ARCEXPLORATIONANNUALREPORT2010

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

Contents

AGM

The 2011 Annual General Meeting of Arc Exploration Limited will be held at 11:00 AEDT on Friday, 27 May 2011 at Mantra Chatswood, 10 Brown Street, Chatswood, New South Wales, Australia.

ACN 002 678 640

Chairman's Letter

Dear Shareholders

When I reported to you last year we had just received the first results from our drilling program at Trenggalek. Since then we have completed our first drilling program at Trenggalek and commenced exploration at Bima. The results from both projects have been extremely positive and we face 2011 with great confidence that we can build on this encouraging base.

Some of the highlights of our exploration program at Trenggalek included drilling results with very material gold bearing intercepts in veins of up to 2 metres at 17.2 grams per tonne.

At Bima we have identified a different style of prospect from our initial surface exploration that indicates potential for bulk tonnage resources. The grades obtained at Bima might appear to be low, particularly compared to those in our drilling intercepts at Trenggalek, but bulk low grade deposits of this type are common and have been successfully mined elsewhere.

Our exploration tenements cover large geographical areas. In some respects this is a luxury of riches. We are now very focused on prioritising which areas we believe will deliver the maximum benefits in terms of results, time and every exploration dollar.

We have a 15,000 metre drilling program as well as extensive surface exploration planned for 2011 which should have commenced by the time you receive this Annual Report. Our priorities going forward will be to build on the initial work we have done in Trenggalek and Bima with a view to proving them up to the resource stage as soon as possible. When this has been done we will keep our options open as to how to maximise the value to shareholders keeping in mind we recognise our strengths remain very much in exploration.

In addition, our Strategic Alliance with Anglo American in Papua was extended to 2014 and regional reconnaissance work resumed with the objective of moving towards drilling planned to commence in the second half of 2011.

We were successful in raising $1.2 million by way of a placement during the year and $3.0 million through a Shareholder Purchase Plan. After year's end a total of $6.9 million was successfully raised by shareholders exercising their listed options. The take up was over 95 per cent which we consider to be a great vote of confidence in our plans for 2011. I was pleased to take up my full option entitlement. We believe we are now fully funded right through 2011 and do not expect to come back to shareholders for further funds this year.

We have a small and cohesive team at Arc that has been working together for a long time. It was therefore with great sadness that we lost Tony Nadalin, our Financial Controller, to cancer. Tony's courage inspired us all and he will be missed.

Finally, while results in the field have been highly encouraging and we look forward to an exciting 2011, I must stress again that exploration is inherently uncertain and nothing can be guaranteed.

Nonetheless, whatever the outcome you can be confident that we will continue to 'tell it as it is' and press on with our fundamental objective of creating and maximising value for shareholders.

Yours sincerely

Bruce Watson
Chairman

Arc Exploration is focussed on **Exploration** for **Gold** and associated metals in **Indonesia.**

Strategy

The Company's growth strategy is based on:

- Utilising Arc's exploration expertise in the region
- Building on the tangible field results obtained to date from the highly prospective project areas
- Undertaking a significant diamond drilling program with clear objectives and major near term activity
- Supporting its Strategic Alliance with Anglo American to add significant value

The Company's strategy to date has delivered significant results, signalling a new growth phase for Arc Exploration.

Outlook

Arc is in a solid financial position on which to base its forward exploration program.

A successful capital raising in October 2010 raised over $4.2 million with the Share Purchase Plan significantly oversubscribed. Post 31 December 2010, ARXOA options were exercised in January 2011 with a 95 per cent take up raising a further $6.9 million.

The strong support for these capital raisings indicates the confidence shareholders place in the management team and its strategy and provides for an active exploration program, including 15,000 metres of drilling at the Bima and Trenggalek projects in 2011.

Project Highlights

Trenggalek

Located in the highly prospective Southern Mountains of the Sunda-Banda magmatic arc, the project occurs in the same belt as other recent gold-copper discoveries such as Intrepid's Tujuh Bukit project.

Arc's Results

- 5,000 metre scout diamond drilling program completed in 2010
- Potential for high-grade gold and gold-copper mineralisation confirmed
- Multiple targets defined for further drilling

Outlook

With several high-grade gold vein targets only partially tested and several new targets emerging within the 300 km^2 tenement, the potential for both new discoveries and moving towards resource definition during the next phase of drilling is significant.

