to determine whether there is an indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate the impairment may have reversed.

Share-based payment transactions

Share-based compensation benefits are provided to Directors, employees and contractors. The Company issues options either pursuant to shareholder approval or in accordance with *Employees and Contractors Option Plan ("ECOP")*.

The fair value of equity options granted is recognised as an employee benefit or other expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the holder became unconditionally entitled to the options.

2. Summary of Significant Accounting Policies (continued)

b. Share-based payment transactions (continued)

The fair value at grant date was determined by using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the non-tradable nature of the option, the share price at grant date and the expected price volatility of the underlying share, and the risk-free interest rate for the term of the option.

Basic/Diluted Earnings/(loss) per Share

The Group presents basic and diluted earnings/loss per share data for its ordinary shares. Basic earnings/loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period adjusted for bonus elements in ordinary shares issued during the year. Diluted earnings/loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, share options issued to shareholders, and share options granted to directors, employees and contractors.

Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred.

Interest bearing liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the ffective interest method.

Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Employee Benefits

Wages, salaries, and annual leave

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date. The amount is measured at the amount expected to be paid, including expected on-costs, when liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long Service Leave

The liability for long service leave is recognised, and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, plus expected on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Post employment benefits

The Group provides post-employment benefits for its employees in Indonesia in accordance with Indonesian Labor Law NO 13/2003. This benefit program is deemed a defined benefit plan and is unfunded by the Group. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are recognised immediately in the profit or loss. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss immediately. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income.

Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds.

Restoration, Rehabilitation and Environmental Expenditure

Provisions are made for the estimated cost of rehabilitation, decommissioning and restoration relating to areas disturbed during a mine's development/operations up to reporting date but not yet rehabilitated. Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. If this occurs prior to commencement of production, the costs are included in capitalised tenement and infrastructure acquisition expenditure.

The provision is the best estimate of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future costs are reviewed annually and any changes are reflected in the restoration provision at the end of the reporting period.

Other income

Interest income

Other income earned by the Group is predominantly interest income. This income is recognised as the interest accrues (using the effective interest method where applicable) to the net carrying amount of the related financial asset.

Sundry income

Sundry income predominantly relates to consulting income earned by providing consulting services for other exploration entities in Indonesia.

Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The Group has not entered into any finance leases.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. Rental payments are charged against profits in equal instalments over the term of the lease.

Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that, where necessary, take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2. Summary of Significant Accounting Policies (continued)

Goods and Services Tax (GST) and Value Added Tax (VAT)

Goods and services taxes

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated inclusive of the amount of GST receivable and recoverable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Value added taxes

VAT applies to goods and services in Indonesia. In 2004, upon request by the Group, the Directorate General of Taxation issued a confirmation letter stating that gold mining companies will not have their revenues subject to VAT.

Income Tax

Income tax expense or benefit for the period is the tax payable on the current period's taxable income or loss based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment Reporting

The Group determines and presents operating segments based on the information that is internally provided to the Managing Director (MD), who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities whose operating results are reviewed regularly by the Group's MD and for which discrete financial information is available.

The Group is involved in exploration activities in Indonesia and Australia and has two geographical operating segments, that its MD reviews regularly to make decisions about resources to be allocated to the segment and to assess its performance.

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 , and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial Group.

3. Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Group's principal financial instruments during the financial year comprised receivables, payables, unsecured loans, cash and short-term deposits.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed periodically where there are changes in market conditions and the Group's activities. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the future cash flows for the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer, borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment of its cash balances.

Counterparty credit risk will be managed by dealing with an agreed range of suitable financial institutions based on their credit rating of A or better.

Other receivables

The credit risk exposures on Group receivables are not considered significant.

Guarantees

As at 31 December 2014 the Group has not provided financial guarantees to any third party.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The ability of the Group to continue to meet the financial obligations they are incurring will depend on the ability of the Company to successfully complete capital raisings as required. Given the Group's financial position during 2013 and 2014, the Group's approach to managing liquidity was to ensure that liabilities were only incurred where there were sufficient available funds to meet those liabilities within normal trading terms or alternatively where there were reasonable grounds to believe that additional funding would be raised within the required timeframe required to settle such liabilities when they fell due.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i. Foreign exchange risk

The Group's exposure to foreign currency risk will be related to its equity raisings and Indonesian expenditures. The Company will raise funds through equity placements to fund predominantly Indonesian exploration expenditure as well as to fund its Australian corporate activities. The equity that is raised is denominated in Australian dollars. Indonesian exploration expenditure cash outflows are in United States Dollars ("USD"), Indonesian Rupiah ("IDR") and Australian dollars. As such the Group has a currency risk in relation to unfavourable movements in these IDR and USD exchange rates.

