# ARC EXPLORATION

ANNUAL REPORT 2009

# ARC EXPLORATION



"Growing **shareholder value** through the **discovery and building** of a **substantial portfolio of gold resources**"

## CONTENTS



## AGM

The 2010 Annual General Meeting of Arc Exploration Limited will be held at 11.00am on Friday, 21 May 2010 at Mantra Chatswood, 10 Brown Street, Chatswood, NSW, Australia.

ACN 002 678 640

# CHAIRMAN'S REPORT

## DEAR SHAREHOLDERS

Despite the Global Financial Crisis deepening during 2009 with the Australian share market in March 2009 having fallen more than 40% from its previous highs, the year was one of progress for our company.

During the year we completed the transfer of our interest in Cibaliung and secured the release of other exploration assets we had charged in support of the finance facility supporting that project. Our assets are now unencumbered. As foreshadowed we also took steps to raise the capital we need for exploration and general working capital purposes.

In December we undertook a placement and a rights issue raising in total $3.5 million. Participating shareholders have had their confidence rewarded with subsequent material increases in the ARX share price.

We also entered into an arrangement whereby our drilling program at Trenggalek has been funded through the allotment of shares in ARX to the drilling contractor which I take as a vote of confidence in the Trenggalek project.

We will need to raise further funds before this year is out to continue operations at their current level and your Board and Management continues to examine all alternatives available.

On the exploration front we have received first results from our drilling program at Trenggalek. These have been very encouraging although it is important to remember that exploration is inherently risky and it is early days. Nonetheless, the results to date give us encouragement that we are very much on the right track and we look forward to further exploring Trenggalek during calendar 2010.

At Arc we have always kept shareholders fully informed in a timely manner and have never ducked difficult news. We have always 'told it as it is' and will continue to do so. We believe Arc is now back on track and that 2010 will be a positive year.

Finally, we maintain a tight and focussed team at Arc both in Australia and Indonesia. Everyone's focus and dedication during an uncertain period for both the global economy in general and our company in particular has been very much appreciated.

Yours sincerely

**Bruce J. Watson**

# REVIEW OF ACTIVITIES

## SALE OF THE CIBALIUNG GOLD PROJECT

Due to funding difficulties the Company, in conjunction with ANZ Bank as the project financier, sold the Cibaliung Gold Project in Indonesia to PT Aneka Tambang Tbk ("Antam"). The key terms of the sale were:

- Antam acquired the Company's interests the project for US$1.00;
- Antam acquired the ANZ Bank's interest in the Project; and
- Antam assumed responsibility for the management and funding of the Project.

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

The sale relieved the Company of its significant obligations to fund the Project and to service the associated project debt obligations to the ANZ Bank. With the completion of the sale transaction the ANZ Bank released both the guarantee provided by the Company on the Cibaliung Project loans and the fixed and floating charge held by the ANZ Bank over the Company's assets. Additionally a fee payable by the Company in the amount of $536,852 was forgiven by the ANZ Bank.

Additionally, at the completion of the sale, the Company fully redeemed the January 2010 convertible notes on the basis of a payment of $0.10 in the $1.00 and the issuing of a total of 17,775,000 options exercisable at any time until the third anniversary date of their issue at $0.025.

The sale of the Cibaliung Gold Project, settlement of the convertible notes and the forgiveness of fees materially improved the Company's financial position however the Company ceased to have any further interest in Cibaliung.

## FUNDING

During the first half of the year the Company focused on conserving its remaining cash balances whilst the sale of Cibaliung was being completed. With the completion of the sale transaction the Company was then able to focus on securing further funding for an expanded exploration

and drilling programme in Indonesia and to meet corporate operating costs in Australia and Indonesia.

During the latter part of 2009 the Company raised $0.4 million through a share placement at 1.8 cents per share and a further $3.2 million through a rights issue and placement of options.

Based on the total number of outstanding options as at 31 December 2009, the Company could potentially raise around A$7m in future financial periods through the exercise of such options by option holders.

During 2010 the Company intends to seek additional funding to continue its expanded exploration and drilling programme as well as to meet ongoing corporate and operating costs.

## EXPLORATION

The Company is exploring for gold, silver and associated base metal deposits on Java and elsewhere along Indonesia's highly prospective magmatic arcs and associated terranes. The primary exploration targets are high-grade low-sulphidation epithermal gold-vein and porphyry-related gold-copper deposits.

Due to the initial focus on the finalisation of the sale of Cibaliung Gold Mine by mid-year, and later on a capital raising to fund the Company's exploration programs proposed for 2010, relatively limited exploration activity was undertaken during 2009.

## TRENGGALEK PROJECT, EAST JAVA (ARC – 95%)

The Company operates a joint-venture with PT Sumber Mineral Nusantara which holds the Trenggalek Exploration KP licence covering an area of 30,044 hectares in the Southern Mountains of East Java. The Southern Mountains comprise an older segment of the Sunda-Banda magmatic arc ("Southern Mountains Arc") and hosts numerous gold, silver and base metal occurrences, including Intrepid Mines' Tujuh Bukit porphyry copper-gold project located about 250 km east of Trenggalek.

The conversion of the Trenggalek KP to a Mining Business Licence ("IUP" – Ijin Usaha Pertambangan) with Exploration Status was completed on 2 November 2009, and is in accordance with the new Indonesian Mining Law.

The Company announced late in the year that it had entered into a strategic alliance with a leading drilling contractor in Indonesia, to undertake a 5,000 metre scout diamond drilling program on the Trenggalek Project at its own cost in exchange for shares and options in ARX. The Drilling Agreement is a fixed priced contract valued at US$825,000 (approximately A$900,000) and commenced in early February 2010.

The primary targets of the 2010 drilling program are outcropping epithermal gold-silver-bearing veins identified on the Sentul, Buluroto and Kojan prospects, the source

# REVIEW OF ACTIVITIES
continued

of high-grade vein float found on the Jati and Jombok prospects, and high-level hydrothermal breccias and silica cappings identified on the Dalangturu and Suruh prospects. The objective of this initial program is to identify and rank these targets for further drilling.

Further surface mapping and sampling were completed on the Sentul Prospect in 2009 in preparation for the first phase of drilling which started on this prospect in early February 2010. This work confirmed that the southern segment of the Sentul West vein has a strike-length of at least 300-m and attains between 3 and 8-m true-width. Results from further trenching and continuous-chip sampling along this portion of the vein included up to 2.5-m at 4.2 g/t Au & 85 g/t Ag, including 1-m at 7.6 g/t Au & 200 g/t Ag.

## BIMA PROJECT – EAST SUMBAWA (ARC – 95%)

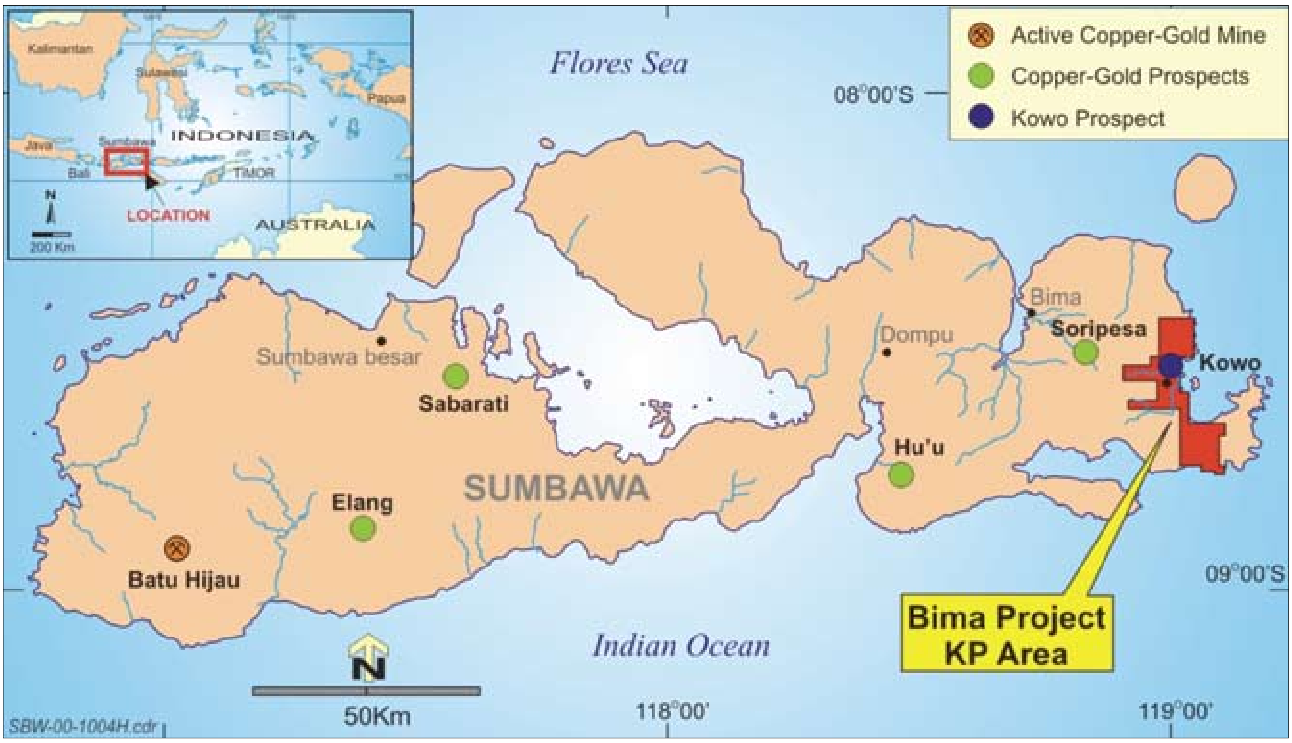
The Company operates a joint-venture with PT Sumber Mineral Nusantara which holds the Bima General Survey KP license covering an area of 24,980 hectares in East Sumbawa, West Nusa Tenggara Province. Sumbawa Island comprises a segment of the Sunda-Banda magmatic arc, host to the giant Batu Hijau porphyry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

Results received from further rock chip sampling of quartz-baryte-sulphide stockwork exposed in a large zone of altered volcanic rock found on the Kowo Prospect. Twelve of 18 selective rock samples returned from 42 to 482 g/t Ag. Other results ranged up to 0.66 g/t Au, 0.28% Pb, 0.69% Zn and 7.6% Ba. Results were also received from 72 soil samples taken over Kowo Prospect. These highlight the presence of widespread low to moderate-level, base metal anomalism over the same area, and averaged 68 ppm Cu, 305 ppm Pb, 383 ppm Zn, and 2,800 ppm Ba. The mineralisation-alteration system exposed at Kowo Prospect is large. The multielement signature highlighted in rock and soil geochemistry suggests a distal position to a porphyry intrusion located either at depth or beneath the surrounding younger cover deposits at Kowo Prospect.

Arc is in the process of converting the KP title to an IUP business licence under Indonesia's new Mining Law.

## AISASJUR PROJECT – ANGLO STRATEGIC ALLIANCE (ARC – 20%)

The Company has a 20% interest in a strategic alliance with the Anglo American Group ("Anglo") to explore for large



porphyry copper-gold deposits in the Papua and West Papua provinces. The interest is fully funded by Anglo through to a development decision.

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

Anglo reported results from diamond drilling completed on a deep porphyry copper-gold target at the Aisasjur Prospect in late 2008. A total of 3,558 metres was completed in five diamond drill-holes using two helicopter-supported CS-1000 drill rigs. As with the previous drilling, Anglo reported that there were difficulties in reaching the targeted drill depth in some of the holes. It was reported that the holes intersected broad zones of low-grade epithermal-style gold-arsenic-antimony mineralisation.

A proposal to fly a magnetics and radiometrics survey over the entire project area in the second half of 2009 did not proceed due to the Contractor's equipment failing.

## PEKALONGAN PROJECT

During 2008, an application for a 12 month extension to the Pekalongan Exploration KP licence, located in Central Java, was approved by the Regency Government. The approval, however, was only for an area reduced by the Regency Government from the original 5,617 hectares to 2,447 hectares and excluded the main gold prospect, Kuning. With the Company's appeal on this decision being unsuccessful, the Company relinquished the KP for this reduced area in early 2009.

### ARX Project Tenement Status

| Tenement | KP Type | Area | ARX interest |
|---|---|---|---|
| Trenggalek | Exploration | 30,044 ha | 95% Joint Venture |
| Bima | Exploration | 24,980 ha | 95% Joint Venture |
| Aisasjur | Exploration | 60,896 ha | 20% Strategic Alliance |

*The information in this report that relates to Exploration Results is based on information compiled by Mr Brad Wake, who is a member of the Australian Institute of Geoscientists. Mr Wake has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 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.*

# CORPORATE GOVERNANCE

AS A LISTED COMPANY WITH THE AUSTRALIAN SECURITIES EXCHANGE (ASX), THE COMPANY MUST REPORT ON ITS MAIN CORPORATE GOVERNANCE PRACTICES BY REFERENCE TO THE PRINCIPLES AND RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL.

This report is prepared with reference to the 2nd Edition of the Corporate Governance Principles and Recommendations.

## RECOMMENDATION 1.1

**Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.**

The Board of Directors has been charged by shareholders with overseeing the affairs of the Group 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 is responsible for ensuring the maintenance of Corporate Governance policies and procedures in accordance with prevailing best practices and within legal and social requirements. The Board has also taken responsibility for establishing control and accountability systems/processes and for monitoring senior executive performance and implementation of strategy.

Management is charged with the day to day running and administration of the Group 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. Mr John Carlile was appointed as Managing Director on 14 January 2008.

## RECOMMENDATION 1.2

**Companies should disclose the process for evaluating the performance of senior executives.**

Each of the Company's senior executives report directly to the Managing Director. The Board and the Managing Director closely monitor the performance of individual senior executives.

Formal evaluation of senior executives has not been undertaken due to the extreme financial and operational pressures that the Company endured throughout most of 2009. The senior executive team is small and works closely with the Board as required allowing Board members to continuously and directly monitor the performance of individual senior executives.

## RECOMMENDATION 1.3

**Companies should provide the information indicated in the Guide to reporting on Principal 1.**

The Company has provided this information.

## RECOMMENDATION 2.1

**A majority of the Board should be independent Directors.**

The Company's Board is not comprised of a majority of independent Directors, however the Board believes that this is appropriate given the Company's current circumstances and the nature and scope of the Company's exploration activities in Indonesia. The Board is currently comprised of the Non-Executive Chairman (Bruce Watson), the Managing Director (John Carlile) a Non-Executive Director who is associated with a substantial shareholder (George Tahija) and one independent Non-Executive Director (Robert Willcocks). The Chairman carried out some executive/management functions in 2007.

## RECOMMENDATION 2.2

**The Chairperson should be an independent Director.**

The Chairman (Bruce Watson) of the Company, through an associated corporate entity, assumed some of the executive/management functions throughout 2007 and accordingly was not then regarded as independent for that period. The Chairman resumed a Non-Executive capacity early in 2008 and has always been independent of the Company's major shareholders.

## RECOMMENDATION 2.3

**The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.**

These roles have been exercised by separate individuals since 14 January 2008.

## RECOMMENDATION 2.4

**The Board should establish a Nomination Committee.**

The Board has not maintained a formally constituted Nomination Committee. 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.

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.

The Directors' terms of appointment are governed by 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 members 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 members.

## RECOMMENDATION 2.5

**Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The Company does not have a formal process for evaluating the performance of the Board, its committees or individual directors.

Formal evaluation of the Board was not been undertaken during 2009 due to the extreme financial and operational pressures that the Company endured throughout most of the year.

The Board proposes to adopt a formal process for evaluating its performance.

## RECOMMENDATION 2.6

**Companies should provide the information indicated in the Guide to reporting on Principal 2.**

The Company has provided this information.

## RECOMMENDATION 3.1

**Companies should establish a code of conduct and disclose the code or a summary of the code as to:**

- **the practices necessary to maintain confidence in the Company's integrity;**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company has established a Director's Code of Conduct. In addition the Company maintains a Code of Ethics which extends to govern the conduct of Directors and the Executive of the Group in both Australia and Indonesia. Given the extremely small number of senior executives these codes have not extended to deal with the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Director's Code of Conduct and the Company's Code on Ethics are reproduced on the Company's website.

# CORPORATE GOVERNANCE
continued

## RECOMMENDATION 3.2

**Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.**

The Company maintains a policy which requires that Directors, officers and employees of the Company not engage in any dealings in the shares of the Company without giving prior notice to the Company including details of the type and date of dealing, number of securities, parties and price.

In addition, Directors, officers and employees shall not engage in any dealings in shares of the Company during the period two weeks prior to and within 24 hours after the date of the announcement of the Company's annual or half year results or any quarterly activities report, or at any time while in the possession of inside information.

The policy is reproduced on the Company's website.

## RECOMMENDATION 3.3

**Companies should provide the information indicated in the Guide to reporting on Principal 3.**

The Company has provided this information.

## RECOMMENDATION 4.1

**The Board should establish an Audit Committee.**

The Board has established an Audit Committee which is responsible for ensuring compliance with all appropriate accounting standards and the integrity of related reporting obligations.

The Committee is also responsible for reviewing the Group's internal financial controls, and for maintaining open lines for communication between the Board and the external auditors, independently of management.

All Audit Committee deliberations are routinely reported to the full Board at the earliest opportunity and any action taken, or proposal made, is submitted to the full Board for ratification or approval and implementation.

## RECOMMENDATION 4.2

**The Audit Committee should be structured so that it:**

- **consists only of non-executive directors;**
- **consists of a majority of independent directors;**
- **is chaired by an independent chair, who is not chair of the Board;**
- **has at least three members.**

The Company has established an Audit Committee however the committee does not meet with the requirements of this recommendation due to the limited number of directors available to form this committee and the positions that each of the directors hold. The committee is comprised of two members being Bruce Watson (the Chairman) and Mr Robert Willcocks (a Non-Executive Director). Given the size of the Company and 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.

## RECOMMENDATION 4.3

**The Audit Committee should have a formal charter.**

The Company has a formal Audit Committee Charter which has been approved by the Board of Directors.

## RECOMMENDATION 4.4

**Companies should provide the information indicated in the Guide to reporting on Principal 4.**

The Company has provided this information.

## RECOMMENDATION 5.1

**Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.**

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.

## RECOMMENDATION 5.2

**Companies should provide the information indicated in the Guide to reporting on Principal 5.**

The Company has provided this information.

## RECOMMENDATION 6.1

**Companies should design a communications policy to promote effective communication with shareholders and encouraging effective participation at general meetings and disclose their policy or a summary of that policy.**

The Company has not established a formal policy for communicating with shareholders. Information is communicated to the members through compliance with ASX Listing Rules and the Corporations Act 2001, by way of announcements to the ASX, media releases, the Annual Report, Half-Yearly Report, the Annual General Meeting and other meetings that may be called from time to time. The Company maintains a website which provides a description of the Group's projects and all material announcements released to the ASX.

## RECOMMENDATION 6.2

**Companies should provide the information indicated in the Guide to reporting on Principal 6.**

The Company has provided this information.

## RECOMMENDATION 7.1

**Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

There are inherent risks associated with exploration and in particular in operating in overseas countries. 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.

## RECOMMENDATION 7.2

**The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks**

The Managing Director and Chief Financial Officer (Cahyono Halim) 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.

There are inherent risks associated with exploration and particularly in Indonesia where a new Mining Law has recently been introduced.

# CORPORATE GOVERNANCE
continued

## RECOMMENDATION 7.3

**The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration required in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting issues.**

The Managing Director and the Chief Financial Officer commenced employment with the Company in January 2008. The Managing Director and Chief Financial Officer have provided section 295A statements to the Board and 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 Chief Financial Officer has commenced the process of enhancing the design and implementation of risk management and internal control systems to enhance the Company's financial reporting processes.

## RECOMMENDATION 7.4

**Companies should provide the information indicated in the Guide to reporting on Principal 7.**

The Company has provided this information.

## RECOMMENDATION 8.1

**The Board should establish a Remuneration Committee.**

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

**Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.**

The Board has previously set the remuneration of Non-Executive Directors which is within the aggregate amount approved for such remuneration by shareholders. 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 Group has employed a number of executives both in Australia and in Indonesia who are key to achieving the Company's objectives. The Board determines the remuneration policies applicable to the limited number of employees in Australia. The remuneration of employees 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. Officers and employees in both Australia and Indonesia are entitled to participate in the Company's Employee and Contractor Options Plan.

## RECOMMENDATION 8.3

**Companies should provide the information indicated in the Guide to reporting on Principal 8.**

The Company has provided this information.

# FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

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# DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (the "Group" or "Arc") consisting of Arc Exploration Limited and the entities it controlled at the end of, or during, the year ended 31 December 2009.