Bima

Lying on the same magmatic arc as Trenggalek, the project is located close to Newmont's giant Batu Hijau copper-gold mine.

Arc's Results

- Three major prospects discovered to date
- Extensive trenching program undertaken
- Near surface gold bulk tonnage potential confirmed

Outlook

Trenching to date has only partly tested several large gold soil anomalies within the 250 km^2 tenement and systematic regional exploration remains to be undertaken. The Company aims to define targets for initial scout diamond drilling in 2011.

Papua

The Strategic Alliance with global mining major Anglo American, recently extended to 2014, holds unique significance and value for Arc. Anglo American is responsible for managing and funding all work on the project up to the point of a decision to mine.

Alliance Results

- Scout diamond drilling completed at one prospect
- Gold mineralisation from surface to 700 metres underlain by porphyry copper-gold mineralisation confirmed
- Other prospects identified

Outlook

Anglo American has resumed exploration with the objective of identifying targets for drill testing planned to commence in 2011.

Review of Activities

EXPLORATION

Arc Exploration is exploring for gold, silver and associated base metal deposits along Indonesia's highly prospective magmatic arcs and related terranes. The primary exploration targets are high-grade epithermal gold-vein, bulk tonnage gold deposits and porphyry-related copper-gold deposits.

Indonesia recently introduced a new mining law and during the year titles to each of the three projects were successfully converted to Exploration IUP licences as required under the new law.

Trenggalek Project, East Java (Arc – 95%)

Arc operates a joint venture with P.T. Sumber Mineral Nusantara, which holds the Trenggalek Exploration IUP license that covers an area of 30,044 ha (~300 km^2) in the Southern Mountains of East Java. The Southern Mountains lie within the Sunda-Banda magmatic arc, which is highly prospective for epithermal gold-silver and porphyry-related copper-gold deposits as highlighted by the results of our own work and by Intrepid's major emerging copper-gold project, Tujuh Bukit, located about 250 km east of Trenggalek.

Mapping and sampling confirmed the presence of gold-bearing epithermal veins at Sentul, Buluroto and Kojan, high-grade vein boulder float at Jati, Jombok and Salak, and gold-arsenic-antimony-mercury anomalous silica cappings, jasperoids and hydrothermal breccias at Dalangturu, Suruh, Gregah and Timahan.

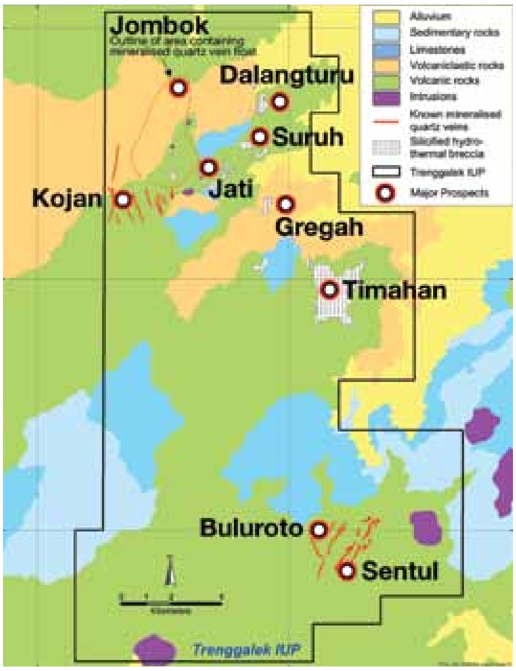
A 5,030 m, 45 hole scout diamond drilling program was completed during 2010. The objectives of the program were to test for potentially economic gold mineralisation and rank prospects for further testing. These objectives were achieved and indicated that:

- **Trenggalek represents a substantial epithermal gold vein field with excellent potential to host multiple gold deposits.**
- **The vein systems tested to date all contain high-grade gold intersections.**
- **Gold mineralisation intersected at all the principal veins drilled is open along strike and at depth.**

A number of other prospects and geochemical anomalies are yet to be tested by scout drilling.