3. Financial Risk Management (continued)

Market risk (continued)

ii. Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At 31 December 2014 there are no interest bearing loans.

The Group's policy on interest rate risk on borrowings is firstly to fund its exploration activities with equity funds wherever possible and to minimise borrowings as the Group does not generate revenue to service borrowings. Where the Group has existing borrowings or borrowings become necessary the Group will seek to minimise or fix interest rates wherever possible. The Group does not seek to hedge its interest rate risks due to the small scale of its operations and lack of treasury function within the Group.

iii. Other market price risk

The Group did not hold any investments during the 2014 financial year.

Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern. The Group's capital consists of share capital, options reserve and retained losses.

As an exploration entity, the Group monitors capital and financing facilities on a liquidity basis. The Group's liquidity position is calculated as current assets less current liabilities being $1,429,765 and also considers future exploration commitments.

4. Going Concern

The financial report is prepared on a going concern basis which reflects the Directors' expectation that the Group will be able to realise its assets and settle its obligations in the normal course of business. In making this assessment the Directors have prepared cash flows forecasts until 31 March 2016, 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, having exercised options to earn an interest in two projects in Australia and retaining an option to earn interest into a third Australian project, is expecting a modest level of expenditure during the initial earn in period while the Group assesses the technical merit of these projects and seeks to identify potential joint venture partners to fund project expenditure and earn an equity interest in each project;
- The Group is in a relatively strong cash position with $1,506,317 in cash as at 31 December 2014 and intends to raise additional new capital in the year ended 31 December 2015, subject to suitable market conditions. These funds will be applied to meet the Group's cash burn rate and committed obligations.

If additional funding cannot be obtained, there is a material uncertainty whether the Group will be able to continue as a going concern. However, it should be noted that if additional funding is not obtained, the Company would take 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.

5. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

i. Exploration and evaluation expenditure

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the group's accounting policy (refer Note 2), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to the existence of reserves, the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy described in Note 2(b), a judgment is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement. The carrying amounts of exploration and evaluation assets are set out in Note 14.

ii. Deferred tax

In accordance with the Group's accounting policies for deferred taxes, a deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. This includes estimates and judgements about commodity prices, ore reserves, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets.

The Group has not recognised a net deferred tax asset for temporary differences and tax losses as at 31 December 2014 on the basis that the ability to utilise these temporary differences and tax losses can not yet be regarded as probable.

6. Revenue and Expenses

	2014 $	2013 $
a. i. Other income		
Consulting fees	784,187	875,488
	784,187	875,488
ii. Finance income		
Interest income	46,933	93,374
b. Employee expenses		
Wages and salaries	818,016	835,865
Superannuation & post employment benefits	40,872	23,292
Share based payments expense	219,969	–
	1,078,857	859,157

7. Earnings/(Loss) Per Share

	2014 $	2013 $
Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share	(1,616,409)	(1,466,017)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss) used in calculating basic and diluted earnings per share	(1,616,409)	(1,466,017)
Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share	968,027,301	916,533,798
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	916,533,798	916,533,798
Issue of Shares for Directors Fees/Salary to preserve existing cash resources	8,356,333	–
Shares issued under share placement @ $0.005 per share	138,500,000	–
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share	968,027,301	916,533,798
Basic earnings/(loss) per share (cents per share)	(0.17)	(0.16)
Diluted earnings/(loss) per share (cents per share)	(0.17)	(0.16)

7. Earnings/Loss Per Share (continued)

Information Concerning the Classification of Securities

Employee and Director Options

The options granted to directors, employees and contractors are not included in the calculation of diluted earnings per share because the exercise price exceeded the average market price and are therefore considered as antidilutive for the years ended 31 December 2014 and 2013.

Listed and Unlisted Options

There are no listed options at 31 December 2014.

Unlisted options are not included in the calculation of diluted earnings per share because the exercise price exceeded the average market price and are therefore considered as antidilutive for the years ended 31 December 2014 and 2013. These options could potentially dilute earnings per share in the future.