## DIRECTORS

The following persons were Directors of Arc Exploration Limited during the financial year and up to the date of this report:

| Name | Period of Directorship |
|---|---|
| Executive | |
| Mr John C. Carlile (Managing Director) | Director since 1998, Appointed Managing Director 14 January 2008 |
| Non-Executive | |
| Mr Bruce J. Watson (Chairman) | Director 1998-2001, Director since 2005 Appointed Chairman 2005 |
| Mr George S. Tahija | Director since 1998 |
| Mr Robert M. Willcocks | Appointed Director 14 July 2008 |

## PRINCIPAL ACTIVITIES

During the year, the principal activities of Arc Exploration Limited (the "Company") and its controlled entities were:

- the finalisation of the sale of its subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project in Indonesia;
- securing further funding for an expanded exploration and drilling programme in Indonesia and to meet corporate operating costs in Australia and Indonesia; and
- the undertaking of limited exploration activities in its Indonesian exploration interests in Trenggalek (East Java), in Bima (East Sumbawa), and in Aisasjur (Papua).

## REVIEW OF OPERATIONS

### Sale of the Cibaliung Gold Project

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

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

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

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

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

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

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

The completion of the sale of PT Cibaliung Sumberdaya, the settlement of the convertible notes and the forgiveness of underwriting fees materially changed the Group's financial position from that of the previous year's balance date.

### Funding

Subsequent to the Company entering into the Heads of Agreement for the sale of PT Cibaliung Sumberdaya on 9 February 2009, all funding requirements for this subsidiary and the Cibaliung Gold Project were met by Antam. During the period up to the completion of the sale on 6 July 2009, Antam advanced the subsidiary loans totalling around $1.3 million.

During the first half of the year the Company focused on conserving its remaining cash balances whilst the sale transaction was being completed. With the completion of the sale transaction the Company was then able to focus on securing further funding for an expanded exploration and drilling programme in Indonesia and to meet corporate operating costs in Australia and Indonesia.

During October 2009 the Company raised $0.4 million through a Share Placement with an allotment of 22,464,276 ordinary fully paid shares in the Company at 1.8 cents per share and the allotment of 11,232,139 options.

During November and December 2009 the Company raised $3.1 million through a Rights Issue with an allotment of 172,225,987 ordinary fully paid shares in the Company at 1.8 cents per share and the allotment of 86,113,100 options.

During December 2009 the Company raised $0.1 million through the issuing of 56,250,000 options at an issue price of 0.2 cents per option.

Based on the number of outstanding listed options and vested employee options exercisable at 3.6 cents per share and the unlisted options exercisable at 2.5 cents per share as at 31 December 2009, the Company could potentially raise around A$7 million in future financial periods through the exercise of such options by option holders.

During 2010 the Company intends to seek additional funding to continue its expanded exploration and drilling programme as well as to meet ongoing corporate and operating costs.

## Exploration

The Company is exploring for gold, silver and associated base metal deposits on Java and elsewhere along Indonesia's highly prospective magmatic arcs and associated terranes. The primary exploration targets are high-grade low-sulphidation epithermal gold-vein and porphyry-related gold-copper deposits.

Due to the initial focus on the finalisation of the sale of Cibaliung Gold Mine by mid-year, and later on a capital raising to fund the Company's exploration programs proposed for 2010, relatively limited exploration activity was undertaken during 2009.

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

The Company operates a joint-venture with PT Sumber Mineral Nusantara which holds the Trenggalek Exploration KP licence covering an area of 30,044 hectares in the Southern Mountains of East Java. The Southern Mountains comprise an older segment of the Sunda-Banda magmatic arc ("Southern Mountains Arc") and hosts numerous gold, silver and base metal occurrences, including Intrepid Mines' Tujuh Bukit porphyry copper-gold project located about 250 km east of Trenggalek.

The conversion of the Trenggalek KP to a Mining Business Licence ("IUP" – Ijin Usaha Pertambangan) with Exploration Status was completed on 2 November 2009, and is in accordance with the new Indonesian Mining Law promulgated on 12 January 2009.

The Company announced late in the year that it had entered into a strategic alliance with a leading drilling contractor in Indonesia, to undertake a 5,000 metre diamond drilling program on the Trenggalek Project at its own cost in exchange for shares and options in ARX. The Drilling Agreement is a fixed priced contract valued at US$825,000 (approximately A$900,000) and commenced in early February 2010.

The primary targets of the drilling program are outcropping epithermal gold-silver-bearing veins identified on the Sentul, Buluroto and Kojan prospects, the source of high-grade vein float found on the Jati prospect, and high-level hydrothermal breccias and silica cappings identified on the Dalangturu and Suruh prospects.

Further surface mapping and sampling were completed on the Sentul Prospect in preparation for the first phase of drilling which started on this prospect in early February 2010. This work confirmed that the southern segment of the Sentul West vein has a strike-length of at least 300-m and attains between 3 and 8-m true-width. Assays from continuous-ship sampling returned up to 2.5-m at 4.2 g/t Au & 85 g/t Ag, including 1-m at 7.6 g/t Au & 200 g/t Ag, confirming the potential for high-grade ore-shoots along this vein structure.

### Bima Project – East Sumbawa (Arc – 95%)

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

# DIRECTORS' REPORT
continued

## REVIEW OF OPERATIONS (continued)

Results received from further rock chip sampling of quartz-baryte-sulphide stockwork exposed in a large zone of altered volcanic rock found on the Kowo Prospect. Twelve of 18 selective rock samples returned from 42 to 482 g/t Ag. Other results ranged up to 0.66 g/t Au, 0.28% Pb, 0.69% Zn and 7.6% Ba. Results were also received from 72 soil samples taken over Kowo Prospect. These highlight the presence of widespread low to moderate-level, base metal anomalism over the same area, and averaged 68 ppm Cu, 305 ppm Pb, 383 ppm Zn, and 2,800 ppm Ba. The mineralisation-alteration system exposed at Kowo Prospect is large. The multielement signature highlighted in rock and soil geochemistry suggests a distal position to a porphyry intrusion located either at depth or beneath the surrounding younger cover deposits at Kowo Prospect.

Arc is in the process of converting the KP title to an IUP business licence under Indonesia's new Mining Law.

**Aisasjur Project – Anglo Strategic Alliance (Arc – 20%)**

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

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

Anglo reported results from diamond drilling completed on a deep porphyry copper-gold target at the Aisasjur Prospect in late 2008. A total of 3,558 metres was completed in five diamond drill-holes using two helicopter-supported CS-1000 drill rigs. The results from these five holes were detailed in Company's March 2009 and June 2009 Quarter Activities Reports. As with the previous drilling, Anglo reported that there were difficulties in reaching the targeted drill depth in some of the holes. It was reported that the holes intersected broad zones of low-grade epithermal-style gold-arsenic-antimony mineralisation.

It was previously reported that Anglo planned to fly magnetics and radiometrics survey over the entire project area in the second half of 2009. The Contractor unfortunately failed to complete the survey due to equipment failure.

**Cibaliung and Pekalongan Projects**

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

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

**Consolidated Results**

The consolidated profit of the Group for the financial year was $14,324,739 (2008: $30,828,196 loss) which includes significant profits from discontinued operations, with the majority of this profit relating to the gain arising upon the deconsolidation from the Group of the disposed subsidiary PT Cibaliung Sumberdaya. Although the Group only received US$1 for the sale of this subsidiary, this subsidiary had significant negative net assets at disposal date, and with the removal of these negative net assets from the Group's statement of financial position, the Group's net asset position significantly improved.

The Group also recorded one-off gains with the discounted settlement negotiated on the convertible notes and a fee forgiven by the ANZ. The Group also recorded a significant currency translation gain on US dollar denominated loans.

The impact on the results from the above items is set out in the table below. The underlying operating loss for continuing operations for the financial year was $1,216,718 (2008: $3,173,345 loss).

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Profit/(loss) from discontinued operations | 12,171,421 | (26,957,684) |
| Gain on settlement of convertible notes | 1,990,053 | – |
| Gain on debt forgiven by third party | 536,852 | – |
| Unrealised foreign exchange gain/(loss) | 843,131 | (697,167) |
| Underlying operating loss | (1,216,718) | (3,173,345) |
| Consolidated profit/(loss) | 14,324,739 | (30,828,196) |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During 2009 the Company sold the subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project in Indonesia. The sale relieved the Company of its significant obligations to fund the Project and to service the associated project debt obligations to the ANZ Bank.

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

Other than the matters discussed above, in the opinion of the Directors there were no other 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.

## MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

On 1 February 2010 the Company announced that drilling had commenced at the Trenggalek Project and results from the first two holes were announced on 12 March 2010.

Other than the matters 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 an expanded exploration and drilling programme for the Group's Indonesian exploration interests following the raising of additional funding in the last quarter of 2009 and the Group entering into a strategic alliance with PT Maxidrill Indonesia ("Maxidrill") (a leading drilling contractor in Indonesia) to undertake a 5,000 metre diamond core drilling program at the Company's Trenggalek Project.

## 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 | Listed Options ARXOA | Listed Options ARXO |
|---|---|---|---|---|
| Bruce Watson | 8,680,556 | 3,328,766 | 4,095,278 | 18,000 |
| George Tahija | 10,597,474 | 2,219,177 | – | 324,675 |
| John Carlile | 12,194,482 | 9,986,298 | 5,477,850 | 73,511 |
| Robert Willcocks | 2,750,000 | 2,219,177 | 1,375,000 | – |
| | 34,222,512 | 17,753,418 | 10,948,128 | 416,186 |

# DIRECTORS' REPORT
continued

## INDEMNITIES AND INSURANCE OF DIRECTORS AND OFFICERS

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

a. in his or her capacity as a director, officer or employee of the Company; and
b. to a person other than the Company or a related body corporate of the Company.

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

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

## DETAILS OF DIRECTORS (AS AT THE DATE OF THIS REPORT)

Mr John C. 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 CPGeo., a Fellow of Geo.Soc.Lond. and a Member of the Singapore Institute of Directors. He has over 25 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. On 14 January 2008 Mr Carlile was appointed Managing Director and Chief Executive Officer of the Company. 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 Bruce J. 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.

Mr George S. Tahija – Mr Tahija is the President Director of the Austindo Group of Indonesia and is also a Commissioner of Freeport 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 financial services, agribusiness and exploration and mining.

Mr Tahija was appointed as a Director of the Company on 3 March 1998.

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

Mr Willcocks is currently a non-executive director of CBH Resources Limited (listed on the ASX) and of APAC Resources Limited (a Hong Kong listed company) and an alternate director of Mt Gibson Iron Limited (listed on the ASX). He previously has been a director of a number of public companies. Mr Willcocks is also Chairman and Director of Trilogy Funds Management Limited an unlisted Responsible Entity.

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.

## COMPANY SECRETARIES

**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.

**Mr Anthony M. Nadalin** B. Com, CPA

Mr Nadalin has extensive experience in accounting and finance and as a Financial Controller of listed companies. He is responsible for financial reporting and administration as well as being Assistant Company Secretary.

## 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 |
|---|---|---|
| Bruce Watson | Nil | – |
| George Tahija | Nil | – |
| John Carlile | Nil | – |
| Robert Willcocks | RIMCapital Limited | June 1996 to October 2007 |
| | CBH Resources Limited | Director since December 2000 |
| | APAC Resources Limited | Director since July 2007 |
| | Mt Gibson Iron Limited | Alternate Director since December 2008 |

## 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 including the five most highly remunerated Company and Group executives.

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.

Following the sale of the subsidiary PT Cibaliung Sumberdaya and the Group's operations now being focused on exploration, 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.

**Non-Executive Directors**

The Chairman (non-executive) receives director's fees of $45,000 per annum. Other non-executive directors receive directors' fees of $30,000 per annum. The level of remuneration is based on an approximate time cost basis. The Board considers that this policy is appropriate with the resources and activities of a small exploration company. 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% are paid in relation to the directors fees for the Australian based non-executive directors.

During 2009, consistent with the remuneration policy taken in relation to the Group's other key management personnel, the non-executive directors agreed to accept directors fees of only 50% of the above entitlements for the February to September months. With the satisfactory progression of fund raising activities during the last quarter, non-executive directors fees from 1 October were paid based on the entitlements outlined above.

# DIRECTORS' REPORT
continued

## REMUNERATION REPORT (continued)

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

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.

**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.

As reported in the 2008 Annual Report with the continued uncertainty on Project funding, and in order to reduce outstanding employee contractual commitments and conserve future cashflows the Group terminated all Indonesian employees in November 2008. Following these terminations the Group re-employed a limited number of personnel on a short-term contract basis and in many cases on a substantially reduced remuneration rate.

For the majority of the 2009 financial year, personnel engaged on these short-term contracts were either engaged in finalising the sale of the Cibaliung Project, ensuring continued regulatory and statutory compliance by Indonesian subsidiaries, providing limited care and maintenance activities for the Cibaliung Project and exploration sites or resolving on-going Group funding issues after the Project sale.

During the last quarter of 2009 with the satisfactory progression of fund raising activities a number of the Indonesian executives on these short-term contracts were re-employed on a permanent basis with new fixed remuneration rates based on both market rates and the Group's ongoing financial capacity.

**Long term incentives**

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

**i. Options issued under the Employees and Contractors Option Plan**

The Employees and Contractors Option Plan 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.

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 the 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 approved is received 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.

## b. Details of remuneration (audited)

Details of the remuneration of each Director of Arc Exploration Limited and each of the other key management personnel of the Company and Group are disclosed in accordance with AASB 124 Related Party Disclosures and are set out in the following tables. These tables also include the disclosure of the five named executives who received the highest remuneration as required by the *Corporations Act 2001.*

The key management personnel of Arc Exploration Limited include the Directors and the following executive officers, who include the 5 highest paid executives required to be disclosed under the *Corporations Act 2001* (Only 2 executives were employed by the Company during the year).

| Name of Executive | Title | Period of Responsibility |
|---|---|---|
| Andrew Cooke | Company Secretary | Full year |
| Anthony Nadalin | Financial Controller | Full year |

The key management personnel of the Group include the Directors and the following executive officers, who include the 5 highest paid executives of the Group:

| Name of Executive | Title | Period of Responsibility |
|---|---|---|
| Cahyono Halim | Chief Financial Officer | Full year |
| Andrew Cooke | Company Secretary | Full year |
| Anthony Nadalin | Financial Controller | Full year |
| Hermani Soeprapto | Chief Operating Officer | 1 January to 28 February 2009 |
| Sucipto Marijan | President Director | 1 January to 28 February 2009 |
| Brad Wake | Exploration Manager | Full year |

**Remuneration details of Non-Executive Directors**

| 2009<br>Name | Directors Fees<br>$ | Superannuation<br>$ | Options [c]<br>$ | Total<br>$ |
|---|---|---|---|---|
| Bruce Watson | 30,000 | 2,700 | 395 | 33,095 |
| George Tahija [a] | – | – | 263 | 263 |
| Robert Willcocks [b] | – | 21,801 | 263 | 22,064 |
| **Total** | **30,000** | **24,501** | **921** | **55,422** |

(a) 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 year.
(b) Mr Willcocks has elected to have his entitlement to fees to be paid as a superannuation contribution.
(c) The value of options granted during the year was calculated at grant date using a Black-Scholes option-pricing model.

# DIRECTORS' REPORT
continued

## REMUNERATION REPORT (continued)

### b. Details of remuneration (audited) (continued)

| 2008<br>Name | Directors Fees<br>$ | Superannuation<br>$ | Options [e]<br>$ | Total<br>$ |
|---|---|---|---|---|
| Bruce Watson [a] | 45,000 | 4,050 | 21,750 | 70,800 |
| Christopher Melloy [b] | – | – | – | – |
| George Tahija [c] | – | – | 21,750 | 21,750 |
| Robert Willcocks [d] | – | 15,195 | – | 15,195 |
| **Total** | **45,000** | **19,245** | **43,500** | **107,745** |

(a) Consulting fees of $25,500 were paid to Cubic Corporate Advisory Pty Limited, of which Mr Watson is Managing Director. These consulting fees were for additional responsibilities Mr Watson has undertaken outside of his direct Board and Committee responsibilities.

(b) No fees were paid for the provision of services as a director for Mr Melloy from the commencement of the financial year until his resignation on 4 January 2008.

(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 year.

(d) Mr Willcocks has elected to have his entitlement to fees to be paid as a superannuation contribution.

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

### Other Key Management Personnel of Arc Exploration Limited

| | Short-term benefits | | Post-employment benefits | | | Share Based Payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees<br>$ | Non-monetary Benefits<br>$ | Super-annuation<br>$ | Retirement Benefits<br>$ | Termination Benefits<br>$ | Options [c]<br>$ | Total<br>$ |
| **2009** | | | | | | | |
| Executive Director | | | | | | | |
| John Carlile | 163,982 | 36,964 | 876 | | | 1,184 | 203,006 |
| Executives | | | | | | | |
| Andrew Cooke | 131,900 | – | – | – | – | 789 | 132,689 |
| Anthony Nadalin [b] | 121,516 | – | 10,935 | – | 34,436 | 263 | 167,150 |
| **Total** | **417,398** | **36,964** | **11,811** | **–** | **34,436** | **2,236** | **502,845** |
| **2008** | | | | | | | |
| Executive Director | | | | | | | |
| John Carlile [a] | 399,553 | 2,944 | 8,225 | – | – | 148,248 | 558,970 |
| Executives | | | | | | | |
| Andrew Cooke | 210,000 | – | – | – | – | 31,890 | 241,890 |
| Anthony Nadalin | 153,000 | – | 43,200 | – | – | 15,945 | 212,145 |
| **Total** | **762,553** | **2,944** | **51,425** | **–** | **–** | **196,083** | **1,013,005** |

(a) Mr Carlile was appointed Managing Director on 14 January 2008. Mr Carlile's salary was paid by Arc Exploration Limited up until 30 June 2008. With Mr Carlile being resident in Jakarta on a full-time basis he commenced being paid directly by an Indonesian subsidiary of Arc Exploration Limited from 1 July 2008. For reporting purposes the combined amounts are disclosed in the above table.

(b) Mr Nadalin's full-time permanent employment finished on 31 January 2009. The Company now employs Mr Nadalin on a part-time casual basis and remuneration for these services is included in the above totals. The above termination payment includes an annual leave payment of $10,205.

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

*Other Key Management Personnel of the Group and Specified Remunerated Executive*

| | Short-term benefits | | Post-employment benefits | | | Share Based Payments | |
|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees $ | Non-monetary Benefits $ | Super-annuation $ | Retirement Benefits $ | Termination Benefits (f) $ | Options (g) $ | Total $ |
| **2009** | | | | | | | |
| **Executive Director** | | | | | | | |
| John Carlile | 163,982 | 36,964 | 876 | – | – | 1,184 | 203,006 |
| **Executives** | | | | | | | |
| Cahyono Halim | 135,273 | 10,506 | 4,175 | | – | 789 | 150,743 |
| Andrew Cooke | 131,900 | – | – | – | – | 789 | 132,689 |
| Anthony Nadalin[(b)] | 121,516 | – | 10,935 | – | 34,436 | 263 | 167,150 |
| Hermani Soeprapto[(e)] | 44,601 | 872 | 1,581 | – | – | – | 47,054 |
| Sucipto Marijan[(e)] | 18,888 | 385 | 699 | – | – | – | 19,972 |
| Brad Wake | 153,178 | 19,215 | – | – | – | 789 | 173,182 |
| **Total** | **769,338** | **67,942** | **18,266** | **–** | **34,436** | **3,814** | **893,796** |
| **2008** | | | | | | | |
| **Executive Director** | | | | | | | |
| John Carlile[(a)] | 399,553 | 2,944 | 8,225 | – | – | 148,248 | 558,970 |
| **Executives** | | | | | | | |
| Cahyono Halim | 170,455 | 5,685 | 5,189 | | 41,462 | 31,890 | 254,681 |
| Andrew Cooke | 210,000 | – | – | – | – | 31,890 | 241,890 |
| Anthony Nadalin | 153,000 | – | 43,200 | – | – | 15,945 | 212,145 |
| Hermani Soeprapto | 223,079 | 7,797 | 6,560 | – | 52,396 | 31,890 | 321,722 |
| Sucipto Marijan | 101,562 | 5,177 | 3,180 | – | 67,212 | 23,916 | 201,047 |
| Brad Wake | 199,206 | 3,423 | – | – | – | 31,890 | 234,519 |
| Ivan Vidulich[(d)] | 211,953 | 2,126 | – | – | 164,479 | 31,890 | 410,448 |
| David Pelchen[(c)] | 279,699 | 5,301 | – | – | – | – | 285,000 |
| **Total** | **1,948,507** | **32,453** | **66,354** | **–** | **325,549** | **347,559** | **2,720,422** |

(a) Mr Carlile's salary was paid by Arc Exploration Limited up until 30 June 2008. With Mr Carlile being resident in Jakarta on a full-time basis he commenced being paid directly by an Indonesian subsidiary of Arc Exploration Limited from 1 July 2008. The combined 2008 amounts are disclosed in the table above.

(b) Mr Nadalin's full-time permanent employment finished on 31 January 2009. The Company now employs Mr Nadalin on a part-time casual basis. The above termination payment includes an annual leave payment of $10,205

(c) Mr Pelchen ceased employment on 30 November 2008.