Summary Description of Drilled Prospects:

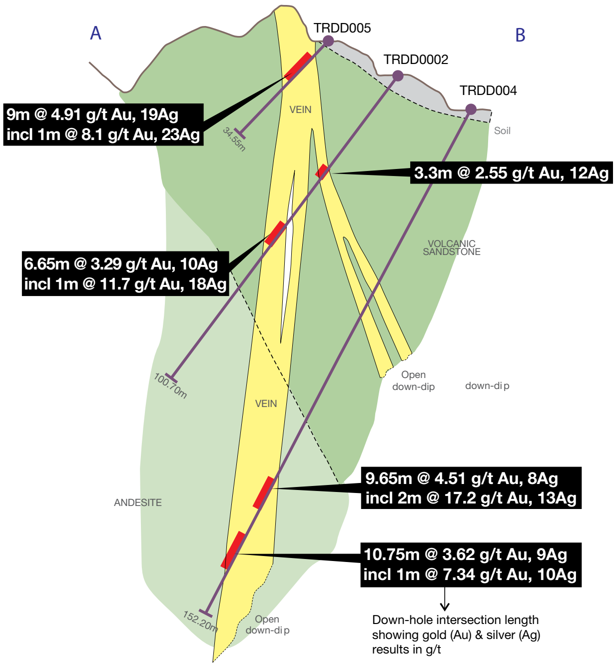
Prospects within the IUP tenement are shown in the figure below.



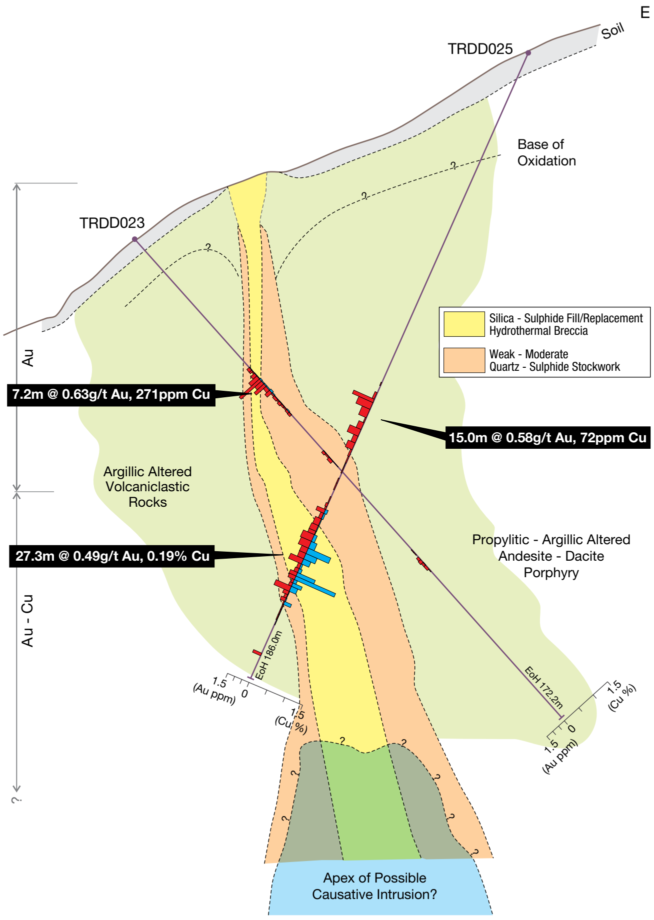
Kojan - The prospect comprises multiple gold-bearing parallel quartz veins up to 5 m wide that have a collective strike length of several kilometres. Silver grades are also notably high. For example: **1.9 m at 11.3 g/t gold & 293 g/t silver within an overall intersection of 6.6m at 4.9 g/t gold & 149 g/t silver from 62.4 m in hole TRDD-35.**

Buluroto - Near-surface gold mineralisation in hydrothermal breccia and quartz veins. For example: **2.0 m at 8.7 g/t gold & 48 g/t silver within an overall intersection of 13.7 m at 3.2 g/t gold & 60 g/t silver from 13.4 m in hole TRDD-37.** A mineralised copper-gold porphyry system may occur at depth as indicated by a drill intersection of 27 m at 0.49 g/t gold & 0.19% copper in TRDD-25.