8. Income Tax

	2014 $	2013 $
a. Income tax expense		
Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax benefit	(1,616,409)	(1,466,017)
Income tax expense/(benefit) at the statutory rate of 30% (2013: 30%)	(484,923)	(439,805)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible / assessable foreign translation (gain)/loss	–	–
Share issue costs	–	–
Non deductible share based payments expense	65,991	–
	(418,932)	(439,805)
Less tax losses not recognised and carried forward		
Income tax expense/(benefit)	418,932	439,805
	–	–
b. Recognised tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Exploration and evaluation expenditure		
Tax losses recognised	1,656,816	1,535,267
Net deferred tax liability/(asset)	(1,656,816)	(1,535,267)
	–	–
c. Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Provisions	63,657	49,938
Tax losses PT Indonusa Mining Services (IMS)	1,136,606	1,092,554
Tax losses Arc Exploration Limited (Arc)	3,515,165	4,579,663
Capital tax losses Arc	15,046,770	15,046,770
Total	**19,762,198**	**20,768,925**

The deductible temporary differences and tax losses relating to Arc do not expire under current tax legislation. The tax losses relating to IMS can be carried forward for a maximum of 5 years. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

9. Cash and Cash Equivalents

	2014 $	2013 $
Cash at bank and on hand	306,317	1,005,476
Short term deposits	1,200,000	1,200,000
	1,506,317	2,205,476

10. Current Receivables

	2014 $	2013 $
Trade Receivables	39,418	388,765
Other debtors	2,625	57,194
Goods and services tax (GST) and other consumption taxes recoverable	13,778	11,422
Interest receivable	5,794	3,618
	61,615	460,999

11. Non-Current Receivables

	2014 $	2013 $
Other debtors	189,083	177,631
	189,083	177,631

12. Other Current Assets

	2014 $	2013 $
Prepayments	138,024	95,144
Security deposits	20,000	20,000
Monies held in trust	34,861	34,861
	192,885	150,005

13. Plant and Equipment

	2014 $	2013 $
a. Office furniture and equipment		
Gross carrying amount		
Opening balance	384,116	329,460
Additions	–	1,786
Disposals and transfers	–	–
Net foreign exchange differences	34,938	52,870
Closing balance	419,054	384,116
Accumulated depreciation		
Opening balance		
Depreciation expense	(369,830)	(304,767)
Net foreign exchange differences	(12,288)	(16,154)
Closing balance	(33,637)	(48,909)
	(415,755)	(369,830)
Net office furniture and equipment	3,299	14,286

13. Plant and Equipment (continued)

	2014 $	2013 $
b. Motor vehicles		
Gross carrying amount		
Opening balance	95,141	80,851
Additions	–	1,337
Disposals and transfers	–	–
Net foreign exchange differences	8,653	12,953
Closing balance	103,794	95,141
Accumulated depreciation		
Opening balance	(91,239)	(68,113)
Depreciation expense	(3,730)	(12,217)
Disposals and transfers	–	–
Net foreign exchange differences	(8,299)	(10,909)
Closing balance	(103,2 68)	(91,239)
Net motor vehicles	526	3,902
Carrying amounts		
Total plant and equipment – at 1 January	18,188	37,431
Total plant and equipment – at 31 December	3,825	18,188

14. Exploration and Evaluation Expenditure

	2014 $	2013 $
Opening balance	5,117,557	4,958,792
Additions	405,162	158,765
	5,522,719	5,117,557

At 31 December 2014, there is $4.9 million capitalised exploration expenditure relating to the Trenggalek Project, included in "Exploration and Evaluation Expenditure" in the statement of financial position.

Work completed at Trenggalek during 2014 included scout diamond drilling, petrographic evaluation of drill cores and spectral analysis on over 4,000 rock samples taken from various prospects. Multiple new targets were identified from the geophysical interpretations, soil sampling, mapping and rock sampling and spectral surveys. The results of the scout drilling were particularly encouraging, supporting the presence of large porphyry-related alteration systems within the Trenggalek tenement. In September 2014, Anglo American advised of its intention to withdraw from the project during the year, due to the depressed market conditions and a global reorganisation of their exploration priorities. Anglo American had spent additional US$3.5 million on the project before withdrawing, which is not included in the capitalised exploration and evaluation expenditure. The Group retains a 95% interest in the Trenggalek project in a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara.