(d) Mr Vidulich ceased full-time employment with the Group on 30 November 2008 and was no longer regarded as part of key management personnel from that date. The Group did engage Mr Vidulich on a limited consultancy basis after that date to assist with finalisation of Cibaliung Project matters.

(e) Mr Soeprapto and Mr Marijan ceased to be considered members of the Group's key management personnel effective as at 28 February 2009. Both Mr Soeprapto and Mr Marijan continued to provide limited services on a contract basis to the Group after this date.

(f) The 2008 termination benefit amounts are calculated as the gross termination benefit paid less amounts reported in previous periods for accrued retirement benefits for each executive. Following the 2008 termination of employees by the Group, some of the executives were reappointed on a short-term contract basis.

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

# DIRECTORS' REPORT
continued

## REMUNERATION REPORT (continued)

### b. Details of remuneration (audited) (continued)

**Options**

Following shareholder approval at the December 2009 General Meeting the Company issued 39,945,191 options to Directors and Employees (not under the ECOP) at an exercise price of 3.6 cents per share with an expiry date of 11 December 2014. 50% of the options shall vest on 1 July 2010 with the remaining 50% to vest on 1 July 2011 subject to the option holder still being a Company director or Group employee at the relevant vesting date. The options can also vest in other circumstances including if a person becomes entitled to in excess of 30% of the shares in the Company. The options shall not expire by reason of the option holder subsequently resigning or ceasing to be a director or employee. The exercise price represented a 6% premium over the 12 month volume weighted average price up to 29 October 2009 and their fair value at grant date was an average of 0.0161 cents per option. Cost of options issued to directors and key management personnel charged to the statement of comprehensive income for 2009 was $4,735.

Details of options that were granted or vested during the year to Directors, the 5 highest remunerated executives 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 | |
|---|---|---|---|---|
| Name | 2009 | 2008* | 2009 | 2008 |
| **Directors** | | | | |
| John Carlile | 9,986,298 | 32,000,000 | – | – |
| Bruce Watson | 3,328,766 | 16,000,000 | – | – |
| Robert Willcocks | 2,219,177 | – | – | – |
| George Tahija | 2,219,177 | 16,000,000 | – | – |
| **Executives** | | | | |
| Andrew Cooke | 6,657,532 | 16,000,000 | – | – |
| Hermani Soeprapto | – | 16,000,000 | – | – |
| Sucipto Marijan | – | 12,000,000 | – | – |
| Brad Wake | 6,657,532 | 16,000,000 | – | – |
| Cahyono Halim | 6,657,532 | 16,000,000 | – | – |
| Ivan Vidulich | – | 16,000,000 | – | – |
| Anthony Nadalin | 2,219,177 | 8,000,000 | – | – |
| Total | 39,945,191 | *164,000,000 | – | – |

* During 2008 following shareholder approval at its Annual General Meeting the Company consolidated its share capital on a 50 to 1 basis. Post share consolidation the number of options granted to Directors, the 5 highest remunerated executives or key management personnel during 2008 consolidated to 3,280,000 options.

The total number of options issued to key management personnel to subscribe for ordinary shares in the Company at the end of the financial year and as at the date of this report is 39,945,191. Each option entitles the option holder to one ordinary share of the Company, exercisable at any time from the date of vesting where applicable. The names of all persons who currently hold options granted are entered in the Register of Options kept by the Company. The Register may be inspected free of charge.

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate. No shares have been issued during or since the end of the financial year by the exercising of an option.

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

| 2009 | Balance at 1 January | Granted during year | Lapsed during year | Relinquished during year | Adjustment for share consolidation | Balance at 31 December |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| John Carlile | 640,000 | 9,986,298 | – | (640,000) | – | 9,986,298 |
| Bruce Watson | 360,000 | 3,328,766 | – | (360,000) | – | 3,328,766 |
| Robert Willcocks | – | 2,219,177 | – | | – | 2,219,177 |
| George Tahija | 320,000 | 2,219,177 | – | (320,000) | – | 2,219,177 |
| Executives | | | | | | |
| Andrew Cooke | 360,000 | 6,657,532 | – | (360,000) | – | 6,657,532 |
| Sucipto Marijan | 280,000 | – | – | (280,000) | – | – |
| Hermani Soeprapto | 320,000 | – | – | (320,000) | – | – |
| Cahyono Halim | 320,000 | 6,657,532 | – | (320,000) | – | 6,657,532 |
| Brad Wake | 320,000 | 6,657,532 | – | (320,000) | – | 6,657,532 |
| Anthony Nadalin | 160,000 | 2,219,177 | – | (160,000) | – | 2,219,177 |
| Total | 3,080,000 | 39,945,191 | – | (3,080,000) | – | 39,945,191 |

No options were exercised during the financial years ended 31 December 2009 and 2008.

| 2008 | Balance at 1 January | Granted during year | Lapsed during year | Adjustment for share consolidation | Other | Balance at 31 December |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| John Carlile | – | 32,000,000 | – | (31,360,000) | – | 640,000 |
| Bruce Watson | 2,000,000 | 16,000,000 | – | (17,640,000) | – | 360,000 |
| George Tahija | – | 16,000,000 | – | (15,680,000) | – | 320,000 |
| Executives | | | | | | |
| Andrew Cooke | 2,000,000 | 16,000,000 | – | (17,640,000) | – | 360,000 |
| Sucipto Marijan | 2,000,000 | 12,000,000 | – | (13,720,000) | – | 280,000 |
| Hermani Soeprapto | – | 16,000,000 | – | (15,680,000) | – | 320,000 |
| Cahyono Halim | – | 16,000,000 | – | (15,680,000) | – | 320,000 |
| Brad Wake | – | 16,000,000 | – | (15,680,000) | – | 320,000 |
| Ivan Vidulich[(a)] | – | 16,000,000 | – | (15,680,000) | (320,000) | – |
| Anthony Nadalin | – | 8,000,000 | – | (7,840,000) | – | 160,000 |
| Total | 6,000,000 | 164,000,000 | – | (166,600,000) | (320,000) | 3,080,000 |

(a) Mr Vidulich ceased full-time employment with the Group on 30 November 2008 and was no longer regarded as part of key management personnel from that date. The Group did engage Mr Vidulich on a limited consultancy basis after that date to assist with finalisation of Cibaliung Project matters. This consultancy work was completed as at end the end of February 2009 at which point in time his options were deemed to have lapsed. For disclosure purposes we have included him in the 2008 table only.

# DIRECTORS' REPORT
continued

## REMUNERATION REPORT (continued)

### b. Details of remuneration (audited) (continued)

| 2009 | A Remuneration consisting of options % | B Granted during year $ | C Exercised during year $ | D Lapsed during year $ |
|---|---|---|---|---|
| **Directors** | | | | |
| John Carlile | 1% | 16,078 | – | – |
| Bruce Watson | 1% | 5,359 | – | – |
| Robert Willcocks | 1% | 3,573 | | |
| George Tahija | 100% | 3,573 | – | – |
| **Executives** | | | | |
| Andrew Cooke | 1% | 10,719 | – | – |
| Sucipto Marijan | – | – | – | – |
| Hermani Soeprapto | – | – | – | – |
| Cahyono Halim | 1% | 10,719 | – | – |
| Brad Wake | 1% | 10,719 | – | – |
| Anthony Nadalin | 1% | 3,573 | – | – |
| **2008** | | | | |
| **Directors** | | | | |
| John Carlile | 27% | 157,472 | – | – |
| Bruce Watson | 31% | 29,528 | – | – |
| George Tahija | 100% | 29,528 | – | – |
| **Executives** | | | | |
| Andrew Cooke | 13% | 41,096 | – | – |
| Sucipto Marijan | 12% | 30,822 | – | – |
| Hermani Soeprapto | 10% | 41,096 | – | – |
| Cahyono Halim | 13% | 41,096 | – | – |
| Brad Wake | 14% | 41,096 | – | – |
| Ivan Vidulich (a) | 8% | 41,096 | – | – |
| Anthony Nadalin | 8% | 20,548 | – | – |

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.

D= The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using the Black Scholes option-pricing model assuming the performance criteria had been achieved.

(a) Mr Vidulich ceased full-time employment with the Group on 30 November 2008 and was no longer regarded as part of key management personnel from that date. The Group did engage Mr Vidulich on a limited consultancy basis after that date to assist with finalisation of Cibaliung Project matters. This consultancy work was completed as at end the end of February 2009 at which point in time his options were deemed to have lapsed. For disclosure purposes we have included him in the 2008 table only.

**c. Service Agreements – audited**

As reported in the 2008 Annual Report with the continued uncertainty on Project funding, and in order to reduce outstanding employee contractual commitments and conserve future cashflows the Group terminated all Indonesian employees in November 2008. Following these terminations the Group re-employed a limited number of personnel on a short-term contract basis and in many cases on a substantially reduced remuneration rate.

During the last quarter of 2009 with the satisfactory progression of fund raising activities a number of these short-term contract Indonesian executives were re-employed on a permanent basis with new fixed remuneration rates based on both market rates and the Group's ongoing financial capacity. For these Indonesian executives the remuneration rates are now based on Australian dollar amounts.

The on-going remunerations rates for key management personnel as at the end of the financial are disclosed below:

| | Remuneration |
|---|---|
| Director | |
| John Carlile | $23,000 per month |
| Executives | |
| Cahyono Halim | $18,500 per month |
| Andrew Cooke | $14,800 per month (based on 4 days per week) |
| Brad Wake | $18,500 per month |
| Anthony Nadalin | Part-time casual rate of $850 per day |

Other terms of employment for key management personnel, including relevant notice periods, are currently being formalised in new employment agreements.

## ENVIRONMENTAL PERFORMANCE

The Group's activities during the year were primarily confined to Indonesia and accordingly the Group is not subject to environmental regulation under Australian law.

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 Indonesia 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 on page 80 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 auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

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

| | $ |
|---|---|
| Tax compliance and consultancy services | 14,770 |
| Review service for prospectus disclosure | 15,000 |
| Total non-audit services | 29,770 |

# DIRECTORS' REPORT
continued

## MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the year ended 31 December, 2009 and the number of meetings attended by each Director:

| | Meetings of Directors | | Audit Committee | |
|---|---|---|---|---|
| | Eligible to Attend | Attended | Eligible to Attend | Attended |
| Bruce Watson | 10 | 9 | 6 | 6 |
| George Tahija | 10 | 6 | * | * |
| John Carlile | 10 | 10 | * | * |
| Robert Willcocks | 10 | 9 | 6 | 6 |

* Not a member of the relevant committee

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

Dated this 24th day of March 2010.

John C. Carlile
Managing Director

Bruce J. Watson
Non-Executive Chairman

# STATEMENTS OF COMPREHENSIVE INCOME

| | Note | Group 2009 $ | Group 2008 $ | Company 2009 $ | Company 2008 $ |
|---|---|---|---|---|---|
| **Continuing Operations** | | | | | |
| Other income | 6(a)(i) | 2,550,194 | 776 | 2,544,342 | – |
| Employee expenses | 6(b) | (402,719) | (790,028) | (68,856) | (419,756) |
| Depreciation expenses | | (114,738) | (109,756) | (2,867) | (6,566) |
| Loss on disposal of plant and equipment | | (1,008) | (9,903) | (1,008) | (10,183) |
| Management, administrative and occupancy expenses | | (826,279) | (1,300,341) | (457,486) | (1,019,379) |
| Exploration expenses written-off | | (11,284) | (596,513) | (11,284) | (596,513) |
| Unrealised foreign exchange gain/(loss) | | 843,131 | (697,167) | (10,357,202) | 22,742,917 |
| Other expenses | 6(d) | – | – | 10,710,513 | (81,169,853) |
| Profit/(loss) before financing costs | | 2,037,297 | (3,502,932) | 2,356,152 | (60,479,333) |
| Interest income | 6(a)(ii) | 46,573 | 287,534 | 46,573 | 287,534 |
| Finance expenses | 6(c) | (476,552) | (655,114) | (476,552) | (655,114) |
| Profit/(loss) before income tax | | 1,607,318 | (3,870,512) | 1,926,173 | (60,846,913) |
| Income tax (expense)/benefit | 9 | – | – | – | – |
| Profit/(loss) from continuing operations | | 1,607,318 | (3,870,512) | 1,926,173 | (60,846,913) |
| Profit/(loss) from discontinued operations | 8 | 12,717,421 | (26,957,684) | – | – |
| Profit/(loss) for the year | | 14,324,739 | (30,828,196) | 1,926,173 | (60,846,913) |
| **Other comprehensive income** | | | | | |
| Foreign currency translation differences for foreign operations | | 7,195,495 | (5,376,138) | – | – |
| Income tax on other comprehensive income | | – | – | – | – |
| Other comprehensive income for the period, net of tax | | 7,195,495 | (5,376,138) | – | – |
| Total comprehensive income for the year | | 21,520,234 | (36,204,334) | – | – |
| **Profit/(loss) attributable to:** | | | | | |
| Equity holders of the Company | 23 | 14,324,739 | (30,828,196) | 1,926,173 | (60,846,913) |
| Minority interest | 21 | – | – | – | – |
| Profit/(loss) for the year | | 14,324,739 | (30,828,196) | 1,926,173 | (60,846,913) |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the Company | | 21,520,234 | (36,204,334) | 1,926,173 | (60,846,913) |
| Minority interest (PT Aneka Tambang Tbk) | | – | – | – | – |
| Profit/(loss) for the year | | 21,520,234 | (36,204,334) | 1,926,173 | (60,846,913) |

| | Note | 2009 | 2008 |
|---|---|---|---|
| **Earnings per share*** | | cents | cents |
| Basic earnings/(loss) per share | 7 | 8.42 | (23.41) |
| Diluted earnings/(loss) per share | 7 | 8.42 | (23.41) |
| **Continuing operations*** | | | |
| Basic earnings/(loss) per share | 7 | 0.94 | (2.94) |
| Diluted earnings/(loss) per share | 7 | 0.94 | (2.94) |

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

The accompanying notes form part of these financial statements.

# STATEMENTS OF FINANCIAL POSITION

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Note | $ | $ | $ | $ |
| Current Assets | | | | | |
| Cash and cash equivalents | 10 | 3,283,922 | 2,075,747 | 3,137,942 | 1,997,721 |
| Receivables | 11(a) | 63,429 | 19,818 | 59,074 | 19,818 |
| Other | 12 | 177,707 | 329,228 | 73,739 | 108,192 |
| Assets classified as held for sale | 8 | – | 79,259,936 | – | – |
| Total Current Assets | | 3,525,058 | 81,684,729 | 3,270,755 | 2,125,731 |
| Non-Current Assets | | | | | |
| Receivables | 11(b) | 101,896 | 101,896 | 101,896 | 101,896 |
| Investments | 13 | – | – | – | – |
| Plant and equipment | 14 | 92,845 | 238,679 | 4,195 | 6,753 |
| Exploration and evaluation expenditure | 15(a) | 1,411,347 | 1,057,507 | 1,411,347 | 1,057,507 |
| Total Non-Current Assets | | 1,606,088 | 1,398,082 | 1,517,438 | 1,166,156 |
| Total Assets | | 5,131,146 | 83,082,811 | 4,788,193 | 3,291,887 |
| Current Liabilities | | | | | |
| Trade and other payables | 16 | 176,224 | 809,024 | 107,694 | 684,016 |
| Provisions | 17 | – | 14,940 | – | 14,940 |
| Other | 18 | 33,190 | 33,190 | 33,190 | 33,190 |
| Liabilities classified as held for sale | 8 | – | 98,347,536 | – | – |
| Total Current Liabilities | | 209,414 | 99,204,690 | 140,884 | 732,146 |
| Non-Current Liabilities | | | | | |
| Interest bearing liabilities | 19 | 3,233,801 | 5,877,058 | 3,233,801 | 5,877,058 |
| Provisions | 17 | 10,862 | 648,880 | – | – |
| Total Non-Current Liabilities | | 3,244,663 | 6,525,938 | 3,233,801 | 5,877,058 |
| Total Liabilities | | 3,454,077 | 105,730,628 | 3,374,685 | 6,609,204 |
| Net Assets | | 1,677,069 | (22,647,817) | 1,413,508 | (3,317,317) |
| Equity | | | | | |
| Contributed equity | 20 | 135,313,344 | 132,058,588 | 135,313,344 | 132,058,588 |
| Reserves | 22 | 213,867 | (6,393,183) | 4,735 | 593,180 |
| Accumulated losses | 23 | (133,850,142) | (148,313,222) | (133,904,571) | (135,969,085) |
| Total equity attributable to equity holders of the Company | | 1,677,069 | (22,647,817) | 1,413,508 | (3,317,317) |
| Minority interest | 21 | – | – | – | – |
| Total Equity | | 1,677,069 | (22,647,817) | 1,413,508 | (3,317,317) |

The accompanying notes form part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

| Consolidated | Share Capital $ | Translation reserve $ | Share-Based Payment Reserve $ | Accumulated losses $ | Total $ | Minority interest $ | Total Equity $ |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | **132,058,588** | **(6,986,363)** | **593,180** | **(148,313,222)** | **(22,647,817)** | **–** | **(22,647,817)** |
| Total comprehensive income for year | | | | | | | |
| Profit/(loss) | – | – | – | 14,324,739 | 14,324,739 | – | 14,324,739 |
| Other comprehensive income | | | | | | | |
| Foreign currency translation differences | – | 7,195,495 | – | – | 7,195,495 | – | 7,195,495 |
| Total other comprehensive income | – | 7,195,495 | – | – | 7,195,495 | – | 7,195,495 |
| Total comprehensive income for the year | – | 7,195,495 | – | 14,324,739 | 21,520,234 | – | 21,520,234 |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | |
| Employee share options expense | – | – | 4,735 | – | 4,735 | – | 4,735 |
| Employee share options relinquished – vested options | – | – | (138,341) | 138,341 | – | – | – |
| Employee share options relinquished – unvested options | – | – | (454,839) | – | (454,839) | – | (454,839) |
| Contributions of equity, net of transaction costs | 3,254,756 | – | – | – | 3,254,756 | – | 3,254,756 |
| Additional capital contributed to a subsidiary by a minority interest party | – | – | – | – | – | 1,303,109 | 1,303,109 |
| Disposal of subsidiary with minority investor | – | – | – | – | – | (1,303,109) | (1,303,109) |
| Total transactions with equity holders | 3,254,756 | – | (588,445) | 138,341 | 2,804,652 | – | 2,804,652 |
| **Total equity at the end of year** | **135,313,344** | **209,132** | **4,735** | **(133,850,142)** | **1,677,069** | **–** | **1,677,069** |
| **Balance at 1 January 2008** | **100,793,278** | **(1,610,225)** | **184,120** | **(117,485,026)** | **(18,117,853)** | **–** | **(18,117,853)** |
| Total comprehensive income for year | | | | | | | |
| Profit/(loss) | – | – | – | (30,828,196) | (30,828,196) | – | (30,828,196) |
| Other comprehensive income | | | | | | | |
| Foreign currency translation differences | – | (5,376,138) | – | – | (5,376,138) | – | (5,376,138) |
| Total other comprehensive income | – | (5,376,138) | – | – | (5,376,138) | – | (5,376,138) |
| Total comprehensive income for the year | – | (5,376,138) | – | (30,828,196) | (36,204,334) | – | (36,204,334) |
| Transactions with equity holders in their capacity as equity holders: | | | | | | | |
| Conversion of debt to equity | 18,774,892 | – | – | – | 18,774,892 | – | 18,774,892 |
| Employee share options expense | – | – | 409,060 | – | 409,060 | – | 409,060 |
| Exercise of shareholder options | 691 | – | – | – | 691 | – | 691 |
| Contributions of equity, net of transaction costs | 12,489,727 | – | – | – | 12,489,727 | – | 12,489,727 |
| Total transactions with equity holders | 31,265,310 | – | 409,060 | – | 31,674,370 | – | 31,674,370 |
| **Total equity at the end of year** | **132,058,588** | **(6,986,363)** | **593,180** | **(148,313,222)** | **(22,647,817)** | **–** | **(22,647,817)** |