Sentul - The quartz veins are up to 10-15 m wide and greater than 10 km collective strike length has been identified to date. The veins host high-grade gold intervals within a broader gold bearing zone. For example: **2.0 m at 17.2 g/t gold & 13 g/t silver within an overall intersection of 9.6 m at 4.5 g/t gold & 8 g/t silver from 111.3 m in hole TRDD-4.**



SENTUL PROSPECT
Drill Section - TRDD-2, TRDD-4 & TRDD-5
Gold-Silver Intercepts & Interpretive Geology



BULUROTO PROSPECT
Drill Section - TRDD-23 & TRDD-25 (Projected)
Gold-Copper Intercepts & Interpretive Geology

Review of Activities cont'd

Dalangturu is a large gold-bearing stockwork-alteration system with associated anomalous arsenic, antimony and mercury as confirmed by surface mapping and sampling. A drill intersection of **31 m grading 0.11 g/t gold from 74.3 m was returned in hole TRDD-20.** Highlights of all drilling results follow this report.

Potential: The gold mineralisation intersected at Sentul, Kojan and Buluroto is open along strike and at depth. Less than 20 per cent of each system has been drill tested so far and the likelihood of finding high-grade ore shoots within these systems is therefore regarded as high. Prospectivity is further enhanced by the fact that all the vein systems lie on structural lineaments that extend for several kilometres outside the drilled areas.

Several other prospects and geochemical anomalies are yet to be tested including silica cappings, jasperoids and hydrothermal eruption breccias with coincident gold-arsenic-antimony-mercury anomalies in the north-eastern part of the tenement. These indicate potential for underlying gold-bearing veins, stockworks and breccias.

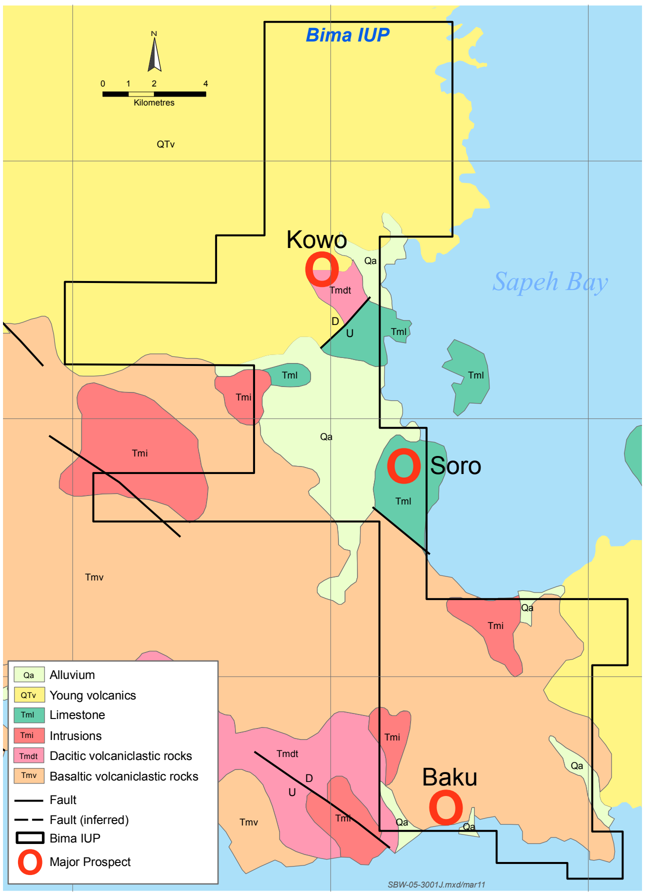
Initial scout drilling has confirmed the potential for multiple gold deposits within an extensively gold mineralised epithermal field that is still in the early stages of exploration. Additional surface work and drilling is to be undertaken in 2011 with the objective of moving towards resource estimation.

Bima Project, East Sumbawa (Arc – 95%)

Arc also operates a second joint venture with P.T. Sumber Mineral Nusantara, which holds the Bima Exploration IUP license that covers an area of 24,980 ha (~250 km^2) in East Sumbawa.

The Bima Project is located about 230 km east of Newmont's giant Batu Hijau and Elang porphyry copper-gold deposits and lies on the same segment of the Sunda-Banda magmatic arc. This highly prospective terrane is underlain by Early Miocene to Pliocene intermediate-felsic volcanic and volcaniclastic rocks, fossiliferous limestone and high-level intrusions.