The Group effected exploration expenditure as part of the farm-in arrangements with New South Resources Limited to earn up to 80% the Junee and Oberon gold-copper properties under exploration licences in New South Wales.

The Group also completed exploration expenditure under an option to farm-in to earn up to 80% of the Mount Garnet gold project located in Northeast Queensland.

15. Intangible Assets

Intangible assets relate to the option right on Junee, Oberon and Mount Garnet projects as explained in note 14.

When the Group elected to proceed with the option and farm-in arrangements the Group agreed to sole fund expenditure during the Option Period. As costs are spent it is recognised in the exploration and evaluation expenditure asset, leaving the remaining balance of the option right in intangible asset as set out in the table below:

Project	Option Period Months	Option Period Ends	Funding commitment $	Balance 2013	Expenditure 2014 $	Intangible asset
Junee	12	3/07/14	100,000	39,805	60,195	–
Oberon	12	3/07/14	135,000	106,577	28,423	–
Mount Garnet	24	19/08/15	150,000	129,853	95,989	33,864
			385,000	276,235	184,607	33,864*

* Option period liability

16. Trade and Other Payables

	2014 $	2013 $
Trade payables and accrued expenses	134,457	279,155
Other consumption taxes payable	27,594	37,352
Shares in lieu of salary*	100,276	–
Option period liability**	33,864	276,235
	296,191	592,742

17. Provisions

	2014 $	2013 $
Current liabilities		
Employee leave entitlements	–	–
	–	–
Non-current liabilities		
Post employment benefits	254,629	199,752
	254,629	199,752
Current and non-current provisions	254,629	199,752

18. Other Current Liabilities

	2014 $	2013 $
Amounts payable to other persons	34,861	34,861
	34,861	34,861

19. Contributed Equity

	31/12/14 Number	31/12/13 Number	31/12/14 $	31/12/13 $
At 31 December	1,063,390,131	916,533,798	149,130,428	148,387,790
Fully paid ordinary shares				
At the beginning of the year	916,533,798	916,533,798	148,387,790	148,387,790
Issue of Shares for Directors Fees/Salary to preserve existing cash resources	8,356,333	–	50,138	–
Shares issued under share placement @ $0.005 per share	138,500,000	–	692,500	–
Transaction costs relating to share issues			–	–
	1,063,390,131	916,533,798	149,130,428	148,387,790

a. Share-based payment options

The Company issues options either pursuant to shareholder approval or in accordance with the *Employees and Contractors Option Plan ("ECOP")*.

Movements in options to take up ordinary shares in the capital of the Company during the year are as follows:

			No. of options			
2014 Option Series	Opening balance 1 January	Issued	Lapsed	Exercised	Other changes	No. of options outstanding 31 December
Options issued to Directors and Employees	63,235,191	54,772,136	(39,945,191)	–	(1,370,000)	76,692,136
	63,235,191	54,772,136	(39,945,191)	–	(1,370,000)	76,692,136
2013 Option Series						
Options issued to Directors and Employees	66,235,191	–	(3,000,000)	–	–	63,235,191
	66,235,191	–	(3,000,000)	–	–	63,235,191

Each option entitles the option holder to one ordinary share in the Company at the stated exercise price per share, exercisable at any time from the date of vesting where applicable. None of the above mentioned options were exercised during the financial year.

Following shareholder approval at the Annual General Meeting held 22 May 2014 the Company issued 54,772,136 options to Directors and Employees at an exercise price of 0.9 cents per share with an expiry date of 31 December 2018. The options have a fair value of 0.4 cents and shall vest on 31 December 2014. 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 total cost of options issued to directors and key management personnel charged to profit and loss for 2014 was $219,969 (2013: nil).

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 May 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 December 2018
Expected dividends	nil
Risk-free interest rate	2.9%

Employees and Contractors Option Plan ("ECOP")

The eligible participants in the Company's Employee and Contractors Option Plan are:

i) A person who is a Director, alternate Director or Company Secretary of the Company or any entity in the Group;

ii) A permanent or part-time employee of the Company or Group;

iii) A person who is in an independent contractor relationship with the Company or Group and provides goods or services to the Company or Group;

iv) A full time or permanent part-time, employee of a person under (iii); and

v) A trust or entity either controlled by or associated with the persons referred to in (i) and (ii) above.

b. Listed Options

The number of listed options over unissued ordinary shares as at 31 December 2014 is nil (2013: nil)

c. Unlisted Options

The number of unlisted options over unissued ordinary shares as at 31 December 2014 is nil (2013: nil).