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

# STATEMENTS OF CHANGES IN EQUITY
## continued

| Company | Share Capital $ | Translation reserve $ | Share-Based Payment Reserve $ | Accumulated losses $ | Total $ | Minority interest $ | Total Equity $ |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | **132,058,588** | **–** | **593,180** | **(135,969,085)** | **(3,317,317)** | **–** | **(3,317,317)** |
| **Total comprehensive income for year** | | | | | | | |
| Profit/(loss) | – | – | – | 1,926,173 | 1,926,173 | – | 1,926,173 |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | – | – | – | – | – | – | – |
| Total other comprehensive income | – | – | – | 1,926,173 | 1,926,173 | – | 1,926,173 |
| Total comprehensive income for the year | – | – | – | – | – | – | – |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | | | |
| Employee share options expense | – | – | 4,735 | – | 4,735 | – | 4,735 |
| Employee share options relinquished – vested options | – | – | (138,341) | 138,341 | – | – | – |
| Employee share options relinquished – unvested options | – | – | (454,839) | – | (454,839) | – | (454,839) |
| Contributions of equity, net of transaction costs | 3,254,756 | – | – | – | 3,254,756 | – | 3,254,756 |
| Total transactions with equity holders | 3,254,756 | – | (588,445) | 138,341 | 2,804,652 | – | 2,804,652 |
| **Total equity at the end of year** | **135,313,344** | **–** | **4,735** | **(133,904,571)** | **1,413,508** | **–** | **1,413,508** |
| **Balance at 1 January 2008** | **100,793,278** | **–** | **184,120** | **(75,122,172)** | **25,855,226** | **–** | **25,855,226** |
| **Total comprehensive income for year** | | | | | | | |
| Profit/(loss) | – | – | – | (60,846,913) | (60,846,913) | – | (60,846,913) |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation differences | – | – | – | – | – | – | – |
| Total other comprehensive income | – | – | – | – | – | – | – |
| Total comprehensive income for the year | – | – | – | (60,846,913) | (60,846,913) | – | (60,846,913) |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | | | |
| Conversion of debt to equity | 18,774,892 | – | – | – | 18,774,892 | – | 18,774,892 |
| Employee share options expense | | – | 409,060 | – | **409,060** | – | 409,060 |
| Exercise of shareholder options | 691 | – | – | – | 691 | – | 691 |
| Contributions of equity, net of transaction costs | 12,489,727 | – | – | – | 12,489,727 | – | 12,489,727 |
| Total transactions with equity holders | 31,265,310 | – | 409,060 | – | 31,674,370 | – | 31,674,370 |
| **Total equity at the end of year** | **132,058,588** | **–** | **593,180** | **(135,969,085)** | **(3,317,317)** | **–** | **(3,317,317)** |

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

# STATEMENT OF CASH FLOWS

| | Note | Group 31 December 2009 $ | Group 31 December 2008 $ | Company 31 December 2009 $ | Company 31 December 2008 $ |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Receipts from customers | | 16,704 | 776 | – | – |
| Payments to suppliers and employees | | (1,489,162) | (2,265,983) | (701,601) | (1,400,568) |
| Exploration expenditure not capitalised | | (11,284) | (104,508) | (11,284) | (104,508) |
| Interest received | | 38,881 | 317,003 | 38,881 | 317,003 |
| Finance costs | | (40,602) | (793,078) | (40,602) | (793,078) |
| Net cash used in operating activities | 29(b) | (1,485,464) | (2,845,790) | (714,606) | (1,981,151) |
| Cash flows from investing activities | | | | | |
| Refund of security deposit | | 27,117 | – | 27,117 | – |
| Payments for plant and equipment | | (11,960) | (150,070) | (1,317) | – |
| Exploration and evaluation expenditure | | (353,839) | (400,973) | (353,839) | (400,973) |
| Proceeds from sale of subsidiary | | 1 | – | 1 | – |
| Proceeds from sale of plant and equipment | | 55,546 | 1,818 | – | 1,818 |
| Project development expenditure | | (1,905,932) | (28,056,839) | – | – |
| Advances to controlled entities | | – | – | (874,898) | (19,600,737) |
| Net cash used in investing activities | | (2,189,067) | (28,606,064) | (1,202,936) | (19,999,892) |
| Cash flows from financing activities | | | | | |
| Settlement of convertible notes | | (221,117) | – | (221,117) | – |
| Loans from related party (Antam) | | 1,278,850 | – | – | – |
| Proceeds from borrowings | | – | 15,249,118 | – | – |
| Repayment of borrowings | | – | (5,865,045) | – | – |
| Gross proceeds from the issue of share capital | | 3,616,924 | 13,109,428 | 3,616,924 | 13,109,428 |
| Payments for share issue costs | | (338,044) | (82,157) | (338,044) | (82,157) |
| Net cash from financing activities | | 4,336,613 | 22,411,344 | 3,057,763 | 13,027,271 |
| Net increase/(decrease) in cash and cash equivalents | | 662,082 | (9,040,510) | 1,140,221 | (8,953,772) |
| Cash and cash equivalents at beginning of the financial year | | 2,075,747 | 12,229,417 | 1,997,721 | 10,951,493 |
| Cash included as assets classified as held for sale at end of period | 8 | – | (1,441,394) | – | – |
| Cash included as assets classified as held for sale at beginning of period | 8 | 1,441,394 | – | – | – |
| Cash balance of sold subsidiary | | (854,504) | – | – | – |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | | (40,797) | 328,234 | – | – |
| Cash and cash equivalents at end of the financial year | 29(a) | 3,283,922 | 2,075,747 | 3,137,942 | 1,997,721 |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. REPORTING ENTITY

Arc Exploration Limited ("Arc" or the "Company") is a publicly listed company that is incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2009 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:

Suite 1502, Level 15
Keycorp Tower B
799 Pacific Highway
Chatswood NSW 2067

During the year, the principal activities of Arc Exploration Limited (the "Company") and its controlled entities were:

- the finalisation of the sale of its subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project in Indonesia,
- securing further funding to meet an expanded exploration and drilling programme in Indonesia, and corporate operating costs in Australia and Indonesia and an expanded exploration, and
- the undertaking of limited exploration activities in its Indonesian exploration interests in Trenggalek (East Java), in Bima (East Sumbawa), and in Aisasjur (Papua).

## NOTE 2.(a) BASIS OF PREPARATION

### Statement of Compliance

The 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 of the Group and the financial report of the Company comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The financial report covers the economic entity of Arc Exploration Limited and its controlled entities, and Arc Exploration Limited as an individual parent entity.

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

The financial statements were approved by the Board of Directors on 24 March 2010.

### Going Concern Basis

The accounts are prepared on a going concern basis. Risks and uncertainties associated with the ability of the Company and 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 except for the effects of any derivative financial instruments which are measured at fair value.

### Use of Estimates and Judgements

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 described in the following notes:

- Note 9: income tax
- Note 15a: exploration and evaluation expenditure
- Note 15b: project development expenditure
- Note 17: provisions

Refer to Note 5 for further details.

### Changes in accounting policies

In the current year, the company and the Group have adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and effective for the current annual reporting period. The Group did not early adopt any standards.

Where the adoption of a new and revised Standards and Interpretations is deemed to have had an impact on the financial statements or performance of the Group, its impact is described below:

- **Presentation of financial statements**

The Group has applied the revised AASB 101 *Presentation of Financial Statements* and its associated amending standards from 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, and all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

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

- **Determination and presentation of operating segments**

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

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

## NOTE 2.(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.

### (a) Basis of Consolidation

#### Controlled entities

A controlled entity is any entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Group.

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.

### (b) 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

Translation differences on non-monetary assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit and loss as part of the fair value gain or loss.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 2.(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Foreign Currencies (continued)

**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 for each statement of financial position 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.

### (c) Derivative Financial Instruments

The Group did not hold any derivative financial instruments during the 2009 year.

During 2008 derivative financial instruments were used by the Group to both comply with the hedging requirements under the ANZ Cibaliung Project Facility Agreement and to manage the Group's exposure to gold prices, foreign currency exchange and interest rate risks arising from operating, financing and investing activities. The Group did not hold or issue derivative financial instruments for trading purposes. In September 2008 the Company reached an agreement with the ANZ Banking Group Limited ("ANZ") to close out all derivative financial instruments. As at 31 December 2008 the Group did not hold any derivative financial instruments.

On entering into a hedging relationship, the Group formally designated and documented the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation included identification of the hedging instrument, identifying the hedged item or transaction, the nature of the risk being hedged and how the changes in the hedged item's cash flows are attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial periods for which they were designated. To the extent that the hedge was ineffective, changes in fair value were recognised in the statement of comprehensive income.

**Cash flow hedges**

Where a derivative financial instrument was designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument was recognised directly in equity.

For cash flow hedges, the associated cumulative gain or loss was removed from equity and recognised in the statement of comprehensive income in the same period or periods which the hedged forecast transaction affected profit or loss.

When a hedging instrument expired or was sold or terminated or when a hedge no longer met the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remained in equity and was recognised when the forecast transaction was ultimately recognised in the statement of comprehensive income. When a forecast transaction was no longer expected to occur, the cumulative gain or loss that was reported in equity was immediately transferred to the statement of comprehensive income.

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. The quoted market price used for the financial assets held by the Group is the current bid price, the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using recognised valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Interest rate swaps held during 2008 were fair-valued by determining the theoretical gain or loss had the swap contracts been terminated on market at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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.

### (e) 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.

### (f) 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 Project development expenditures. For non-exploration or Project asset items, gains and losses on disposal are determined by comparing proceeds with asset carrying amounts. These are included in the statement of 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.

Borrowing costs directly attributable to the financing of the Cibaliung Project were capitalised into Project development expenditure during the ongoing construction of the plant, infrastructure and development of the underground mine.

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 (Note 2(b)(m)).

### (g) 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.

### (h) Exploration and Evaluation Expenditure

The Group's policy with respect to exploration and evaluation expenditure is to use the area of interest method. Under this method exploration costs are carried forward on the following basis:

i. Each area of interest is considered separately when deciding whether, and to what extent, to carry forward or write off exploration and evaluation costs;

ii. Exploration costs related to an area of interest are carried forward provided that rights of tenure of the area of interest are current and that one of the following conditions is met:
   - such exploration costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
   - exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing;

iii. Exploration costs accumulated in respect of each particular area of interest include only expenditure related directly to operational activities in those areas; and

iv. The Group will maintain the tenements in good standing for at least the next twelve months.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 2.(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Exploration and Evaluation Expenditure (continued)

Exploration and evaluation assets are assessed annually for indicators of impairment and, where impairment indicators exist, the recoverable amounts of these assets are estimated based on the discounted cashflows from their associated cash generating units. The cash generating units shall not be larger than the area of interest. Where the carrying value exceeds the recoverable amount, an impairment loss will be recognised in the statement of comprehensive income.

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.

### (i) 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 six 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.

### (j) 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 doubtful debts.

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 doubtful debts 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 comprehensive income.

### (k) 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.

### (l) Comparative Information

Where necessary, comparative figures have been amended to accord with current year presentation and disclosure made of material changes to comparatives.

### (m) Impairment of Assets

The carrying value of all assets 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.

### (n) Share-based payment transactions

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

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

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

When the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

Upon the exercise of the option, the balance of the options reserve relating to those options is transferred to contributed equity. Where unvested options lapse during the year the amounts in relation to these lapsed options, previously credited to the options reserve, are transferred to the statement of comprehensive income. Where vested options lapse during the year the amounts in relation to these lapsed options, previously credited to the options reserve, are transferred to the accumulated losses account.

During the first half of 2009 the Company assessed the probability of any of the then existing employee share options being exercised as being nil. The vast majority of these options (over 95%) were unvested and had performance conditions attached to the options relating to the successful operation of the Cibaliung Gold Mine which was in the process of being sold. During the first half all holders of options agreed to relinquish their existing options for no consideration. In accordance with AASB 2 *Share Based Payments*, the expense previously recognised in relation to the unvested options has been reversed to the statement of comprehensive income. For the relinquished vested options the amount pertaining to these options recognised in the share-based payment reserve was transferred to the accumulated losses account.

### (o) 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.

### (p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings 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.

### (q) Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit and loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Where the Convertible Notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. There are no dividends associated with the equity component.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 2.(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Employee Benefits

**Wages, salaries, and annual leave**

Liabilities for wages and salaries and annual leave are 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. 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 deducted.

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 on a straight-line basis over the average period until the benefits become vested.

To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss. The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

### (s) 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.

### (t) 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.

### (u) Financial Guarantee Contract

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher amount determined in accordance with *AASB137 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and payments that would be required without the guarantee.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

### (v) Restoration, Rehabilitation and Environmental Expenditure

Provisions are made for the estimated cost of rehabilitation, decommissioning and restoration relating to areas disturbed during the 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. If it occurs after commencement of production, restoration costs are provided for and charged to the statement of comprehensive income.

Uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation, possible future developments, changes in technology, and price increases. Changes in estimates are dealt with on a prospective basis as they arise. The amount of the provision relating to the rehabilitation of the mine infrastructure and dismantling obligations is recognised at the commencement of the mining and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset included in mining property and development assets. This capitalised cost will be amortised over the life of the mine.

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.

In the 2008 financial statements a provision for site restoration was recognised in relation to Cibaliung Gold Project in Indonesia. The site restoration provision of $398,428 as at 31 December 2008 was transferred to liabilities classified as held for sale

On 6 July 2009 the Group completed the sale of its subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project. With this sale the Group no longer is liable for any rehabilitation, decommissioning or restoration costs relating to the Cibaliung Gold Project.

### (w) Revenue

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

Profit from the disposal of non-current assets is recognised when derived.

### (x) 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.

### (y) 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.

During 2008 and up to the date of its disposal on 6 July 2009, PT Cibaliung Sumberdaya's net borrowing costs in relation to the Project were fully capitalised. The borrowing costs incurred in 2008 in relation to the monetised loan arising from the close-out of derivatives were expensed and formed part of loss from discontinued operations.

All other finance costs are recognised in the statement of comprehensive income in the period in which they are incurred.

### (z) 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.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 2.(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) Goods and Services Tax (GST) and Value Added Tax (VAT) (continued)

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, such as PT Cibaliung Sumberdaya, will not have their revenues subject to VAT. In addition, input VAT amounts relating to the development of the Cibaliung Project cannot be credited against VAT output amounts, and therefore such VAT amounts were expensed or formed part of the Project capitalised costs.

### (aa) 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax base of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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.

### (ab) Segment Reporting

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

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

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

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

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

## (ac) Assets and liabilities held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. The results of the discontinued operations are presented separately in the statement of comprehensive income. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

## (ad) New Standards and Interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2009, but have not been applied in preparing this financial report:

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 31 December 2011 financial statements, are not expected to have a significant impact on the financial statements.
- Amended AASB 127 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 December 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 31 December 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 2.(b) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(ad) New Standards and Interpretations not yet adopted (continued)**

- Interpretation 17 Distribution of non-current assets to owners (December 2008) clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, an entity should measure the dividend payable at the fair value of the net assets to be distributed, and an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Interpretation 17 also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. Interpretation 17 will become mandatory for compliance for the Group's 31 December 2010 financial statements. The Group has not yet determined the potential effect of the interpretation on the Group's financial report.
- Other new standards published but not mandatory for annual reporting periods ended 31 December 2009 are not expected to have an impact on the financial statements of the Group or the Company.

## NOTE 3. FINANCIAL RISK MANAGEMENT

### Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

This note presents information about the Company's and 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 Company and 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 cashflows 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. For the Company it also arises from investment and receivables amounts in relation to its controlled entity.

#### Other receivables

From the Group perspective the credit risk exposures on Group receivables are not considered significant.

The Company has a significant loan balance with its controlled entity PT Indonusa Mining Services. This loan balance is subject to significant credit risk.

The loan balance with PT Indonusa Mining Services was fully written-down as at 31 December 2009 given the fact that this subsidiary had significant negative net assets as at 31 December 2009.

#### Investments

The Company has an investment in its controlled entity PT Indonusa Mining Services. This investment is subject to significant credit risk given the fact that this subsidiary had significant negative net assets as at 31 December 2009. An impairment analysis was undertaken on this investment at year-end to assess its carrying value, and a provision for diminution was raised to fully provide for this investment balance.

#### Guarantees

With the Company completing the sale of its subsidiary PT Cibaliung Sumberdaya during 2009, the Company was released from all financial guarantees previously provided to the ANZ in relation to the Cibaliung Project. As at 31 December 2009 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. As detailed in the Going Concern note (Note 4), the ability of the Company and Group to continue to meet the financial obligations they are incurring will depend on the success of the Company being able to successfully complete capital raisings as required. Given the Group's financial position during 2008 and 2009, 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. Where required the Group, subject to financial capacity, enters into derivatives, and also incurs financial liabilities, in order to manage market risks.

#### (i) Foreign exchange risk

With the sale of the subsidiary PT Cibaliung Sumberdaya the Group and Company 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.

Due to the funding difficulties experienced during 2009 and 2008 the Australian dollar cash balances typically represented only a relatively short period of forecasted expenditures. Given the short-term nature of these cash balances the Group was not exposed to medium or long-term volatility in exchange rates and hence it has not been in the practice of hedging such cash balances.

The Company also has foreign exchange risk exposure on the unsecured loans which are denominated in USD. These loans were not hedged as initially they were to be for a relatively short-period. These loans are repayable in March 2011.

#### (ii) Commodity price risk

With the sale of the subsidiary PT Cibaliung Sumberdaya, the Group and Company have no immediate material exposure to commodity price risk.

#### (iii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk arising from its borrowings from fluctuations in variable interest rates. 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. With the sale of the subsidiary PT Cibaliung Sumberdaya during 2009 the Group is no longer liable for the variable interest rates loans for the Cibaliung Project and as such is no longer exposed to cash flow interest rate risk. During 2009 the Company settled its fixed interest rate Convertible Note loans and as at 31 December 2009 the only interest bearing loans are the fixed rate Unsecured Loans (US$2.9m).

#### (iv) Other market price risk

The Group did not hold any investments during the 2009 financial year.

### Capital management

The Group's and the Company's objectives when managing capital are to safeguard their ability to continue as a going concern so that they can provide returns for shareholders and benefits for other stakeholders.

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 (refer to balance sheet for quantification) and also considers future exploration commitments.

For the first half of the year the Company's equity management was constrained by the requirement to complete the sale of its subsidiary PT Cibaliung Sumberdaya. The sale relieved the Company of its significant obligations to fund the Project and to service the associated project debt obligations to the ANZ Bank. This enabled the Company to commence share capital raisings in the last quarter of 2009 to fund corporate operating costs in Australia and Indonesia and expanded exploration activities in Indonesia.

Going forward the Company's equity management policy will be to raise further share capital from time to time, as required, to fund forecast exploration activities and corporate overheads.

# NOTES TO THE FINANCIAL STATEMENTS continued

## NOTE 4. GOING CONCERN

The financial report is prepared on a going concern basis, which assumes that the Company and Group will be able to source additional shareholder funding as required to fund forecast corporate operating costs in Australia and Indonesia and the planned expanded exploration programme in Indonesia in 2010.

A cashflow forecast has been prepared for the Group's continuing operations from 31 December 2009 to 31 December 2010 for the funding of corporate operating costs in Australia and Indonesia and the expanded exploration activities in Indonesia. Based on this forecast the Company will need to seek additional shareholder funding during this period to meet its forecast cash outflows.

During 2009 the Company demonstrated its ability to successfully raise shareholder funds for its expanded exploration programme and corporate operating costs via the October share placement and the November Rights Issue, with the Company successfully raising the full $3.1 million sought under the Rights Issue Prospectus.

Based on the number of outstanding listed and employee options exercisable at 3.6 cents per share and the unlisted options exercisable at 2.5 cents per share as at 31 December 2009, the Company could potentially raise around A$7 million in future financial periods through the exercise of such options by option holders.

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

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

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

## NOTE 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) Fair value of derivative financial instruments

The Group did not hold any derivative financial instruments during the 2009 financial year.

During 2008 the Group utilised derivative financial instruments to manage its commodity, currency and interest rate exposures. In September 2008 the Company reached an agreement with the ANZ to close out all derivative financial instruments. During 2008 the Group assessed the fair value of its gold hedges, Indonesian Rupiah currency hedges and interest rate swaps in accordance with the Group accounting policy. Fair values were determined based on well established pricing models and market conditions existing at balance date. These calculations required the use of estimates and assumptions. Changes in assumptions concerning interest rates, gold prices, and Indonesian Rupiah exchange rates and volatilities in these rates could have had a significant impact on the fair values attributed to these financial instruments.

### (ii) Ore reserve estimates

The estimated quantities of economically recoverable reserves are based upon interpretations of geological and geophysical models and require assumptions to be made requiring factors such as estimates of future operating performance, future capital requirements, short and long term commodity prices, and short and long term exchange rates. The Group is required to determine and report ore reserves in Australia under the principles incorporated in the Australian Code of Reporting of Mineral Resources and Ore Reserves December 2004, (the JORC Code). The JORC Code requires reasonable investment assumptions to calculate reserves.

During 2008 and 2009 changes in reported reserves estimates could have impacted the carrying value of capitalised project development expenditures. On 6 July 2009 the Group completed the sale of its subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project.

**(iii) Exploration and evaluation expenditure**

The Group's accounting policy for exploration and evaluation expenditures results in certain items being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment for the existence of reserves. The policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable mining operation can be established. As such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the statement of comprehensive income.

**(iv) Impairment**

During 2009 and 2008 the recoverable amount of assets associated with the Cibaliung Project, as a "cash generating unit", and investments and loans in controlled entities were determined as the higher of the asset's fair value less costs to sell and its value in use in accordance with the Group accounting policy. These calculations required the use of estimates and assumptions such as discount rates, exchange rates, commodity prices, grade recovery, future capital requirements and future operating performance.

On 6 July 2009 the Group completed the sale of its subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project.