Targets identified at Bima so far include gold and base metal-rich intermediate-sulphidation epithermal stockworking at Kowo, a high-sulphidation lithocap with gold-bearing quartz stockworking and discrete quartz veins at Baku, and gold associated with silica replacement of limestones and calcareous rocks at Soro. All of these mineralisation styles represent near-surface bulk tonnage gold targets and may also indicate the presence of underlying porphyry copper-gold systems.



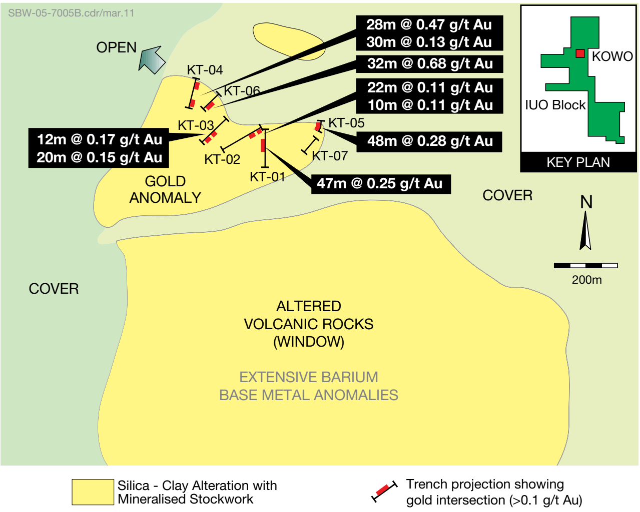
BIMA PROJECT
Generalised Geology

A litho-structural interpretation of the entire tenement in the middle of 2010 built on previous work and prioritised the Kowo, Soro and Baku prospects where exploration focussed in the second half of the year.

Kowo - Comprises a 2km by 1.5km exposure of altered volcaniclastic rocks that hosts a gold-bearing quartz-baryte-sulphide stockwork surrounded by younger volcanic cover, which is thought to mask extensions of the mineralisation.

Soil sampling highlighted a large elongated lead-barium anomaly that includes a 200m by 300m zone of elevated gold at the northern end of the stockworked volcaniclastic rocks.

Trenching on the gold soil anomaly intersected broad zones of low grade gold-silver mineralisation including: 28m at 0.47 g/t gold & 12 g/t silver in KT04 and 32m at 0.68 g/t gold & 44 g/t silver in KT06.

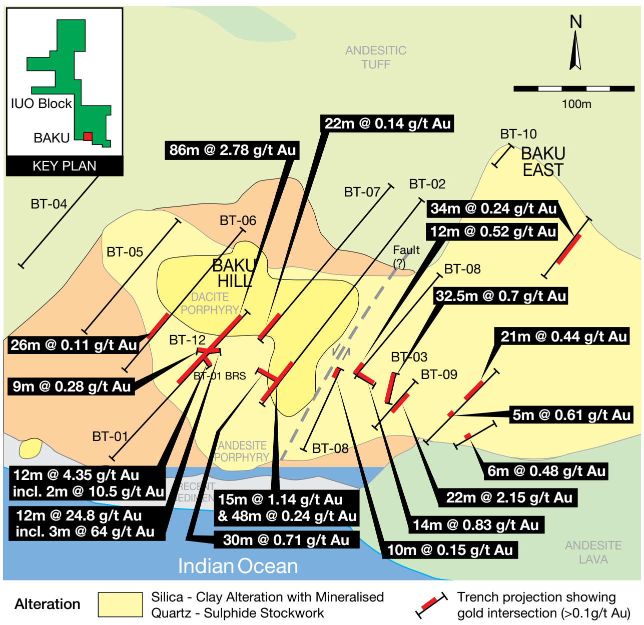


KOWO TRENCH GOLD RESULTS

Baku - Comprises a coherent gold mineralised stockwork zone at least 300m long and over 100m wide.

The mineralised stockwork is open to the east and initial trenching has returned some notably high gold grade intercepts in discrete quartz veins up to 3-4 metres wide within the more extensive lower grade stockwork.