	2014	2013
Number of unlisted options		
Balance as at 1 January	–	3,500,000
Exercise of options	–	–
Options expired	–	(3,500,000)
Balance as at 31 December	–	–

20. Reserves

	2014 $	2013 $
Foreign currency translation reserve		
Balance at the beginning of financial year	734,975	691,974
Translation of foreign operations during the year	(307)	43,001
Balance at end of the financial year	734,668	734,975
Share-based payments reserve		
Balance at the beginning of financial year	902,573	902,573
Options expense	219,969	–
Balance at end of the financial year	1,122,542	902,573
Total Reserves	1,857,210	1,637,548

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Share-based payments reserve

The share-based payments reserve relates to the cumulative expense for share options granted to directors, employees and contractors. Upon the exercise of the options, the balance of the options reserve relating to those options is transferred to contributed equity.

21. Accumulated Losses

	2014 $	2013 $
Balance at the beginning of the financial year	(142,446,602)	(140,980,585)
Transfer of options reserve amount for relinquished vested options	–	–
Net profit/(loss) attributable to Arc Exploration Limited	(1,616,409)	(1,466,017)
Balance at the end of the financial year	(144,063,011)	(142,446,602)

22. Key Management Personnel Disclosures

Key Management Personnel of the entity are those persons with the authority and responsibility for planning, directing and controlling the activities of the Group during the financial year.

a. Remuneration

The aggregate of compensation of the key management personnel of the Group is set out below:

	2014 $	2013 $
Short term employee benefits	998,999	950,289
Post employment benefits	10,243	16,058
Share-based payments	219,969	–
	1,229,211	966,347

23. Operating Segments

The results and financial position of the Group's two operating segments, being exploration activities in Indonesia and Australia, are prepared for the Managing Director on a basis consistent with Australian Accounting Standards. Entity-wide disclosures in relation to Group's services, geographical areas, and major customers are detailed below.

Services

The Group currently provides consulting services for other exploration entities in Indonesia. The total other income recognised for the year ended 31 December 2014 was $784,187 (31 December 2013: $875,488).

Geographical areas

The Company's revenue generating activities and assets are located two geographical areas, Indonesia and Australia.

Major customers

Other income from one customer of the Group' represents approximately $644,994 (2013: $669,285) of the Group's total other income for the year ended 31 December 2014.

Segment assets and liabilities

Information about reportable segments

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

	2014 $	2013 $
Assets		
Australia exploration	597,791	435,000
Indonesia exploration	4,958,792	4,958,792
Corporate	1,953,725	3,012,299
	7,510,308	**8,406,091**
Liabilities		
Australia exploration	33,864	276,235
Indonesia exploration	–	–
Corporate	551,817	551,120
	585,681	**827,355**
Equity	**6,924,627**	**7,578,736**

23. Operating Segments (continued)

2014	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income	–	–	784,187	784,187
Employee expenses	–	–	(1,078,857)	(1,078,857)
Depreciation expenses	–	–	(16,018)	(16,018)
Other expenses	–	–	(652,829)	(652,829)
Exploration expenses	(5,275)	(692,699)	–	(697,974)
Foreign exchange losses	–	–	(1,851)	(1,851)
Loss before financing costs	**(5,275)**	**(692,699)**	**(965,368)**	**(1,663,342)**
Interest income	–	–	46,933	46,933
Finance expenses	–	–	–	–
Loss before income tax	**(5,275)**	**(692,699)**	**(918,435)**	**(1,616,409)**
Income tax (expense)/benefit	–	–	–	–
Loss after tax	**(5,275)**	**(692,699)**	**(918,435)**	**(1,616,409)**

2013				
Revenue from continuing operations				
Other income	–	–	875,488	875,488
Employee expenses	–	–	(859,157)	(859,157)
Depreciation expenses	–	–	(28,372)	(28,372)
Other expenses	–	–	(750,458)	(750,458)
Exploration expenses	(51,220)	(719,047)	–	(770,267)
Foreign exchange losses			(26,625)	(26,625)
Loss before financing costs	**(51,220)**	**(719,047)**	**(789,124)**	**(1,559,391)**
Interest income			93,374	93,374
Finance expenses			–	–
Loss before income tax	**(51,220)**	**(719,047)**	**(695,750)**	**(1,466,017)**
Income tax (expense)/benefit			–	–
Loss after tax	**(51,220)**	**(719,047)**	**(695,750)**	**(1,466,017)**