**(v) Site restoration provision**

During 2008 and 2009 the Group assessed its site restoration provision in accordance with the Group accounting policy. Significant judgement was required in determining the restoration costs as there were many transactions and other factors that would have affected the ultimate costs required to rehabilitate the site. Factors that would have affected this liability included the future development, changes in technology, price increases and changes in interest rates.

On 6 July 2009 the Group completed the sale of its subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project. With this sale the Group no longer is liable for any rehabilitation, decommissioning or restoration costs relating to the Cibaliung Gold Project and therefore the Group's futures earnings will be no longer impacted by such fluctuations in estimates and assumptions.

**(vi) Deferred tax**

The Group has not recognised a net deferred tax asset for temporary differences and tax losses as at 31 December 2009 on the basis that the ability to utilise these temporary differences and tax losses can not yet be regarded as probable.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 6. REVENUE AND EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| **6.(a)(i) Other income** | | | | |
| Gain on settlement of convertible notes | 1,990,053 | – | 1,990,053 | – |
| Gain on debt forgiven by related party | 536,852 | – | 536,852 | – |
| Sundry income | 23,289 | 776 | 17,437 | – |
| | 2,550,194 | 776 | 2,544,342 | – |

As part of the completion of the Cibaliung sale transaction a Company payable amount of $536,852 in relation to underwriting fees was forgiven by the ANZ Bank. Also as a part of the completion of the Cibaliung sale, the Company was required to fully redeemed the January 2010 convertible notes on the basis of a payment of $0.10 in the $1.00 of both the issue price and all unpaid interest on the notes and the issuing of a total of 17,775,000 options exercisable at any time until the third anniversary date of their issue at $0.025. This discounted redemption gave rise to a gain on settlement of $1,990,053.

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| **6.(a)(ii) Finance income** | | | | |
| Interest received or receivable from other persons | 46,753 | 287,534 | 46,753 | 287,534 |
| **6.(b) Employee expenses** | | | | |
| Wages and salaries | 739,405 | 767,209 | 185,332 | 297,264 |
| Superannuation & post employment benefits | 27,183 | 60,535 | 14,986 | 47,653 |
| Increase/(decrease) in liability for annual leave | (14,394) | 2,076 | (14,394) | 2,076 |
| Increase/(decrease) in liability for long service leave | (548) | 193 | (548) | 193 |
| Post employment benefits paid on termination | – | (333,323) | – | – |
| Unvested options relinquished | (353,662) | – | (118,493) | – |
| Share based payments | 4,735 | 293,338 | 1,973 | 72,570 |
| | 402,719 | 790,028 | 68,856 | 419,756 |
| **6.(c) Finance expenses** | | | | |
| Interest paid or payable: | | | | |
| – Related party | 47,693 | 349,897 | 47,693 | 349,897 |
| – Other persons | 318,901 | 67,862 | 318,901 | 67,862 |
| – Convertible notes | 109,958 | 237,355 | 109,958 | 237,355 |
| | 476,552 | 655,114 | 476,552 | 655,114 |
| **6.(d) Other expenses** | | | | |
| Provision for doubtful debts for loans to controlled entities | – | – | (10,440,565) | 81,021,395 |
| Provision for diminution in value of investments in controlled entities | – | – | (269,948) | 148,458 |
| | – | – | (10,710,513) | 81,169,853 |
| **6.(e) Rental expense relating to operating leases** | | | | |
| Lease payments | 52,236 | 47,574 | 24,502 | 39,419 |

## NOTE 7. EARNINGS/(LOSS) PER SHARE

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

| | Group | |
|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ |
| Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share | 1,607,318 | (3,870,512) |
| Profit/(loss) from discontinued operations | 12,717,421 | (26,957,684) |
| Net profit/(loss) used in calculating basic and diluted earnings per share | 14,324,739 | (30,828,196) |
| Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share | 170,164,920 | 131,688,553 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share | 170,164,920 | 131,688,553 |
| Basic earnings/(loss) per share (cents per share) | 8.42 | (23.41) |
| Diluted earnings/(loss) per share (cents per share) | 8.42 | (23.41) |
| Continuing operations | | |
| Basic earnings/(loss) per share (cents per share) | 0.94 | (2.94) |
| Diluted earnings/(loss) per share (cents per share) | 0.94 | (2.94) |

### Information Concerning the Classification of Securities

#### a) 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 average market price exceeded the exercise price and are therefore considered as antidilutive for the years ended 31 December 2009 and 2008. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in Note 20(b).

#### b) Convertible Notes

The Group did not have any convertible notes as at 31 December 2009. For the years ended 31 December 2009 and 2008 the convertible notes were not included in the calculation of diluted earnings per share because the average market price exceeded the exercise price and are therefore considered as antidilutive for the years ended 31 December 2009 and 2008.

#### c) Listed and Unlisted Options

Listed and unlisted options are not included in the calculation of diluted earnings per share because the average market price exceeded the exercise price and are therefore considered as antidilutive for the years ended 31 December 2009 and 2008. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in Note 20(c) and 20(d).

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 8. DISCONTINUED OPERATIONS

On 6 July 2009 the Company completed the sale of the subsidiary PT Cibaliung Sumberdaya for a cash consideration of USA$1. Also during the year the Company received advice that the liquidation of the subsidiary PT Eastara Melawi Mineral had been completed.

| | Group 31 December 2009 $ | 31 December 2008 $ |
|---|---|---|
| Results from discontinued operations | | |
| Employee expenses | 63,780 | (51,632) |
| Impairment loss on Cibaliung project development costs | – | (23,576,322) |
| Loss on derivatives | – | (2,566,807) |
| Write-back of liquidation expense provision | 627,291 | – |
| Gain on deconsolidation of disposed subsidiaries | 12,026,350 | – |
| Finance expenses | – | (762,923) |
| Profit/(Loss) before income tax | 12,717,421 | (26,957,684) |
| Income tax | – | – |
| Profit/(Loss) from discontinued operations | 12,717,421 | (26,957,684) |
| Cash flows from/(used in) discontinued operations | | |
| Net cash used in operating activities | – | – |
| Net cash used in investing activities | (1,850,385) | (27,872,780) |
| Net cash from financing activities | 1,278,850 | 27,793,890 |
| Net cash from/(used in) discontinued operations | (571,535) | (78,890) |
| Assets classified as held for sale | | |
| Cash and cash equivalents | – | 1,441,394 |
| Other current assets | – | 307,884 |
| Plant and equipment | – | 548,087 |
| Project development expenditure | – | 76,962,571 |
| | – | 79,259,936 |
| Liabilities classified as held for sale | | |
| Trade and other payables | – | 2,223,192 |
| Secured bank loans | – | 94,384,999 |
| Provisions | – | 398,428 |
| Other payables | – | 1,340,917 |
| | – | 98,347,536 |

| | Group $ |
|---|---|
| Effect of disposal on the financial position of the Group as at disposal date | |
| Assets classified as held for sale | 68,022,104 |
| Liabilities classified as held for sale | (85,579,772) |
| Net assets and liabilities at disposal date | (17,557,668) |
| Consideration received, satisfied in cash | (1) |
| Cash and cash equivalents | 854,504 |
| Net cash outflow | 854,503 |

## NOTE 9. INCOME TAX EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Numerical reconciliation of income tax expense to prima facie tax payable: | | | | |
| Profit/(loss) before income tax benefit | 14,324,739 | (30,828,196) | 1,926,173 | (60,846,913) |
| Income tax expense/(benefit) at the statutory rate of 30% (2008:30%) | 4,297,422 | (9,248,459) | 577,852 | (18,254,074) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| Expenditure not allowed for tax | – | 203 | – | 203 |
| Non-assessable gain on deconsolidation of disposed subsidiaries | (3,607,905) | – | – | – |
| Non-deductible/assessable investment diminution and doubtful debts expense-related party | – | – | (3,213,154) | 24,350,956 |
| Non-deductible cash flow hedge loss | – | 770,042 | – | – |
| Non-deductible/assessable foreign translation (gain)/loss | (252,939) | (209,150) | 3,107,161 | (6,822,875) |
| Non-deductible impairment loss on project development costs | – | 7,072,897 | – | – |
| Non-deductible exploration expense written-off | 3,385 | – | 3,385 | – |
| Share issue costs | (108,651) | (185,703) | (108,651) | (185,703) |
| Non-assessable credit on relinquished employee share options | (136,452) | – | (35,505) | – |
| Share based payments | 1,421 | 103,491 | 592 | 21,771 |
| | 196,281 | (1,696,679) | 331,680 | (899,722) |
| Prior year losses utilised | (196,281) | – | (331,680) | – |
| Less tax losses not recognised and carried forward | – | 1,696,679 | – | 899,722 |
| Income tax expense/(benefit) | – | – | – | – |

The estimated carried forward tax losses and timing differences of the Company are $74,334,986 (2008: $74,512,657) representing a potential future income tax benefit of $22,300,496 at 30% (2008: $22,353,797), subject to the provisions of the Income Tax Assessment Act (1936) and the Income Tax Assessment Act (1997) determining the ability to utilise carry forward losses.

Included in the above losses are losses of a capital nature amounting to $50,155,901 (2008: $50,155,901) representing a potential future income tax benefit of $15,046,770 at 30% (2008: 15,046,770), subject to the provisions of the Income Tax Assessment Act (1936) and the Income Tax Assessment Act (1997) determining the ability to utilise carry forward losses.

Capital losses can only be offset against capital gains and are therefore not available to reduce future income of a revenue nature.

The estimated carried forward tax losses and timing differences of the Group including the capital losses is $76,461,072 (2008: $86,137,765) representing a potential future income tax benefit of $22,938,322 at 30% (2008: $25,841,330). These benefits will only be obtained if:

a. The Group derives further assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the loss to be realised;
b. The Group continues to comply with the conditions for deductibility imposed by law;
c. No changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

Deferred tax assets are not recognised for the above unused tax losses due to the uncertainty as to when the Group and Company will be able to generate future taxable income to utilise these losses.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 10. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Cash at bank and on hand | 683,922 | 2,075,747 | 537,942 | 1,997,721 |
| Short term deposits | 2,600,000 | – | 2,600,000 | – |
| | 3,283,922 | 2,075,747 | 3,137,942 | 1,997,721 |

## NOTE 11.(a) CURRENT RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Unsecured amounts receivable from | | | | |
| Controlled entities | – | – | 75,955 | 1,173,709 |
| Less provision for doubtful debts | – | – | (75,955) | (1,173,709) |
| | – | – | – | – |
| Other debtors | 10,921 | 6,461 | 6,566 | 6,461 |
| Goods and services tax (GST) and other consumption taxes recoverable | 44,815 | 13,357 | 44,815 | 13,357 |
| Interest receivable | 7,693 | – | 7,693 | – |
| | 63,429 | 19,818 | 59,074 | 19,818 |

## NOTE 11.(b) NON-CURRENT RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Unsecured amounts receivable from | | | | |
| Controlled entities | – | – | 2,278,197 | 106,478,414 |
| Less provision for doubtful debts | – | – | (2,278,197) | (106,478,414) |
| | – | – | – | – |
| Other debtors | 101,896 | 101,896 | 101,896 | 101,896 |
| | 101,896 | 101,896 | 101,896 | 101,896 |

## NOTE 12. OTHER CURRENT ASSETS

| | | | | |
|---|---|---|---|---|
| Prepayments | 119,464 | 219,325 | 18,852 | 26,188 |
| Security deposits | 23,356 | 75,016 | 20,000 | 47,117 |
| Monies held in trust | 34,887 | 34,887 | 34,887 | 34,887 |
| | 177,707 | 329,228 | 73,739 | 108,192 |

## NOTE 13. OTHER INVESTMENTS

| | | | | |
|---|---|---|---|---|
| Investment in controlled entities | | | | |
| P.T. Cibaliung Sumberdaya | – | – | – | 14,504,369 |
| P.T. Indonusa Mining Services | – | – | 239,533 | 509,481 |
| Less provision for diminution in value | – | – | (239,533) | (15,013,850) |
| | – | – | – | – |

During 2008 the Company granted options over its shares to employees of PT Indonusa Mining Services, with the fair value at grant date being recognised as an increase in the investment in the subsidiary, with a corresponding increase in equity over the vesting period of the grant.

During 2009 the employees of PT Indonusa Mining Services agreed to relinquish these options. With this relinquishment the investment balance and options reserve balances were both reduced by the original fair value amounts recognised in 2008.

The investment balance in PT Indonusa Mining Services is fully written-down as at 31 December 2009 given the fact that this subsidiary has significant negative net assets as at 31 December 2009.

## NOTE 14. PLANT AND EQUIPMENT

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| (a) Office furniture and equipment | | | | |
| Gross carrying amount | | | | |
| Opening balance | 446,097 | 1,200,507 | 36,468 | 63,107 |
| Additions | 10,793 | 105,156 | 1,316 | – |
| Disposals and transfers | (11,735) | (28,297) | (11,015) | (26,639) |
| Assets classified as held for sale | – | (1,207,279) | – | – |
| Net foreign exchange differences | (93,213) | 376,010 | – | – |
| Closing balance | 351,942 | 446,097 | 26,769 | 36,468 |
| Accumulated depreciation | | | | |
| Opening balance | (257,109) | (498,984) | (29,715) | (37,786) |
| Depreciation expense | (81,400) | (102,369) | (2,867) | (6,566) |
| Depreciation capitalised | – | (314,489) | – | – |
| Depreciation reversed on disposals | 10,368 | 14,638 | 10,008 | 14,637 |
| Assets classified as held for sale | – | 808,174 | – | – |
| Net foreign exchange differences | 51,747 | (164,079) | – | – |
| Closing balance | (276,394) | (257,109) | (22,574) | (29,715) |
| Net office furniture and equipment | 75,548 | 188,988 | 4,195 | 6,753 |
| (b) Motor vehicles | | | | |
| Gross carrying amount | | | | |
| Opening balance | 107,440 | 338,055 | – | – |
| Additions | – | 94,385 | – | – |
| Disposals and transfers | – | (24,236) | – | – |
| Assets classified as held for sale | – | (392,890) | – | – |
| Net foreign exchange differences | (24,451) | 92,126 | – | – |
| Closing balance | 82,989 | 107,440 | – | – |
| Accumulated depreciation | | | | |
| Opening balance | (57,749) | (146,639) | – | – |
| Depreciation expense | (21,085) | (31,175) | – | – |
| Disposals and transfers | – | 5,554 | – | – |
| Depreciation capitalised | – | (82,735) | – | – |
| Assets classified as held for sale | – | 243,908 | – | – |
| Net foreign exchange differences | 13,142 | (46,662) | – | – |
| Closing balance | (65,692) | (57,749) | – | – |
| Net motor vehicles | 17,297 | 49,691 | – | – |
| Total plant and equipment – at 31 December | 92,845 | 238,679 | 4,195 | 6,753 |
| Total plant and equipment – at 1 January | 238,679 | 892,941 | 6,753 | 25,321 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 15.(a) EXPLORATION AND EVALUATION EXPENDITURE

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Opening balance | **1,057,507** | 856,194 | **1,057,507** | – |
| Additions | **365,124** | 505,480 | **365,124** | 505,480 |
| Costs recharged from subsidiary | – | – | – | 1,148,540 |
| Exploration costs written-off | **(11,284)** | (596,513) | **(11,284)** | (596,513) |
| Net foreign exchange differences | – | 292,346 | – | – |
| | **1,411,347** | 1,057,507 | **1,411,347** | 1,057,507 |

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

## NOTE 15.(b) CIBALIUNG PROJECT DEVELOPMENT EXPENDITURE

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Opening balance | – | 56,719,343 | – | – |
| Additions | – | 36,577,506 | – | – |
| Impairment writedown | – | (23,576,322) | – | – |
| Assets classified as held for sale | – | (76,962,571) | – | – |
| Net foreign exchange differences | – | 7,242,044 | – | – |
| | – | – | – | – |

## NOTE 16. TRADE AND OTHER PAYABLES

| | | | | |
|---|---|---|---|---|
| Trade payables and accrued expenses | **141,832** | 724,769 | **107,694** | 666,314 |
| Goods and services tax (GST) and other consumption taxes payable | **34,392** | 66,553 | – | – |
| Interest payable | – | 17,702 | – | 17,702 |
| | **176,224** | 809,024 | **107,694** | 684,016 |

## NOTE 17. PROVISIONS

| | | | | |
|---|---|---|---|---|
| Current liabilities | | | | |
| Employee leave entitlements | – | 14,940 | – | 14,940 |
| | – | 14,940 | – | 14,940 |
| Non-current liabilities | | | | |
| Site restoration | – | – | – | – |
| Post employment benefits | **10,862** | – | – | – |
| Liquidation expenses | – | 648,880 | – | – |
| | **10,862** | 648,880 | – | – |
| Current and non-current provisions | **10,862** | 663,820 | – | 14,940 |

### Site restoration provision

As at 31 December 2008 the Cibaliung Project site restoration provision was included in liabilities classified as held for sale.

On 6 July 2009 the Company completed the sale of the subsidiary PT Cibaliung Sumberdaya which was the holder of the Cibaliung Project in Indonesia. With the completion of the sale the Group no longer has any restoration obligations in relation to the Cibaliung Project.

### Post employment benefits provision

The Group has been required to provide for post-employment benefits for its employees in Indonesia in accordance with Indonesian Labor Law NO 13/2003. The number of employees entitled to the benefits as at 31 December 2009 was 12.

In November 2008 with the uncertainty on funding and the Cibaliung Project being on limited care and maintenance, the Group terminated the services of all Indonesian employees, and re-employed a limited number of employees on short-term contracts to continue remaining essential activities. With these terminations the Group was required to settle all post-employment benefits in accordance with Indonesian Labor Law NO 13/2003.

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Present value of obligations | 12,500 | – | – | – |
| Present value of funded obligations | (1,638) | – | – | – |
| Total present value of obligations | 10,862 | – | – | – |
| Fair value of plan assets | – | – | – | – |
| Recognised liability for defined benefit obligations | 10,862 | – | – | – |
| Movement in the present value of the defined benefit obligations | | | | |
| Defined benefit obligations at 1 January | – | 606,893 | – | – |
| Termination benefits settled and curtailment of plan | – | (1,454,411) | – | – |
| Current service costs and interest (see below) | 10,862 | 682,129 | – | – |
| Gain/(loss) on translation | – | 165,389 | – | – |
| Defined benefit obligations at 31 December | – | – | – | – |
| Expense recognised in statement of comprehensive income | | | | |
| Current service costs | 10,862 | 605,388 | – | – |
| Interest on obligation | – | 76,741 | – | – |
| | 10,862 | 682,129 | – | – |
| Less charges to deferred exploration and project development | – | (602,149) | – | – |
| Expense recognised in statement of comprehensive income | 10,862 | 79,980 | – | – |

No actuarial gains/losses were recognised during the year (2008: $nil).

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 17. PROVISIONS (continued)

### Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| Discount rate at 31 December | 12% | 12% |
| Expected future salary increases | 10% | 10% |

Assumptions regarding future mortality are based on published statistics and mortality tables.

### Liquidation expenses provision

A provision was raised in 2002 in respect to the liquidation of PT Eastara Melawi Mineral. On 29 June 2009 the Company received advice that the liquidation of the subsidiary had been completed.

| Provisions itemised | Site Restoration $ | Post employment benefits $ | Liquidation expenses $ | Employee leave $ | Total $ |
|---|---|---|---|---|---|
| Group | | | | | |
| Balance at 1 January 2009 | – | – | 648,880 | 14,940 | 663,820 |
| Provisions raised during the year | – | 10,862 | – | – | 10,862 |
| Provisions used/(credited) during the year | – | – | (627,291) | (14,940) | (642,231) |
| Foreign currency movement | – | – | (21,589) | – | (21,589) |
| Balance at 31 December 2009 | – | 10,862 | – | – | 10,862 |
| Current provisions | – | – | – | – | – |
| Non-current provisions | – | 10,862 | – | – | 10,862 |
| Balance at 1 January 2008 | 313,102 | 606,893 | 509,919 | 13,500 | 1,443,414 |
| Provisions raised during the year | – | 682,129 | – | 15,285 | 697,414 |
| Provisions used during the year | – | (1,454,411) | – | (13,845) | (1,468,256) |
| Liabilities classified as held for sale | (398,428) | – | – | – | (398,428) |
| Foreign currency movement | 85,326 | 165,389 | 138,961 | – | 389,676 |
| Balance at 31 December 2008 | – | – | 648,880 | 14,940 | 663,820 |
| Current provisions | – | – | – | 14,940 | 14,940 |
| Non-current provisions | – | – | 648,880 | – | 648,880 |

## NOTE 18. OTHER CURRENT LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Amounts payable to other persons | 33,190 | 33,190 | 33,190 | 33,190 |

## NOTE 19. INTEREST BEARING LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Non-Current Liabilities | | | | |
| Convertible notes | – | 2,084,310 | – | 2,084,310 |
| Unsecured loans – related parties | 323,380 | 948,187 | 323,380 | 948,187 |
| Unsecured loans | 2,910,421 | 2,844,561 | 2,910,421 | 2,844,561 |
| | 3,233,801 | 5,877,058 | 3,233,801 | 5,877,058 |

### Terms and debt repayment schedule

Terms and conditions of outstanding loans as at the end of 2009 and 2008 financial years, including loans disclosed as liabilities classified as held for sale, were as follows:

| | | | | 31 December 2009 | | 31 December 2008 | |
|---|---|---|---|---|---|---|---|
| | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount | Face value | Carrying amount |
| Group | | | | | | | |
| Secured bank loan-Project Facility Tranche 1 & 2 & capitalised interest | USD | LIBOR+ 2.5–3.25 | 2010 | – | – | 20,363,953 | 20,363,953 |
| Secured bank loan-Cost Overrun facilities & capitalised interest | USD | LIBOR+ 3.0% | 2010 | – | – | 14,920,233 | 14,920,233 |
| Secured bank loan-Hedge transaction loan | USD | LIBOR +3.0% | 2010 | – | – | 59,100,813 | 59,100,813 |
| Transferred to liabilities classified as held for sale (Note 8) | | | | – | – | 94,384,999 | 94,384,999 |
| Convertible notes | AUD | 10% | 2010 | – | – | 2,084,310 | 2,084,310 |
| Unsecured loans | USD | 10% | 2011 | 3,233,801 | 3,233,801 | 3,792,748 | 3,792,748 |
| | | | | 3,233,801 | 3,233,801 | 100,262,057 | 100,262,057 |
| Company | | | | | | | |
| Convertible notes | AUD | 10% | 2010 | – | – | 2,084,310 | 2,084,310 |
| Unsecured loans | USD | 10% | 2011 | 3,233,801 | 3,233,801 | 3,792,748 | 3,792,748 |
| | | | | 3,233,801 | 3,233,801 | 5,877,058 | 5,877,058 |

### Secured bank loans

On 6 July 2009 the Company completed the sale of PT Cibaliung Sumberdaya which was the holder of the Cibaliung Gold Project in Indonesia.