Trench result highlights include: **86m at 2.78 g/t gold & 8 g/t silver including 4m at 15.0 g/t gold & 29 g/t silver and 4m at 34.3 g/t gold & 73 g/t silver in BT01; 12m at 24.8 g/t gold & 67 g/t silver in a branching trench from BT01; and, 22m at 2.15 g/t gold & 15 g/t silver including 2m at 12.1 g/t gold & 133 g/t silver and 2m at 7.49 g/t gold & 23 g/t silver in BT09.**

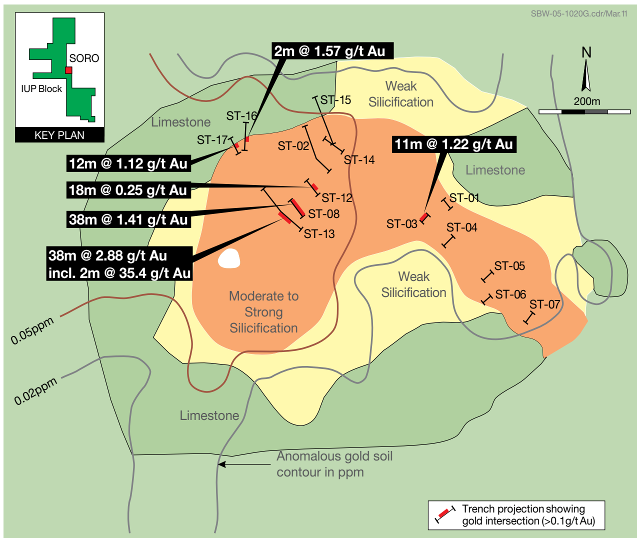


BAKU TRENCH GOLD RESULTS

Soro - Comprises an area of limestone that is pervasively replaced by fine-grained quartz and disseminated sulphide mineralisation. The silicified limestone, or jasperoid, appears to be underlain by volcanic rocks similar to those at Kowo.

Soil sampling has identified a 1km by 0.5km arcuate-shaped gold-arsenic-antimony-molybdenum anomaly over the silicified limestone. Soil results range from 0.14 to 0.75 ppm gold, 291 to 613 ppm arsenic, 8 to 32 ppm antimony, and 5 to 20 ppm molybdenum.

Initial trenching early in 2011 has tested a small part of this large gold in soil anomaly and has returned some very encouraging results including: **38m at 1.41 g/t gold & 41 g/t silver in ST08; 11m at 1.22 g/t gold & 14 g/t silver in ST03; and, 12m at 1.12 g/t gold and 38m at 2.88 g/t gold that includes a high-grade interval of 2m at 35.4 g/t gold in ST13.**



SORO TRENCH GOLD RESULTS

The early exploration results from these three prospects indicate potential for bulk tonnage gold targets and locally, higher grade gold zones that may overlie porphyry copper-gold systems.

Arc is focussing on defining drill targets for initial scout drilling to be undertaken in 2011.

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

During the year the Company extended the term of its strategic alliance with the Anglo American Group through to 2014. The Alliance explores for copper-gold deposits in Papua and West Papua provinces.

Under the terms of the strategic alliance, global mining major Anglo American is responsible for managing and funding all work on the project up to the point of a decision to mine following which Arc is then required to contribute on a pro-rata basis for its 20 per cent interest.

The Alliance gives Arc exposure to a highly prospective area that would otherwise be beyond its reach and holds unique significance and value for Arc as it provides huge exploration upside without diverting funding and management focus away from other projects in Indonesia.

The Aisasjur Exploration IUP licence covers an area of 99,410 ha (~ 1,000 km^2). Aisasjur, the first prospect identified under the Alliance, is located in remote mountainous terrain in the "Bird's Head" of West Papua.

Previous drilling at Aisasjur has returned significant gold intercepts including: **32 m at 4.2 g/t gold from 251.3 m (ASD-5) and 55 m at 2.1 g/t gold from 214.75 m (ASD-7).** Exploration to date highlights potential for multi-million ounce, bulk-tonnage gold deposits. A combination of surface work and drilling results show that gold occurs over a surface area of greater than 1 km^2 and persists to a depth of at least 700 m.

Copper-gold mineralisation has been intersected in deeper drilling beneath the gold mineralisation and the occurrence of bornite in the deeper porphyry-related stockworked veins indicates potential for a high-grade copper-gold deposit.

The program, currently underway, will build on existing information and includes regional reconnaissance at a number of locations designed to identify further targets for more detailed follow up during 2011, leading to drilling planned for the second half of the year.

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	99,410 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

Shares and Options issued as payment to Drilling Contractor

A 5,000m drilling program was completed at Trenggalek during the year. Payment to for this program was effected by the issue of shares and options to the drilling contractor.