24. Investments in Controlled Entities

Name of controlled entity	Country of Incorporation	Class of Shares	Equity Holdings 2014 %	Equity Holdings 2013 %
PT Indonusa Mining Services	Indonesia	Ord	100	100

25. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated.

a. Directors during the year

The Directors of Arc Exploration Limited during part or the whole of the year were:

Jeffrey Malaihollo	Managing Director, CEO
Bruce Watson	Non-Executive Chairman
John Carlile	Non-Executive Director
Max Ramajaya*	Non-Executive Director
Robert Willcocks	Non-Executive Director
George Tahija**	Non-Executive Director

* Appointed 1/09/2014
** Resigned 22/05/14

26. Financial Instruments

a. Credit risk

	2014 $	2013 $
Cash and cash equivalents	1,506,317	2,205,476
Group credit risk is considered negligible on the cash and cash equivalent amounts as these are primarily deposited with the ANZ and ANZ Panin.		
Trade and other receivables	250,698	638,630

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Whilst there is concentration of credit risk the Group has assessed the creditworthiness of each customer and no impairment losses has been recognised against these customers.

b. Liquidity risk

The following are the contractual maturities of financial liabilities and interest payments.

2014	Carrying amount $	Contractual cash flows $	Within 6 months $	Within 6-12 months $	1 to 2 years $	2 to 5 years $
Trade and other payables	296,191	296,191	296,191	–	–	–
Other current liabilities	34,861	34,861	34,861	–	–	–
	331,052	331,052	331,052	–	–	–
2013						
Trade and other payables	592,742	592,742	592,742	–	–	–
Other current liabilities	34,861	34,861	34,861	–	–	–
	627,603	627,603	627,603	–	–	–

26. Financial Instruments (continued)

c. Currency risk

The Group's exposure to foreign currency risk relates to balances that are denominated in currencies other than an entity's functional currency. At balance date the notional amount (AUD equivalent) of the non-functional currency balances were as follows:

2014	AUD $	IDR $	USD $	Total $
Cash and cash equivalents	12,599	8,411	–	21,010
Receivables	–	179,083	–	179,083
Trade and other payables	–	(48,034)	–	(48,034)
	12,599	139,460	–	152,059
2013				
Cash and cash equivalents	134,499	15,572	–	150,071
Receivables	–	167,631	–	167,631
Trade and other payables	–	(92,661)	–	(92,661)
	134,499	90,542	–	225,041

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	2014	2013	2014	2013
Cash and cash equivalents	0.8990	0.9600	0.8202	0.8948
Receivables	10,663	10,113	10,202	10,899

Sensitivity analysis

From the Group perspective fluctuations in exchange rates for non-functional currency balances in AUD and IDR would have no material impact on earnings or equity as these balances relate to the Indonesian subsidiaries. For PT Indonusa Mining Services the impact of exchange rate fluctuations are not considered to be material.

d. Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average rates on classes of financial assets and financial liabilities, is as follows, by interest rate re-set period.

2014	Effective average interest rate	Fixed or Floating rate	Within 6 months $	Within 6-12 months $	1 to 2 years $	2 to 5 years $	Total
Financial Assets							
Cash at bank	3.0%	Floating	306,317	–	–	–	306,317
Cash at bank	3.5%	Fixed	1,200,000	–	–	–	1,200,000
Security deposits	3.4%	Fixed	20,000	–	–	–	20,000
Monies held in trust	0.1%	Floating	34,861	–	–	–	34,861
Net Position			1,561,178	–		–	1,561,178
2013							
Financial Assets							
Cash at bank	3.3%	Floating	1,005,476	–	–	–	1,005,476
Cash at bank	3.6%	Fixed	1,200,000	–	–	–	1,200,000
Security deposits	3.4%	Fixed	20,000	–	–	–	20,000
Monies held in trust	0.1%	Floating	34,861	–	–	–	34,861
Net Position			2,260,337	–	–	–	2,260,337

Sensitivity analysis

At 31 December 2014, if interest rates changed by +/ – 100 base points from the year end rates with other variables held constant, post tax loss for the year end would have been $15,091 lower/higher (2013:change of 100 base points $31,162 lower/higher) as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

e. Fair values

The carrying amounts of assets and liabilities shown in the statement of financial position at 31 December 2014 and 31 December 2013 approximates their fair values.

f. Derivative financial instruments

No derivative financial instruments were held by the Group either at 31 December 2014 or 31 December 2013.

g. Commodity price risk

The Group is not affected by commodity price fluctuations.