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

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 19. INTEREST BEARING LIABILITIES (continued)

### Convertible notes

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

### Unsecured loans

As at 31 December 2009 the outstanding unsecured loans balance is US $2.9 million. The loan interest rate is 10% per annum with the interest being capitalised quarterly in arrears. The principal and capitalised interest will be repayable in March 2011.

## NOTE 20. CONTRIBUTED EQUITY

### (a) Ordinary Shares

| | Group and Arc Exploration Limited | | | |
|---|---|---|---|---|
| | 31 December 2009 No | 31 December 2008 No | 31 December 2009 $ | 31 December 2008 $ |
| At 31 December | **149,761,711** | 149,761,711 | **132,058,588** | 132,058,588 |
| Fully paid ordinary shares | | | | |
| At the beginning of the year | **149,761,711** | 3,738,537,208 | **132,058,588** | 100,793,278 |
| Shares issued as placements | | | | |
| – During 2009 – 22,464,276 @ 1.8c | **22,464,276** | – | **404,357** | – |
| Shares issued under rights issue | | | | |
| – During 2009 – 172,225,987 @ 1.8c | **172,225,987** | – | **3,100,068** | – |
| – During 2008 – 1,872,008,795 @ 0.07c | **–** | 1,872,008,795 | **–** | 13,104,062 |
| Exercise of shareholder options | | | | |
| – During 2008 – 38,538 @ 1.5c | **–** | 38,538 | **–** | 578 |
| Conversion of Debt to Equity | | | | |
| – During 2008 – 1,877,489,177 @ 1c | **–** | 1,877,489,177 | **–** | 18,774,892 |
| Consolidation of shares adjustment | **–** | (7,338,312,159) | **–** | – |
| Exercise of shareholder options – post consolidation | | | | |
| – During 2008 – 152 @ 75c | **–** | 152 | **–** | 114 |
| Listed options issued | | | | |
| – During 2009 – 56,250,000 @ 0.2c | **–** | – | **112,500** | – |
| Transaction costs relating to share issues | **–** | – | **(362,169)** | (614,336) |
| | **344,451,974** | 149,761,711 | **135,313,344** | 132,058,588 |

During 2008 following shareholder approval at its Annual General Meeting the Company consolidated its share capital on a 50 to 1 basis.

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its issued capital.

### (b) Share-based payment options

The Company issues options either pursuant to shareholder approval or in accordance with *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:

| Options series | Opening balance 1 January | No. of options issued | No. of options relinquished | No. of options lapsed | Adjustment to option numbers for share consolidation | No. of options outstanding 31 December |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| Options issued to Directors and Employees exercisable at $0.036 | – | 39,945,191 | – | – | – | 39,945,191 |
| ECOP options exercisable at $3.50 (post-consolidation price) | 160,000 | – | (160,000) | – | – | – |
| ECOP options exercisable at $0.50 (post-consolidation price) | 2,640,000 | – | (2,640,000) | – | – | – |
| Directors options exercisable at $0.50 (post-consolidation price) | 1,280,000 | – | (1,280,000) | – | – | – |
| | 4,080,000 | 39,945,191 | (4,080,000) | – | – | 39,945,191 |
| **2008** | | | | | | |
| ECOP options exercisable at $3.50 (post-consolidation price) | 11,000,000 | – | – | (3,000,000) | (7,840,000) | 160,000 |
| ECOP options exercisable at $0.50 (post-consolidation price) | – | 132,000,000 | – | – | (129,360,000) | 2,640,000 |
| Directors options exercisable at $0.50 (post-consolidation price) | – | 64,000,000 | – | – | (62,720,000) | 1,280,000 |
| | 11,000,000 | 196,000,000 | – | (3,000,000) | (199,920,000) | 4,080,000 |

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 December 2009 General Meeting the Company issued 39,945,191 options to Directors and Employees (not under the ECOP) at an exercise price of 3.6 cents per share with an expiry date of 11 December 2014. 50% of the options shall vest on 1 July 2010 with the remaining 50% to vest on 1 July 2011 subject to the option holder still being a Company director or Group employee at the relevant vesting date. The options shall not expire by reason of the option holder subsequently resigning or ceasing to be a director or employee. The exercise price represented a 6% premium over the 12 month volume weighted average price up to 29 October 2009.

During the first half of 2009 the Company assessed the probability of any of the then existing employee share options being exercised as being nil. The vast majority of these options (over 95%) were unvested and had performance conditions attached to the options relating to the successful operation of the Cibaliung Gold Mine which was in the process of being sold. During the first half all holders of options agreed to relinquish their existing options for no consideration. In accordance with AASB 2 *Share Based Payments*, the expense previously recognised in relation to the unvested options has been reversed to the statement of comprehensive income. For the relinquished vested options the amount pertaining to these options recognised in the share-based payment reserve was transferred to the accumulated losses account.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 20. CONTRIBUTED EQUITY (continued)

### (b) Share-based payment options (continued)

**Employees and Contractors Option Plan ("ECOP")**

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

i. A person who is a Director, alternate Director or Company Secretary of the Company or any entity in the Group;
ii. A permanent or part-time employee of the Company or Group;
iii. A person who is in an independent contractor relationship with the Company or Group and provides goods or services to the Company or Group;
iv. A full time or permanent part-time, employee of a person under (iii); and
v. A trust or entity either controlled by or associated with the persons referred to in (i) and (ii) above.

### (c) Listed Options

The number of listed options over unissued ordinary shares as at 31 December 2009 is 161,535,968 (2008: 7,940,729). The terms of these options are as follows:

| Listed Options | Number | Exercise Price | Expiry Date |
|---|---|---|---|
| Listed options ARXO | 7,940,729 | $0.75 | 30/06/2012 |
| Listed options ARXOA | 153,595,239 | $0.036 | 31/01/2011 |
| | **161,535,968** | | |

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

| | 2009 | 2008 |
|---|---|---|
| Number of listed options ARXO | | |
| Balance as at 1 January | **7,940,729** | 209,333,079 |
| Options issued | – | – |
| Options converted to shares | – | (38,690) |
| Options issued with debt to equity conversion | – | 187,748,918 |
| Adjustment for consolidation of shares | – | (389,102,578) |
| Balance as at 31 December | **7,940,729** | 7,940,729 |

During 2008 following shareholders' approval at a general meeting the Company allotted shares and options to effect the conversion of certain loan amounts from debt to equity. During 2008 following shareholder approval at its Annual General Meeting the Company consolidated its share capital on a 50 to 1 basis.

| | 2009 | 2008 |
|---|---|---|
| Number of listed options ARXOA | | |
| Balance as at 1 January | – | – |
| Options attached with shares issued under share placement | **11,232,139** | – |
| Options attached with shares issued under rights issue | **86,113,100** | – |
| Options issued at 0.2 cents per option | **56,250,000** | – |
| Options converted to shares | – | – |
| Balance as at 31 December | **153,595,239** | – |

During December 2009, following shareholders' approval at a general meeting the Company allotted 11,232,139 options to participants in the October share placement. These options were issued on the basis of one option for every two new shares issued.

During November and December 2009 86,113,100 options were allotted to the Rights Issue participants. These options were issued on the basis of one option for every two new shares issued. These options were issued in accordance with the terms of the Rights Issue as set out in the Company Prospectus dated 13 October 2009. Approval for the Directors to participate in the Rights Issue Shortfall (which included attaching listed options) was approved by shareholders at the December 2009 general meeting.

At the December 2009 general meeting shareholders approved the proposed placement by the Company of 75,000,000 options at an issue price of 0.2 cents per option. During December 2009 the company allotted 56,250,000 of these options. A further allotment of the remaining 18,750,000 options will be effected on or before 11 March 2010.

### (d) Unlisted Options

The number of unlisted options over unissued ordinary shares as at 31 December 2009 is 17,775,000 (2008: nil).

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

No unlisted options have been exercised during the year.

### (e) Potential ordinary shares

The total number of potential ordinary shares outstanding in the capital of the Company as at year-end in respect of options and convertible notes, is as follows.

| | No. of potential ordinary shares | Potential share capital $ |
|---|---|---|
| 2009 | | |
| Convertible notes | – | – |
| Share-based payment options | 39,945,191 | 1,438,027 |
| Listed share options ARXO | 7,940,729 | 5,955,547 |
| Listed share options ARXOA | 153,595,239 | 5,529,429 |
| Unlisted options | 17,775,000 | 444,375 |
| | 219,256,159 | 13,367,378 |
| 2008 | | |
| Convertible notes | 694,770 | 2,084,310 |
| Share-based payment options | 4,080,000 | 2,520,000 |
| Listed share options | 7,940,729 | 5,955,547 |
| | 12,715,499 | 10,559,857 |

During October 2009 the Company announced that it had entered into a strategic alliance with PT Maxidrill Indonesia ("Maxidrill") (a leading drilling contractor in Indonesia) to undertake a 5,000 metre diamond core drilling program at the Company's Trenggalek Project at its own cost in exchange for shares and options in the Company. The estimated value of the Drilling Agreement is up to US$825,000 (approximately A$900,000 at an exchange rate of .92).

Subject to certain pre-conditions referred to in the Drilling Agreement the Company will pay for these drilling services by the issue of fully paid ordinary shares and options on the same pricing and terms in respect of the October Placement and November Rights Issue and for the value of the contract as it is performed.

At the December 2009 general meeting shareholders approved the proposed issue of shares and options to Maxidrill by the Company.

The commencement date of the drilling is expected to be during the first quarter of 2010 and will continue for a period of approximately 12 months with the possibility of drilling in two stages.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 20. CONTRIBUTED EQUITY (continued)

**(e) Potential ordinary shares (continued)**

Payment for the drilling services shall be effected pursuant to the terms of a Share Payment Agreement. The Company, Maxidrill and Maxidrill Pte Ltd ("Maxidrill Singapore") entered into a Share Payment Agreement on 6 October 2009. The Company and Maxidrill have agreed that Maxidrill will receive payment for the services performed by it pursuant to the Drilling Agreement by the issue of shares and options to Maxidrill Singapore or its nominee at the same issue price applicable to the Placement and Rights Issue, being 1.8 cents per share with the options attaching for no additional consideration on the basis of 1 option for every 2 new shares subscribed for.

The options to be issued will have an exercise price of 3.6 cents per share exercisable on or before 31 January 2011. Any shares issued to Maxidrill Singapore prior to 30 June 2010 will be voluntarily escrowed until 30 June 2010.

## NOTE 21. MINORITY INTERESTS

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Minority interest comprises: | | | | |
| P.T. Cibaliung Sumberdaya | | | | |
| Contributed equity | – | 233,897 | – | – |
| Accumulated losses | – | (233,897) | – | – |
| | – | – | – | – |

On 6 July 2009 the Company completed the sale of the subsidiary PT Cibaliung Sumberdaya.

## NOTE 22. RESERVES

| | | | | |
|---|---|---|---|---|
| Foreign currency translation reserve | | | | |
| Balance at the beginning of financial year | (6,986,363) | (1,610,225) | – | – |
| Translation of foreign operations during the year | 7,195,495 | (5,376,138) | – | – |
| Balance at end of the financial year | 209,132 | (6,986,363) | – | – |
| Share-based payments reserve | | | | |
| Balance at the beginning of financial year | 593,180 | 184,120 | 593,180 | 184,120 |
| Options expense | 4,735 | 454,839 | 1,973 | 118,349 |
| Options issued to subsidiary employees | – | – | 2,762 | 336,490 |
| Options relinquished - unvested | (454,839) | – | (454,839) | – |
| Options relinquished - vested | (138,341) | – | (138,341) | – |
| Options lapsed - current year | – | (45,779) | – | (45,779) |
| Balance at end of the financial year | 4,735 | 593,180 | 4,735 | 593,180 |
| Total Reserves | 213,867 | (6,393,183) | 4,735 | 593,180 |

**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 balance of 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. Where unvested options lapse or are relinquished during the year the amounts in relation to these options, previously credited to the options reserve, are transferred to the statement of comprehensive income. Where vested options lapse or are relinquished during the year the amounts in relation to these options, previously credited to the options reserve, are transferred to the accumulated loss account.

## NOTE 23. ACCUMULATED LOSSES

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Balance at the beginning of the financial year | (148,313,222) | (117,485,026) | (135,969,085) | (75,122,172) |
| Transfer of options reserve amount for relinquished vested options | 138,341 | – | 138,341 | – |
| Net profit/(loss attributable) to Arc Exploration Limited | 14,324,739 | (30,828,196) | 1,926,173 | (60,846,913) |
| Balance at the end of the financial year | (133,850,142) | (148,313,222) | (133,904,571) | (135,969,085) |

## NOTE 24. 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) Details of key management personnel

The following persons were identified as key management personnel of the Group and the Company during the current and previous reporting period and unless otherwise indicated were key management personnel for the entire period:

| | |
|---|---|
| Executive Director | |
| John Carlile | Managing Director (appointed 14 January 2008, Non-Executive Director prior to this date) |
| | |
| Non-Executive Directors | |
| Bruce Watson | Chairman |
| George Tahija | Director |
| Robert Willcocks | Director (appointed 14 July 2008) |
| Christopher Melloy | Director (resigned 4 January 2008) |
| | |
| Other Key Management Personnel | |
| Cahyono Halim | Chief Financial Officer (appointed 2 January 2008) |
| Andrew Cooke | Company Secretary |
| Anthony Nadalin | Financial Controller |
| Hermani Soeprapto | Chief Operating Officer (ceased to be considered a member of the Group's key management personnel effective as at 28 February 2009) |
| Sucipto Marijan | President Director (ceased to be considered a member of the Group's key management personnel effective as at 28 February 2009) |
| Brad Wake | Exploration Manager |
| David Pelchen | Mine Planning Manager (resigned 30 November 2008) |
| Ivan Vidulich | General Manager – Cibaliung Project (1 May 2008 to 30 November 2008) |

There are no loans to key management personnel. For information on other transactions between key management personnel and entities in the Group, refer Note 27.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 24. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (b) Remuneration

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

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Short term employee benefits | **867,282** | 2,025,960 | **283,416** | 570,679 |
| Post employment benefits | **42,766** | 85,599 | **35,436** | 23,565 |
| Termination benefits | **34,436** | 325,549 | **34,436** | – |
| Share-based payments | **4,735** | 391,059 | **1,973** | 96,599 |
| | **949,219** | 2,828,167 | **355,261** | 690,843 |

### (c) Option holdings

Number of options held by Directors and other key management personnel either directly or beneficially:

| 2009 | Balance at 1 January | Granted as remuneration | Adjustment for share consolidation | Other | Options relinquished | Total at 31 December | Exercisable at 31 December |
|---|---|---|---|---|---|---|---|
| Directors | | | | | | | |
| J Carlile | 640,000 | 9,986,298 | – | – | (640,000) | 9,986,298 | – |
| B Watson | 360,000 | 3,328,766 | – | – | (360,000) | 3,328,766 | – |
| R Willcocks | – | 2,219,177 | – | – | – | 2,219,177 | – |
| G Tahija | 320,000 | 2,219,177 | – | – | (320,000) | 2,219,177 | – |
| Other Key Management Personnel | | | | | | | |
| A Cooke | 360,000 | 6,657,532 | – | – | (360,000) | 6,657,532 | – |
| S Marijan(1) | 280,000 | – | – | – | (280,000) | – | – |
| H Soeprapto(1) | 320,000 | – | – | – | (320,000) | – | – |
| C Halim | 320,000 | 6,657,532 | – | – | (320,000) | 6,657,532 | – |
| B Wake | 320,000 | 6,657,532 | – | – | (320,000) | 6,657,532 | – |
| A Nadalin | 160,000 | 2,219,177 | – | – | (160,000) | 2,219,177 | – |
| **2008** | | | | | | | |
| Directors | | | | | | | |
| J Carlile | – | 32,000,000 | (31,360,000) | – | | 640,000 | – |
| B Watson | 2,000,000 | 16,000,000 | (17,640,000) | – | | 360,000 | 40,000 |
| G Tahija | – | 16,000,000 | (15,680,000) | – | | 320,000 | – |
| Other Key Management Personnel | | | | | | | |
| A Cooke | 2,000,000 | 16,000,000 | (17,640,000) | – | | 360,000 | 40,000 |
| S Marijan | 2,000,000 | 12,000,000 | (13,720,000) | – | | 280,000 | 40,000 |
| H Soeprapto | – | 16,000,000 | (15,680,000) | – | | 320,000 | – |
| C Halim | – | 16,000,000 | (15,680,000) | – | | 320,000 | – |
| B Wake | – | 16,000,000 | (15,680,000) | – | | 320,000 | – |
| I Vidulich(2) | – | 16,000,000 | (15,680,000) | (320,000) | | – | – |
| A Nadalin | – | 8,000,000 | (7,840,000) | – | | 160,000 | – |

(1) Mr Soeprapto and Mr Marijan ceased to be considered members of the Group's key management personnel effective as at 28 February 2009. Both Mr Soeprapto and Mr Marijan continued to provide limited services on a contract basis to the Group after this date, with both Mr Soeprapto and Mr Marijan agreeing to relinquish their options in June 2009.

(2) Mr Vidulich ceased full-time employment with the Group on 30 November 2008 and was no longer regarded as part of key management personnel from that date. The Group did engage Mr Vidulich on a limited consultancy basis after that date to assist with finalisation of Cibaliung Project matters. Movements in his options have been disclosed up to this date. "Other changes" represent the balance of Mr Vidulich options as at 28 November 2008.

No options held by the directors and other key management personnel were exercised for the years ended 31 December 2009 and 2008.

Following shareholder approval at the December 2009 General Meeting the Company issued 39,945,191 options to Directors and other key management personnel (not under the ECOP) at an exercise price of 3.6 cent per share with an expiry date of 11 December 2014. 50% of the options shall vest on 1 July 2010 with the remaining 50% to vest on 1 July 2011 subject to the option holder still being a Company director or Group employee at the relevant vesting date. The options shall not expire by reason of the option holder subsequently resigning or ceasing to be a director or employee. The exercise price represented a 6% premium over the 12 month volume weighted average price up to 29 October 2009 and their value at grant date was an average of 0.0161 cents per option. Cost of options issued to directors and key management personnel charged to the statement of comprehensive income for 2009 was $4,735 (2008: $199,311).

During the first half of 2009 the Company assessed the probability of any of the then existing employee share options being exercised as being nil. The vast majority of these options (over 95%) were unvested and had performance conditions attached to the options relating to the successful operation of the Cibaliung Gold Mine which was in the process of being sold. During the first half all holders of options agreed to relinquish their existing options for no consideration. In accordance with AASB 2 *Share Based Payments*, the expense previously recognised in relation to the unvested options has been reversed to the statement of comprehensive income. For the relinquished vested options the amount pertaining to these options recognised in the share-based payment reserve was transferred to the accumulated losses account.

### (d) Listed Options in the Company

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

**i. Listed options ARXO**

| 2009 | Balance as at 1 January | Options issued with conversion of unsecured loans to shares | Received from rights issue | Adjustment for share consolidation | Other changes | Balance as at 31 December |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| J Carlile | 73,511 | – | – | – | – | 73,511 |
| B Watson | 18,000 | – | – | – | – | 18,000 |
| G Tahija | 324,675 | – | – | – | – | 324,675 |
| Key Management Personnel | | | | | | |
| A Cooke | 3,200 | – | – | – | – | 3,200 |
| H Soeprapto[(1)] | 81,169 | – | – | – | (81,169) | – |
| **2008** | | | | | | |
| Directors | | | | | | |
| J Carlile | 969,903 | 2,705,628 | – | (3,602,020) | – | 73,511 |
| B Watson | 900,015 | – | – | (882,015) | – | 18,000 |
| G Tahija | – | 16,233,765 | – | (15,909,090) | – | 324,675 |
| Key Management Personnel | | | | | | |
| A Cooke | 160,024 | – | – | (156,824) | – | 3,200 |
| H Soeprapto | – | 4,058,442 | – | (3,977,273) | – | 81,169 |

(1) Mr Soeprapto ceased to be a member of the Group's key management personnel as at 28 February 2009. Movements in his listed options have been disclosed up to this date. "Other changes" represent the balance of Mr Soeprapto options as at 28 February 2009.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 24. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (d) Listed Options in the Company (continued)

#### ii. Listed options ARXOA

During December 2009, following shareholders' approval at a general meeting the Company allotted 11,232,139 options to participants in the October share placement. These options were issued on the basis of one option for every two new shares issued.

During November and December 2009 86,113,100 options were allotted to the Rights Issue participants. These options were issued on the basis of one option for every two new shares issued. These options were issued in accordance with the terms of the Rights Issue as set out in the Company Prospectus dated 13 October 2009. Approval for the Directors to participate in the Rights Issue Shortfall (which included attaching listed options) was approved by shareholders at the December 2009 general meeting.

| 2009 | Balance as at 1 January | Received from rights issue or rights issue shortfall | Purchases | Sales | Balance as at 31 December |
|---|---|---|---|---|---|
| Directors | | | | | |
| J Carlile | – | 1,519,391 | 3,958,459 | – | 5,477,850 |
| B Watson | – | 2,755,000 | 1,340,278 | – | 4,095,278 |
| R Willcocks | – | 1,375,000 | – | – | 1,375,000 |
| G Tahija | – | 5,298,737 | | (5,298,737) | – |
| Key Management Personnel | | | | | |
| A Cooke | – | 256,605 | – | – | 256,605 |

### (e) 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:

| 2009 | Balance as at 1 January | Purchases | Sales | Subscriptions to capital raisings, rights issues, or rights issue shortfall | Other changes | Balance as at 31 December |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| G Tahija | 10,597,474 | – | (10,597,474) | 10,597,474 | – | 10,597,474 |
| J Carlile | 1,238,782 | 7,916,918 | – | 3,038,782 | – | 12,194,482 |
| B Watson | 490,000 | 2,680,556 | – | 5,510,000 | – | 8,680,556 |
| R Willcocks | – | – | – | 2,750,000 | – | 2,750,000 |
| Other Key Management Personnel | | | | | | |
| A Cooke | 100,000 | 1 | – | 413,209 | – | 513,210 |
| H Soeprapto(1) | 811,688 | – | – | – | (811,688) | – |

(1) Mr Soeprapto ceased to be a member of the Group's key management personnel as at 28 February 2009. Movements in his shareholdings have been disclosed up to this date. "Other changes" represent the balance of Mr Soeprapto shareholdings as at 28 February 2009.

Prior to the Rights Issue Mr Willcocks did hold any shares in the Company. Participation by Mr Willcocks in the Rights Issue Shortfall was approved by shareholders at the December 2009 General Meeting.

Participation by Mr Watson and Mr Carlile in the Rights Issue Shortfall was approved by shareholders at the December 2009 General Meeting, and the shares issued to Mr Watson and Mr Carlile out of the Shortfall were based on the same principles that that applied in determining all other shareholder Shortfall allocations.

Apart from the shares issued to Mr Willcocks, as described above, no other shares have been issued to any Director or other key management personnel (either directly or beneficially) on terms more favourable than those available to any other investor.

| 2008 | Balance as at 1 January | Purchases | Sales | Conversion of unsecured loans to shares | Subscriptions to capital raisings, rights issues, or rights issue shortfall | Adjustment for share consolidation | Balance as at 31 December |
|---|---|---|---|---|---|---|---|
| Directors | | | | | | | |
| G Tahija | 367,536,022 | – | – | 162,337,662 | – | (519,276,210) | 10,597,474 |
| J Carlile | 19,398,056 | – | – | 27,056,277 | 15,484,778 | (60,700,329) | 1,238,782 |
| B Watson | 18,000,000 | 10,000 | – | – | 6,000,000 | (23,520,000) | 490,000 |
| Other Key Management Personnel | | | | | | | |
| A Cooke | 2,001,320 | 59,974 | – | – | – | (1,961,294) | 100,000 |
| H Soeprapto | – | – | – | 40,584,416 | – | (39,772,728) | 811,688 |

During 2008 following shareholder approval at its Annual General Meeting the Company consolidated its share capital on a 50 to 1 basis. During 2008 Mr Tahija, Mr Carlile and Mr Soeprapto entered into an agreement to convert half of their unsecured loan amounts to equity. These conversions were on the same conversion pricing terms as those offered to other parties for the conversion of debt for the Secured Bank Loans and Convertible Notes.

During 2008 no shares were issued to any Director or other key management personnel (either directly or beneficially) on terms more favourable than those available to any other investor. No shares were sold by any Director or other key management personnel during the financial year.

**(f) Remuneration Practices**

Information regarding the principles and polices for the remuneration of key management is set out in the Remuneration report in the Directors' report.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 25. OPERATING SEGMENTS

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

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

During the year the Group had two reportable segments, as described below. The segments were involved in different activities and geographical locations within Indonesia.

The two reportable segments were:

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

Comparative information has been represented in conformity with the requirement of AASB 8 *Operating Segments.*

### (a) Information about reportable segments

| | Exploration | | Mine Development (Discontinued) | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| External revenues | – | – | – | – | – | – |
| Interest expense | – | – | – | 769,923 | – | 769,923 |
| Interest income | – | – | – | – | – | – |
| Depreciation and amortisation | – | – | – | – | – | – |
| Reportable segment profit/(loss) before income tax | (11,284) | (596,513) | 63,780 | (24,907,639) | 52,496 | (25,504,152) |
| Impairment of Capitalised Cibaliung Project costs | – | – | – | 23,576,322 | – | 23,576,322 |
| Reportable segment assets | 1,429,700 | 1,093,672 | – | 79,259,936 | 1,429,700 | 80,353,608 |
| Capital expenditure (including capitalised Cibaliung Project costs) | 9,477 | – | 391,055 | 36,633,478 | 400,532 | 36,633,478 |

### (b) Reconciliation of reportable segment profit or loss, and assets

| | 2009 $ | 2008 $ |
|---|---|---|
| Profit or Loss | | |
| Total profit/(loss) for reportable segments | 52,496 | (27,554,196) |
| Gain on settlement of convertible notes | 1,990,053 | – |
| Gain of debt forgiven by third party | 536,852 | – |
| Unrealised foreign exchange gain (loss) | 843,131 | (697,167) |
| Gain on disposal of subsidiaries | 12,653,641 | – |
| Finance expenses | (476,552) | (655,115) |
| Interest income | 46,574 | 287,534 |
| Unallocated amounts: other corporate expenses | (1,321,457) | (2,209,252) |
| Consolidated profit/(loss) before tax | 14,324,738 | (30,828,196) |
| Assets | | |
| Total assets for reportable segments | 1,429,700 | 80,353,608 |
| Other unallocated amounts | 3,701,445 | 2,729,202 |
| Consolidated total assets | 5,131,145 | 83,082,810 |

## NOTE 26. INVESTMENTS IN CONTROLLED ENTITIES

| | Country of Incorporation | Class of Shares | Equity Holdings 31 December 2009 % | Equity Holdings 31 December 2008 % |
|---|---|---|---|---|
| Controlled entities | | | | |
| PT Cibaliung Sumberdaya | Indonesia | Ord | – | 89.75 |
| PT Indonusa Mining Services | Indonesia | Ord | **100.00** | 100.00 |
| PT Eastara Melawi Mineral | Indonesia | Ord | – | 99.00 |

(1) PT Cibaliung Sumberdaya, PT Eastara Melawi Mineral ("EMM") and PT Indonusa Mining Services were audited by the firm Kanaka Puradiredja, Robert Yogi, Suhartono.

(2) On 6 July 2009 the Company completed the sale of the subsidiary PT Cibaliung Sumberdaya.

(3) In 2002 the parent entity agreed that EMM was to proceed with its dissolution. As a result, EMM changed its basis of accounting for periods subsequent to 9 June, 2000 from the going concern basis to the liquidation basis, under which assets and liabilities are reflected at their expected net realisable value. Pursuant to a circular resolution of the shareholders of EMM, a liquidator of the company was appointed and authorised to execute the Liquidation Deed and to proceed with the sale of assets and liquidation of EMM. The Liquidation Deed was signed on 25 October, 2002. On 29 June, 2009 the Company received advice that the liquidation of the subsidiary PT Eastara Melawi Mineral has been completed.

## NOTE 27. 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:

John Carlile
Managing Director

George Tahija
Non-Executive Director

Bruce Watson
Non-Executive Chairman

Robert Willcocks
Non-Executive Director

### (b) ANZ Banking Group Limited ("ANZ")

In March 2008 the ANZ Secured Bank Loans for US$13.0 million were converted from debt to equity. Under the Conversion Deed the ANZ subscribed US$13 million (converted to Australian dollars) for 1,406,926,407 shares (pre-consolidation of capital) and 140,692,641 options in the Company to reduce the ANZ's loan amount with PT Cibaliung Sumberdaya by a corresponding US$13 million. Additionally in the 2008 Rights Issue ANZ subscribed for 1,533,864,292 shares (pre-consolidation of capital) in the Company. As at 31 December 2008 ANZ held 39.27% of the issued capital of the Company, and as such was considered to be a related party as defined by *AASB124 Related Party Disclosures*.

During the 2009 financial year the ANZ did not elect to participate in the November Rights Issue and also sold some of it share holdings. As at 31 December 2009 the ANZ holds 15.95% of the issued capital of the Company, and as at year-end is no longer considered to be a related party as defined by AASB124 Related Party Disclosures.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 27. RELATED PARTY TRANSACTIONS (continued)

### (b) ANZ Banking Group Limited ("ANZ") (continued)

Material transactions with the ANZ during the period which *ANZ was considered to a related party:*

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Transactions with ANZ | | | | |
| Fees payable for underwriting the Rights Issue | – | 536,852 | – | 536,852 |
| Trade and other payables balance forgiven by ANZ | (536,852) | – | (536,852) | – |
| Interest paid or interest capitalised on loans provided | – | 1,801,544 | – | – |
| Cash and cash equivalents held at end of year | – | 2,098,907 | – | 1,997,721 |
| Trade and other payables balance at end of year | – | 536,852 | – | 536,852 |
| Secured Bank Loans at end of year | – | 94,384,999 | – | – |
| **(c) Transactions with Directors and Director Related Entities:** | | | | |
| PT Austindo Nusantara Jaya, a company which Mr Tahija is a Director and a direct shareholder, received or was entitled to receive the following amounts: | | | | |
| • Loan interest paid or capitalised | – | 244,084 | – | 244,084 |
| PT Austindo Nusantara Jaya, a company which Mr Tahija is a Director and a direct shareholder, purchased surplus Cibaliung Project fixed assets | 55,546 | – | – | – |
| Cubic Corporate Advisory Pty Limited a company which Mr Watson is the Managing Director, received fees in relation to consulting services provided to the Company. | – | 25,500 | – | 25,500 |
| Mr Carlile received interest payments or had interest payments capitalised on a loan provided to the Company. | 37,281 | 42,056 | 37,281 | 42,056 |
| Loan of US$290,040 (2008: US$250,000) owed by the Company to Mr Carlile. During the year all interest was capitalised. | 323,380 | 379,275 | 323,380 | 379,275 |
| **(d) Transactions with Related Party Entities:** | | | | |
| Reimbursable expenses charged by the Company to PT Cibaliung Sumberdaya. | – | – | 6,045 | 204,479 |
| Reimbursable expenses charged by the Company to PT Indonusa Mining Services. | – | – | 21,541 | 21,204 |
| **(e) Transactions with Key Management Personnel:** | | | | |
| Mr Soeprapto received interest payments or had interest payments capitalised on a loan provided to the Company. Mr Soeprapto ceased to be considered part of the key management personnel as at 28 February 2009, with interest being disclosed up to this date. | 9,872 | 63,757 | 9,872 | 63,757 |
| Loan of US$375,000 (2007: US$750,000) owed by the Company to Mr Soeprapto as at 31 December 2008. During March 2008 half of the original loan was converted to equity. Mr Soeprapto ceased to be considered part of the key management personnel as at 28 February 2009, with the loan balance no longer disclosed as relating to a related party as at 2009 year-end | – | 568,912 | – | 568,912 |

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| **(f) Loans by the Company to Controlled Entities:** | | | | |
| Amounts advanced to PT Cibaliung Sumberdaya, to fund the development of the Cibaliung Gold Project and exploration activities. | – | – | – | 18,633,104 |
| Amounts advanced to PT Indonusa Mining Services. | – | – | 1,224,382 | 1,486,335 |
| **(g) Services received by the Company from Controlled Entities:** | | | | |
| Exploration activities undertaken by PT Indonusa Mining Services and charged to the Company. | – | – | 365,123 | 1,654,019 |

Amounts receivable from these related parties are disclosed in Notes 11(a) and 11(b). All loans advanced to related parties are unsecured and subordinate to other liabilities. Interest is not charged on the outstanding intercompany loan balances.

## NOTE 28. FINANCIAL INSTRUMENTS

### (a) Credit risk

The carrying amount of the Company's and Group's financial assets, including financial assets classified as held for sale, represents their credit exposure. The Company's and Group's maximum exposure to credit risk at the reporting date was:

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Cash and cash equivalents | 3,283,922 | 2,075,747 | 3,137,942 | 1,997,721 |
| Cash and cash equivalents - classified as asset held for sale | – | 1,441,394 | – | – |
| Loans to controlled entities | – | – | – | – |
| Investments in controlled entities | – | – | – | – |
| | 3,283,922 | 3,517,141 | 3,137,942 | 1,997,721 |

Group credit risk is considered negligible on the cash and cash equivalent amounts as these are primarily deposited with the ANZ and ABN Amro.

The Company has significant credit risk in relation to its investments and loans with the controlled entity, PT Indonusa Mining.

During 2008 with the Company being unable to secure a farm-in partner or funding for the Cibaliung Project, any recovery of the investment and loan balances with PT Cibaliung Sumberdaya was deemed highly unlikely and these investment and loan balances were fully written-down as at 31 December 2008.

The investment and loans balances with PT Indonusa Mining Services have been fully written-down as at 31 December 2009 and 2008 given the fact that this subsidiary had significant negative net assets at each year-end.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 28. FINANCIAL INSTRUMENTS (continued)

**(a) Credit risk (continued)**

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| The movement in the allowance for impairment in respect of loans to controlled entities during the year was as follows: | | | | |
| Balance at 1 January | – | – | 107,652,123 | 26,630,728 |
| Provision previously booked in relation to subsidiary sold | – | – | (105,673,840) | – |
| Impairment loss recognised | – | – | 375,869 | 81,021,395 |
| Balance at 31 December | – | – | 2,354,152 | 107,652,123 |
| The movement in the allowance for impairment in respect of investments in controlled entities during the year was as follows: | | | | |
| Balance at 1 January | – | – | 15,013,850 | 14,865,392 |
| Provision previously booked in relation to subsidiary sold | – | – | (14,504,369) | – |
| Impairment loss recognised/(reversed | – | – | (269,948) | 148,458 |
| Balance at 31 December | – | – | 239,533 | 15,013,850 |

**(b) Liquidity risk**

The following are the contractual maturities of financial liabilities and interest payments, including financial liabilities classified as held for sale:

| Group | Carrying amount $ | Contractual cash flows $ | Within 6 months $ | Within 6-12 months $ | 1 to 2 years $ | 2 to 5 years $ |
|---|---|---|---|---|---|---|
| 2009 | | | | | | |
| Unsecured loans | 3,233,801 | 3,633,077 | – | – | 3,633,077 | – |
| Trade and other payables | 176,224 | 176,224 | 176,224 | – | – | – |
| Other current liabilities | 33,190 | 33,190 | 33,190 | – | – | – |
| | 3,443,215 | 3,842,491 | 209,414 | – | 3,633,077 | – |
| 2008 | | | | | | |
| Secured bank loans – held for sale | 94,384,999 | 98,533,445 | – | – | 98,533,445 | – |
| Convertible notes | 2,084,310 | 2,338,936 | – | – | 2,338,936 | – |
| Unsecured loans | 3,792,748 | 4,703,388 | – | – | – | 4,703,388 |
| Trade and other payables | 809,024 | 809,024 | 809,024 | – | – | – |
| Trade and other payables – held for sale | 2,223,192 | 2,223,192 | 2,223,192 | – | – | – |
| Other current liabilities | 33,190 | 33,190 | 33,190 | – | – | – |
| | 103,327,463 | 108,641,175 | 3,065,406 | – | 100,872,381 | 4,703,388 |

| Company | Carrying amount $ | Contractual cash flows $ | Within 6 months $ | Within 6-12 months $ | 1 to 2 years $ | 2 to 5 years $ |
|---|---|---|---|---|---|---|
| 2009 | | | | | | |
| Unsecured loans | 3,233,801 | 3,633,077 | – | – | 3,633,077 | – |
| Trade and other payables | 107,694 | 107,694 | 107,694 | – | – | – |
| Other current liabilities | 33,190 | 33,190 | 33,190 | – | – | – |
| | **3,374,685** | **3,773,961** | **140,884** | **–** | **3,633,077** | **–** |
| 2008 | | | | | | |
| Convertible notes | 2,084,310 | 2,338,936 | – | – | 2,338,936 | – |
| Unsecured loans | 3,792,748 | 4,703,388 | – | – | – | 4,703,388 |
| Trade and other payables | 684,016 | 684,016 | 684,016 | – | – | – |
| Other current liabilities | 33,190 | 33,190 | 33,190 | – | – | – |
| | 6,594,264 | 7,759,530 | 717,206 | – | 2,338,936 | 4,703,388 |

### (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:

| Group | AUD $ | IDR $ | USD $ | Total $ |
|---|---|---|---|---|
| 2009 | | | | |
| Cash and cash equivalents | 95,547 | 5,762 | – | 101,309 |
| Trade and other payables | – | (43,890) | – | (43,890) |
| Unsecured loans | – | – | (3,233,801) | (3,233,801) |
| | **95,547** | **(38,128)** | **(3,233,801)** | **(3,176,382)** |
| 2008 | | | | |
| Cash and cash equivalents | – | 62,354 | – | 62,354 |
| Cash and cash equivalents – held for sale | – | 210,780 | – | 210,780 |
| Trade and other payables | (74,790) | (2,559) | – | (77,349) |
| Trade and other payables – held for sale | (147,483) | (313,071) | – | (460,554) |
| Unsecured loans | – | – | (3,792,748) | (3,792,748) |
| | (222,273) | (42,496) | (3,792,748) | (4,057,517) |

The Company exposure to foreign currency risk at balance date in relation to amounts denominated in United States Dollars ("USD") was as follows based on notional amounts (AUD equivalents):

| Company | 2009 $ | 2008 $ |
|---|---|---|
| Loans receivable from controlled entities | – | – |
| Unsecured loans | **(3,233,801)** | (3,792,748) |
| | **(3,233,801)** | (3,792,748) |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| AUD | 2009 | 2008 | 2009 | 2008 |
| USD | **0.7987** | 0.8525 | **0.8969** | 0.6928 |
| IDR | **8,064** | 8,222 | **8,429** | 7,640 |

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 28. FINANCIAL INSTRUMENTS (continued)

### (c) Currency risk (continued)

**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 Cibaliung Sumberdaya, up to the date of its disposal on 6 July 2009, exchange rate fluctuations were reflected in capitalised project development costs. For PT Indonusa Mining Services the impact of exchange rate fluctuations are not considered to be material.

On the USD amounts which relate to the Group balances denominated in USD, a 5% decrease in AUD/USD exchange rate from the 2009 year-end spot rate would have decreased the unrealised foreign exchange gain for the Group by $177,200. (2008: $199,617).

From the Company perspective a 5% decrease in AUD/USD exchange rate from the 2009 year-end spot rate would have increased the loss of the Company by $177,200 (2008: $199,617). The 2009 loan receivable from its controlled entity has been fully written-down. Fluctuations in exchange rates on the 2009 and 2008 loans receivable from controlled entities would have had no impact on the Company earnings as the decreased unrealised foreign exchange losses on these loan balances would be offset by a corresponding increase in the loan impairment loss.