27. Cashflows

a. Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash at bank, cash on hand, and term deposits. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	2014 $	2013 $
Cash at bank and in hand	306,317	1,005,476
Term deposits	1,200,000	1,200,000
	1,506,317	2,205,476

b. Cash flows from operating activities

	2014 $	2013 $
Profit/(loss) for the financial year	**(1,616,409)**	**(1,466,017)**
Depreciation	16,018	28,372
Share based payments	219,969	–
Unrealised foreign exchange (gain)/loss	1,851	26,625
Non cash expenses	31,144	60,569
Employee provisions	54,877	45,052
Exploration liability non cash	242,371	(276,235)
Share issue in lieu of salary	50,138	–
(Increase)/decrease in assets:		
Current receivables	399,384	(151,348)
Other current assets	(42,880)	(53,109)
Increase/(decrease) in liabilities:		
Current payables	(296,551)	426,844
Current provisions	–	–
Net cash flow from operating activities	**(940,088)**	**(1,359,247)**

28. Leasing Commitments

	2014 $	2013 $
Operating Lease Commitments		
Payable		
– not later than 1 year	21,755	10,807
– longer than 1 year but not later than 5 years	35,498	–
– more than 5 years	–	–
	57,253	10,807

29. Commitments for Capital Expenditure

	2014 $	2013 $
Capital expenditure commitments:		
Payable		
Plant and equipment:		
– not longer than 1 year	–	–
	–	–

30. Economic Dependency

PT Indonusa Mining Services, a controlled entity of the Group is reliant upon the continued financial support of the parent entity.

31. Auditors' Remuneration

	2014 $	2013 $
Audit services		
Auditors of the Company		
KPMG – Australia		
Audit and review of financial reports	65,700	68,700
KPMG – Indonesia		
Audit and review of financial reports	30,045	25,704
	95,745	94,404
Other services		
Auditors of the Company		
KPMG		
Tax compliance and consulting services	13,620	13,732
	13,620	13,732
	109,365	108,136

32. Contingent Liabilities

The Group has no contingent liabilities as at 31 December 2014 (2013: nil).

33. Events Subsequent to Reporting Date

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

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

34. Parent Entity Disclosures

As at, and throughout, the financial year ended 31 December 2014 the parent entity of the Group was Arc Exploration Limited.

	2014 $	2013 $
Result of parent entity		
Profit/(loss) for the period	(1,157,104)	1,503,135
Other comprehensive income	–	–
Total comprehensive income for the period	**(1,157,104)**	**1,503,135**
Financial position of parent entity at year end		
Current assets	1,530,204	2,029,350
Total assets	7,275,870	7,600,773
Current liabilities	258,700	389,106
Total liabilities	258,700	389,106
Total equity of parent entity comprising of:		
Share capital	149,130,428	148,387,790
Reserves	1,122,542	902,573
Accumulated losses	(143,235,800)	(142,078,696)
Total equity	**7,017,170**	**7,211,667**

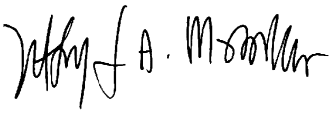
Directors’ Declaration

for year ended 31 December 2014

1. In the opinion of the Directors of Arc Exploration Limited (“the Company”)
   a. the consolidated financial statements, notes and the Remuneration report in the Directors’ report are in accordance with the Corporations Act 2001, including:
      i. giving a true and fair view of the Group’s financial position as at 31 December 2014 and of its performance for the financial year ended on that date; and
      ii. complying with the Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
   b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a)
   c. as disclosed in Note 4 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the financial year ended 31 December 2014.

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

Dated this 24th day of March 2015.