### (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 (including financial assets and liabilities classified as held for sale), is as follows, by interest rate re-set period.

| Group | Effective average interest rate | Fixed or Floating rate | Within 6 months $ | Within 6–12 months $ | 1 to 2 years $ | 2 to 5 years $ | Total $ |
|---|---|---|---|---|---|---|---|
| 2009 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash at bank | 2.5% | Floating | 683,922 | – | – | – | 683,922 |
| Cash at bank | 4.7% | Fixed | 2,600,000 | – | – | – | 2,600,000 |
| Security deposits | 2.1% | Fixed | 23,356 | – | – | – | 23,356 |
| Monies held in trust | 0.0% | Floating | 34,877 | – | – | – | 34,877 |
| Financial Liabilities | | | | | | | |
| Unsecured loans | 10.0% | Fixed | – | – | (3,233,801) | – | (3,233,801) |
| Net Position | | | 3,342,155 | – | (3,233,801) | – | 108,354 |
| 2008 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash at bank | 3.6% | Floating | 2,075,747 | – | – | – | 2,075,747 |
| Cash at bank – held for sale | 0.1% | Floating | 1,441,394 | – | – | – | 1,441,394 |
| Security deposits | 4.1% | Floating | 75,016 | – | – | – | 75,016 |
| Monies held in trust | 1.0% | Floating | 34,877 | – | – | – | 34,877 |
| Financial Liabilities | | | | | | | |
| Secured bank loans-held for sale | 3.4% | Floating | – | – | (94,384,999) | – | (94,384,999) |
| Convertible notes | 10.0% | Fixed | – | – | (2,084,310) | – | (2,084,310) |
| Unsecured loans | 10.0% | Fixed | – | – | – | (3,792,748) | (3,792,748) |
| Net Position | | | 3,627,034 | – | (96,469,309) | (3,792,748) | (96,635,023) |

The other financial instruments of the Group not included in the above table are non-interest bearing and not subject to interest rate risk.

| Company | Effective average interest rate | Fixed or Floating rate | Within 6 months $ | Within 6–12 months $ | 1 to 2 years $ | 2 to 5 years $ | Total $ |
|---|---|---|---|---|---|---|---|
| 2009 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash at bank | 3.1% | Floating | 537,942 | – | – | – | 537,942 |
| Cash at bank | 4.7% | Fixed | 2,600,000 | – | – | – | 2,600,000 |
| Security deposits | 2.5% | Fixed | 20,000 | – | – | – | 20,000 |
| Monies held in trust | 0.0% | Floating | 34,877 | – | – | – | 34,877 |
| Financial Liabilities | | | | | | | |
| Unsecured loans | 10.0% | Fixed | – | – | (3,233,801) | – | (3,233,801) |
| Net Position | | | 3,192,819 | – | (3,233,801) | – | (40,982) |
| 2008 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash at bank | 3.8% | Floating | 1,997,721 | – | – | – | 1,997,721 |
| Security deposits | 6.5% | Floating | 47,117 | – | – | – | 47,117 |
| Monies held in trust | 1.0% | Floating | 34,877 | – | – | – | 34,877 |
| Financial Liabilities | | | | | | | |
| Convertible notes | 10.0% | Fixed | – | – | (2,084,310) | – | (2,084,310) |
| Unsecured loans | 10.0% | Fixed | – | – | – | (3,792,748) | (3,792,748) |
| Net Position | | | 2,079,715 | – | (2,084,310) | (3,792,748) | (3,797,343) |

The other financial instruments of the Company not included in the above table are non-interest bearing and not subject to interest rate risk.

For the 2009 and 2008 balances no earnings sensitivity analysis have been undertaken for the Group as the unsecured loans and convertible note loans were fixed rate loans, with the convertible note loans being settled on 6 July 2009. Interest on the secured bank loans, up to the sale of PT Cibaliung Sumberdaya in July 2009, was capitalised into the Cibaliung Project development costs and therefore movements in variable interest rates did not impact directly on earnings or equity. The impact on earnings through a change in interest rates on the average financial asset balances held by the Group for 2009 and 2008 is not considered material.

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 28. FINANCIAL INSTRUMENTS (continued)

### (e) Fair values

The fair value of financial assets and liabilities (including financial assets and liabilities classified as held for sale), together with the carrying amounts shown in the statement of financial position are set out below.

The net fair values of unsecured loans and convertible notes are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present values. For other assets and other liabilities the net fair value approximates their carrying value.

| Group | Carrying amount 2009 $ | Fair value 2009 $ | Carrying amount 2008 $ | Fair value 2008 $ |
|---|---|---|---|---|
| Financial Assets | | | | |
| Cash and cash equivalents | 3,283,922 | 3,283,922 | 2,075,747 | 2,075,747 |
| Cash and cash equivalents – held for sale | – | – | 1,441,394 | 1,441,394 |
| Receivables | 101,896 | 101,896 | 101,896 | 101,896 |
| Other assets | 177,707 | 177,707 | 329,228 | 329,228 |
| Other assets – held for sale | – | – | 307,884 | 307,884 |
| Total Financial Assets | 3,563,525 | 3,563,525 | 4,256,149 | 4,256,149 |
| Financial Liabilities | | | | |
| Trade and other payables | 176,224 | 176,224 | 809,024 | 809,024 |
| Trade and other payables – held for sale | – | – | 3,264,109 | 3,264,109 |
| Secured bank loans – held for sale | – | – | 94,384,999 | 94,384,999 |
| Convertible notes | – | – | 2,084,310 | 2,058,121 |
| Unsecured loans | 3,233,801 | 3,111,753 | 3,792,748 | 3,687,901 |
| Other liabilities | 33,190 | 33,190 | 33,190 | 33,190 |
| Total Financial Liabilities | 3,443,215 | 3,321,167 | 104,368,380 | 104,237,344 |
| Company | | | | |
| Financial Assets | | | | |
| Cash and cash equivalents | 3,137,942 | 3,137,942 | 1,997,721 | 1,997,721 |
| Receivables and other assets | 175,635 | 175,635 | 210,088 | 210,088 |
| Total Financial Assets | 3,313,577 | 3,313,577 | 2,207,809 | 2,207,809 |
| Financial Liabilities | | | | |
| Trade and other payables | 107,694 | 107,694 | 684,016 | 684,016 |
| Convertible notes | – | – | 2,084,310 | 2,058,121 |
| Unsecured loans | 3,233,801 | 3,111,753 | 3,792,748 | 3,687,901 |
| Other liabilities | 33,190 | 33,190 | 33,190 | 33,190 |
| Total Financial Liabilities | 3,374,685 | 3,252,637 | 6,594,264 | 6,463,228 |

### (f) Derivative financial instruments

No derivative financial instruments were held by the Group either at 31 December 2009 or 31 December 2008.

### (g) Commodity price risk

With the sale of PT Cibaliung Sumberdaya on 6 July 2009 the Group is no longer affected by commodity price fluctuations. Up to the date of sale, the Group was not affected by commodity price fluctuations as the Group held no commodity hedging contracts and with PT Cibaliung Sumberdaya being held for sale the Group was not required to calculate impairment losses on the Cibaliung Project.

## NOTE 29. CASHFLOWS

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| **(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: | | | | |
| Cash at bank and in hand | 683,922 | 2,075,747 | 537,942 | 1,997,721 |
| Term deposits | 2,600,000 | – | 2,600,000 | – |
| | 3,283,922 | 2,075,747 | 3,137,942 | 1,997,721 |
| **(b) Cash flows from operating activities** | | | | |
| Profit/(loss) for the financial year | 14,324,739 | (30,828,196) | 1,926,173 | (60,846,913) |
| Net depreciation | 115,143 | 109,476 | 2,867 | 6,566 |
| Loss on disposal of assets | 1,008 | 10,183 | 1,008 | 10,183 |
| Gain on disposal of subsidiaries | (12,026,350) | | | |
| Gain on settlement of convertible notes | (1,990,053) | – | (1,990,053) | – |
| Gain on debt forgiven | (536,852) | – | (536,852) | – |
| Capitalised exploration costs written-off | – | 492,006 | – | 492,006 |
| Impairment losses/(reversals) on investment value in controlled entities | – | – | (269,948) | 148,458 |
| Impairment loss on Cibaliung project development expenditures | – | 23,576,322 | – | – |
| Share based payments | (412,707) | 344,970 | (116,376) | 72,570 |
| Unrealised foreign exchange (gain)/loss | (894,481) | 655,038 | 10,357,202 | (22,742,917) |
| Provision for doubtful debts in controlled entities | – | – | (10,440,565) | 81,021,395 |
| Net loss on derivatives | – | 2,566,807 | – | – |
| Income tax expense/(benefit) | – | – | – | – |
| *(Increase)/decrease in assets:* | | | | |
| Current receivables | 72,762 | 20,016 | (31,563) | 38,029 |
| Interest receivable | (7,693) | 29,468 | (7,693) | 29,468 |
| Other current assets | 81,831 | (49,161) | 7,336 | 2,932 |
| *Increase/(decrease) in liabilities:* | | | | |
| Current payables | (27,469) | (65,797) | (45,893) | (76,404) |
| Interest payable on borrowings | – | (394,328) | – | (394,328) |
| Current provisions | (2,742) | (331,880) | (14,940) | 1,440 |
| Interest bearing liabilities capitalised interest | 444,691 | 1,019,288 | 444,691 | 256,364 |
| Liquidation expense provision | (627,291) | – | – | – |
| Net cash flow from operating activities | (1,485,464) | (2,845,790) | (714,606) | (1,981,151) |

# NOTES TO THE FINANCIAL STATEMENTS
continued

## NOTE 30. LEASING COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Operating Lease Commitments | | | | |
| Payable | | | | |
| – not later than 1 year | **2,078** | 106,808 | **2,078** | 1,905 |
| – longer than 1 year but not later than 5 years | **–** | 31,336 | **–** | – |
| | **2,078** | 138,144 | **2,078** | 1,905 |

## NOTE 31. COMMITMENTS FOR CAPITAL EXPENDITURE

| | | | | |
|---|---|---|---|---|
| Capital expenditure commitments: | | | | |
| Payable | | | | |
| Plant and equipment: | | | | |
| – not longer than 1 year | **–** | 21,143 | **–** | – |

## NOTE 32. ECONOMIC DEPENDENCY

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

## NOTE 33. AUDITORS' REMUNERATION

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2009 $ | 31 December 2008 $ | 31 December 2009 $ | 31 December 2008 $ |
| Audit services | | | | |
| Auditors of the Company | | | | |
| *KPMG* | | | | |
| Audit and review of financial reports | **56,750** | 107,275 | **56,750** | 107,275 |
| Other auditors | | | | |
| Audit and review of financial reports | **21,472** | 57,478 | **–** | – |
| | **78,222** | 164,753 | **56,750** | 107,275 |
| Other services | | | | |
| Auditors of the Company | | | | |
| *KPMG* | | | | |
| Tax compliance and consulting services | **14,770** | 17,760 | **14,770** | 17,760 |
| Review service for prospectus disclosure | **15,000** | – | **15,000** | – |
| | **29,770** | 17,760 | **29,770** | 17,760 |
| | **107,992** | 182,513 | **86,520** | 125,035 |

## NOTE 34. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2009 (2008: $786,585).

## NOTE 35. EVENTS SUBSEQUENT TO REPORTING DATE

On 1 February 2010 the Company announced that drilling had commenced at the Trenggalek Project and results from the first two holes were announced on 12 March 2010.

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

# DIRECTORS' DECLARATION

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

   a. the financial statements, notes and the Remuneration report in the Directors' report are in accordance with the *Corporations Act 2001*, including:

      ii. giving a true and fair view of the financial position of the Company and the Group as at 31 December 2009 and of their performance, for the financial year ended on that date; and

      iii. 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 Chief Executive Officer and the Chief Financial Officer for the financial year ended 31 December 2009.

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

Dated this 24th day of March 2010.

John C. Carlile
Managing Director

Bruce J. Watson
Non-Executive Chairman

# INDEPENDENT AUDITOR'S REPORT

**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 statements of financial position as at 31 December 2009, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 35 and the directors' declaration set out on page 77 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a 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.

**Auditor's opinion**

In our opinion, subject to the emphasis of matter outlined below:

(a) the financial report of Arc Exploration Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

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

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

*Material uncertainty regarding continuation as a going concern*

Without qualification to the opinion provided above, attention is drawn to the following matter. As a result of the matters described in note 4, the Company and the Group are reliant upon raising additional shareholder funding to fund their operations, including the continuation of exploration activities in Indonesia. At the date of this report additional fund raising transactions are incomplete, and the outcome of these transactions cannot presently be determined with certainty. Because of this and the matters referred to in note 4 there is material uncertainty regarding the ability of the Company and the Group to continue as a going concern. Should the Company or the Group be unable to continue as a going concern, it is unlikely that they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 25 of the directors' report for the year ended 31 December 2009. 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 2009 complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Chris Sargent
*Partner*

Melbourne
24 March 2010

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

KPMG

***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 2009 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

Chris Sargent
*Partner*

Melbourne
24 March 2010

# SHAREHOLDER INFORMATION

## as at 24 March 2010

| | | |
|---|---|---|
| a. | Number of ARX shareholders | 3,273 |
| | Number of ARXOA optionholders | 710 |
| | Number of ARXO optionholders | 811 |
| b. | Total shares issued | 346,571,096 |
| | Total Listed ARXOA Options (Exercisable at 3.6 cents, Expiry 31 Jan 2011) | 173,142,774 |
| | Total Listed ARXO Options (Exercisable at 75 cents, Expiry 30 June 2012) | 7,940,728 |
| c. | Percentage of total holdings by or on behalf of the 20 largest shareholders | 82.07% |
| | Percentage of total holdings by or on behalf of the 20 largest ARXOA optionholders | 72.50% |
| | Percentage of total holdings by or on behalf of the 20 largest ARXO optionholders | 90.64% |

d. Distribution schedule of holdings

| | Ordinary Shares | ARXOA 31 Jan 2011 Options | ARXOA 31 Jan 2012 Options |
|---|---|---|---|
| 1–1,000 | 1,309 | 174 | 670 |
| 1,001–5,000 | 804 | 167 | 94 |
| 5,001–10,000 | 308 | 96 | 14 |
| 10,001–100,000 | 590 | 163 | 19 |
| 100,001 and over | 251 | 110 | 14 |
| less than marketable parcel | 2,433 | 529 | 799 |

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. | AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED | 48,132,155 | 13.89 |
| 2. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3 | 28,858,968 | 8.33 |
| 3. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,699,127 | 4.24 |
| 4. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 13,682,332 | 3.95 |
| 5. | SPYDER B INTERNATIONAL LIMITED | 12,499,998 | 3.61 |
| 6. | SAYERS INVESTMENTS (ACT) PTY LIMITED <THE SAYERS INVEST NO 2 A/C> | 12,000,000 | 3.46 |
| 7. | PT AUSTINDO NUSANTARA JAYA | 10,597,472 | 3.06 |
| 8. | ANZ NOMINEES LIMITED <CASH INCOME A/C> | 8,767,094 | 2.53 |
| 9. | MR BRUCE JAMES WATSON | 8,680,556 | 2.50 |
| 10. | GRAHAM GUERIN INVESTMENTS PTY LTD <GRAHAM GUERIN SUPER FUND AC> | 7,417,384 | 2.14 |
| 11. | GEBA PTY LTD <GEBA FAMILY A/C> | 6,111,111 | 1.76 |
| 12. | AS & JR LIBBIS PTY LIMITED <LIBBIS FAMILY A/C> | 5,250,000 | 1.51 |
| 13. | NORVEST PROJECTS PTY LTD | 4,000,000 | 1.15 |
| 14. | MR ANTHONY CASEY WILSON | 4,000,000 | 1.15 |
| 15. | URIO INVESTMENTS PTY LIMITED <URIO FAMILY A/C> | 3,979,748 | 1.15 |
| 16. | MS BETTY ANN STEVENS | 3,560,000 | 1.03 |
| 17. | TYCHE INVESTMENTS PTY LTD | 3,340,000 | 0.96 |
| 18. | OAKSEAL PTY LIMITED | 3,000,000 | 0.87 |
| 19. | ROSCIOUS PTY LTD <DEAPEN FAMILY A/C> | 3,000,000 | 0.87 |
| 20. | URIO INVESTMENTS PTY LIMITED <STEPHEN URIO FAMILY A/C> | 3,000,000 | 0.87 |
| Totals: Top 20 holders of ORDINARY FULLY PAID SHARES | | 204,575,945 | 59.03 |

# SHAREHOLDER INFORMATION
continued

| Substantial Shareholders | Shares to Which Entitled | % of Issued Capital |
|---|---|---|
| ANZ Banking Group Limited | 48,132,155 | 13.89 |
| RAB Special Situations (Master) Fund Ltd | 28,858,969 | 8.33 |

## TOP 20 HOLDERS OF ARXOA OPTIONS – EXERCISABLE AT 3.6C, EXPIRY 31 JANUARY 2011

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1 | ROSCIOUS PTY LTD <DEAPEN FAMILY A/C> | 20,416,667 | 11.79 |
| 2 | LION SELECTION GROUP LIMITED | 18,750,000 | 10.83 |
| 3 | GEBA PTY LTD <GEBA FAMILY A/C> | 18,055,556 | 10.43 |
| 4 | OMONDALI PTY LTD | 15,000,000 | 8.66 |
| 5 | SPYDER B INTERNATIONAL LIMITED | 6,249,999 | 3.61 |
| 6 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 6,058,687 | 3.50 |
| 7 | GEBA PTY LTD <GEBA FAMILY A/C> | 5,000,000 | 2.89 |
| 8 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3 | 4,166,666 | 2.41 |
| 9 | MR BRUCE JAMES WATSON | 4,095,278 | 2.37 |
| 10 | LITTLE BREAKAWAY PTY LTD | 3,512,820 | 2.03 |
| 11 | SAYERS INVESTMENTS (ACT) PTY LIMITED <THE SAYERS INVEST NO 2 A/C> | 3,051,583 | 1.76 |
| 12 | THE K GROUP PTY LTD | 2,775,000 | 1.60 |
| 13 | DR ALASTAIR ROWLAND BROWN <HIPIKI STAFF FUND A/C> | 2,750,000 | 1.59 |
| 14 | MAKATU INVESTMENTS LTD | 2,625,000 | 1.52 |
| 15 | BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C> | 2,500,000 | 1.44 |
| 16 | SYDCON BUILDING SERVICES PTY LTD | 2,500,000 | 1.44 |
| 17 | MR DAVID WILSON | 2,065,014 | 1.19 |
| 18 | GRAHAM GUERIN INVESTMENTS PTY LTD <GRAHAM GUERIN SUPER FUND AC> | 2,037,680 | 1.18 |
| 19 | MR ANTHONY CASEY WILSON | 2,000,000 | 1.16 |
| 20 | ANZ NOMINEES LIMITED <CASH INCOME A/C> | 1,919,783 | 1.11 |
| | | 125,529,733 | 72.50 |

## TOP 20 HOLDERS OF ARXO OPTIONS – EXERCISABLE AT 75C, EXPIRY 30 JUNE 2012

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1 | AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED | 2,813,853 | 35.44 |
| 2 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 733,473 | 9.24 |
| 3 | COMSEC NOMINEES PTY LIMITED | 458,336 | 5.77 |
| 4 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 369,513 | 4.65 |
| 5 | JYZ PAIR PTY LTD | 331,896 | 4.18 |
| 6 | PT AUSTINDO NUSANTARA JAYA | 324,675 | 4.09 |
| 7 | DISSOLVEBARRIERS PTY LTD | 300,000 | 3.78 |
| 8 | MS CHONGCHIT COOPER | 264,740 | 3.33 |
| 9 | MACQUARIE BANK LIMITED | 225,000 | 2.83 |
| 10 | MR DAVID ALAN SANDERS | 200,000 | 2.52 |
| 11 | MR MICHAEL TORR | 200,000 | 2.52 |
| 12 | MRS HELEN CAMPLING | 199,695 | 2.51 |
| 13 | ANZ NOMINEES LIMITED <CASH INCOME A/C> | 152,888 | 1.93 |
| 14 | A HEWSON SUPER ADMINISTRATION PTY LTD | 151,200 | 1.90 |
| 15 | MR JOHN TALBOT REILLY | 100,000 | 1.26 |
| 16 | MR PHILIP JAMES HENLEY & MRS PENNY ELAINE HENLEY | 95,000 | 1.20 |
| 17 | MR FANG HUA DING | 87,474 | 1.10 |
| 18 | MR HERMANI SOEPRAPTO | 81,169 | 1.02 |
| 19 | MISS KAREN MICHELLE WEGNER | 60,060 | 0.76 |
| 20 | CAPT HERBERT THOMAS SMALL | 48,615 | 0.61 |
| | | 7,197,587 | 90.64 |

# COMPANY 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)

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Web Site www.arcexploration.com.au

**Jakarta Office**

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Indonesia

Telephone + 62 21 5316 0118
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**Auditors**

KPMG
Australia

Kanaka Puradiredja, Robert Yogi, Suhartono
Indonesia

**Share Registry**

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of forest resources
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