Jeffrey Malaihollo
Managing Director

Bruce Watson
Non-Executive Chairman

Independent Auditor's Report

for year ended 31 December 2014

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Arc Exploration Limited (the Company), which comprises the statement of financial position as at 31 December 2014, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

Independence

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

KPMG

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 4 in the financial statements 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 4, these circumstances indicate the existence of a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and settle its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Arc Exploration Limited for the year ended 31 December 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney

24 March 2015

Shareholders Information

at at 31 March 2015

a)	Number of ARX shareholders	**3,506**
b)	Total shares issued	**1,063,390,131**
c)	Percentage of total holdings by or on behalf of the 20 largest shareholders	**62.26%**
d)	Distribution schedule of holdings	

	Ordinary Shares
1-1,000	1,278
1,001-5,000	631
5,001-10,000	211
10,001-100,000	810
100,001 and over	576

e) Voting rights: Every member present personally or by proxy or attorney etc, shall, on a show of hands, have one vote and on a poll shall have one vote for every share held.

Top 20 Holders of Ordinary Fully Paid Shares

Rank	Name	Units	% of Units
1.	Treasure Key Investments Ltd	138,500,000	13.02
2.	J P Morgan Nominees Australia Limited	98,717,258	9.28
3.	HSBC Custody Nominees (Australia) Limited	65,458,889	6.16
4.	Southo Investments Limited	56,526,752	5.32
5.	Australia And New Zealand Banking Group Limited	47,577,171	4.47
6.	Sta Holdings Pty Ltd <The Guess A/C>	35,702,557	3.36
7.	Nefco Nominees Pty Ltd	31,864,247	3.00
8.	Citicorp Nominees Pty Limited	28,774,698	2.71
9.	Mr Hermani Soeprapto	20,979,741	1.97
10.	Graham Guerin Investments Pty Ltd <Graham Guerin S/F A/C>	18,000,000	1.69
11.	Mr Simon Robert Hill	16,855,538	1.59
12.	Oblique Pty Ltd <Watson Super No 2 Fund A/C>	13,349,907	1.26
13.	J J N A Super Pty Ltd <Chatterton Family Super A/C>	12,574,073	1.18
14.	Norvest Projects Pty Ltd	12,500,000	1.18
15.	Spyder B International Limited	12,499,998	1.18
16.	Mr Peter James Jesson	12,100,000	1.14
17.	Armco Barriers Pty Ltd	11,200,000	1.05
18.	PT Austindo Nusantara Jaya	10,597,472	1.00
19.	Fiske Nominees Limited	10,000,000	0.94
20.	Mr Hong Jun Qiu + Dr Cheng Jie Qiu <Qiu Family Super Fund A/C>	8,333,374	0.78

Total Top 20 holders of FULLY PAID ORDINARY SHARES	**662,111,675**	**62.26**
Total Remaining Holders Balance	**401,278,456**	**37.74**

Substantial Shareholders	Shares to which Entitled	% of Issued Capital
Treasure Key Investments Ltd	138,500,000	13.02
Southo Investments Limited	56,526,752	5.32

Corporate Directory

Arc Exploration Limited
ABN 48 002 678 640
A public company incorporated in New South Wales and listed on the Australian Securities Exchange (Code: ARX).

Directors

Bruce J. Watson (Non-Executive Chairman)
Dr Jeffrey F. A. Malaihollo (Managing Director & CEO)
John C. Carlile (Non-Executive Director)
Max Ramajaya (Non-Executive Director)
Robert M. Willcocks (Non-Executive Director)

Andrew J. Cooke (Company Secretary)

Registered Office

Level 8
65 York Street
Sydney NSW 2000 Australia

Telephone: + (61 2) 8076 6004
Email: management@arx.net.au
Website: www.arcexploration.com.au

Jakarta Office

C/- PT Indonusa Mining Services
Perkantoran CBD/BIDEX
Blok F No. 5
Jl. Pahlawan Seribu, BSD City
Tangerang 15321 Indonesia

Telephone: + 62 21 5316 0118
Facsimile: + 62 21 5316 0119

Auditors

KPMG
Australia

Siddharta & Widjaja
Indonesia

Share Registry

Computershare Investor Services Pty Limited
Level 5
115 Grenfell Street
Adelaide SA 5000 Australia

Telephone: 1300 556 161 (within Australia)
+ (61 3) 9415 4000 (outside Australia)
Facsimile: 1300 534 987

Website: www.investorcentre.com/contact

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