Placement

The Company successfully raised $1.195 million by way of a placement of 59,750,000 shares at 2.0 cents on 1 October 2010 to advance the Company's Indonesian exploration strategy. The issue of these shares was completed within the 15 per cent capacity afforded by ASX Listing Rule 7.1.

Share Purchase Plan

The Company undertook a Share Purchase Plan (SPP) at an issue price of 2.2 cents per share which closed 27 October 2010 raising $3,023,765.34. 137,443,848 shares were issued pursuant to the SPP which was oversubscribed by shareholders.

Exercise of ARXOA Options

The Company issued the ARXOA options in 2009 in connection with a Rights Issue undertaken at the time. The options had an exercise price of 3.6 cents and expired 31 January 2011.

The Company successfully raised $6.9 million through the exercise of these options with over 95% of the options on issue being exercised.

Cash Position

As a result of the substantial cash inflow from the exercise of ARXOA options the Company's financial position has been significantly enhanced enabling it to fund a very active exploration program in 2011, including 15,000 metres of drilling, on the Bima and Trenggalek projects.

Trenggalek Best Mineralised Drill Intercepts

Hole ID	Prospect	Coordinates			Dip	Azimuth	Final Depth (m)	From (m)	To (m)	Interval (m)	Au g/t	Ag g/t	Core Rec (%)
		mN	mE	RL									
TRDD002	Sentul	9,088,674	572,176	698	-53°	300°	100.7	49.35	56.0	6.65	3.29	10	98%
							Incl	54.0	55.0	1.0	11.7	18	100%
TRDD003	Sentul	9,088,675	572,176	698	-46°	328°	109.8	23.9	25.65	1.75	6.18	32	94%
								35.1	44.5	9.4	5.27	18	97%
							Incl	37.0	38.0	1.0	10.4	21	100%
							&	42.0	43.0	1.0	10.2	40	90%
TRDD004	Sentul	9,088,659	572,189	689	-61°	310°	152.2	111.35	121.00	9.65	4.51	8	96%
							Incl	111.35	113.35	2.0	17.2	13	100%
								127.95	138.7	10.75	3.62	9	99%
							Incl	135.95	136.95	1.0	7.34	10	100%
TRDD005	Sentul	9,088,690	572,164	711	-46°	305°	34.55	5.8	14.8	9.0	4.91	19	99%
							Incl	11.8	12.8	1.0	8.10	23	100%
TRDD006	Sentul	9,088,775	572,225	681	-46°	315°	126.3	37.45	49.4	11.95	2.12	5	95%
							Incl	37.45	40.05	2.60	4.30	7	100%
							&	47.45	49.4	1.95	5.32	7	97%
TRDD012	Sentul	9,088,816	572,724	595	-81°	305°	108.7	39.5	42.5	3.0	5.53	14	98%
TRDD018	Sentul	9,088,660	572,090	710	-56°	130°	120.3	31.35	50.20	18.85	0.98	16	98%
							Incl	35.25	36.25	1.00	6.31	208	100%
TRDD025	Buluroto	9,089,075	571,557	712	-61°	310°	186.0	103.00	118.00	15.00	0.58	15	100%
								135.80	163.10	27.30	0.49	12	100%
TRDD035	Kojan	9,102,429	564,111	843	-69°	125°	84.6	62.45	69.05	6.60	4.89	149	94%
							Incl	63.45	65.35	1.90	11.28	293	82%
TRDD037	Buluroto	9,089,122	571,509	673	-45°	130°	40.7	2.40	5.40	3.00	6.29	6	100%
							Incl	4.40	5.40	1.00	9.39	8	100%
								13.40	27.15	13.75	3.19	60	100%
							Incl	21.30	22.30	1.00	10.90	304	100%
							&	24.50	26.50	2.00	8.73	48	100%
TRDD039	Buluroto	9,089,133	571,501	670	-61°	138°	66.5	30.70	37.00	6.30	2.77	23	100%
TRDD042	Kojan	9,102,353	564,101	850	-46°	078°	88.8	71.70	73.55	1.85	4.90	87	100%
							Incl	72.70	73.55	0.85	9.49	144	100%

Notes: (1) Assay results are from half-core samples split with a power saw. Logging, allocation of sample intervals, sampling & dispatching were done under the strict control of the Company's geologists

(2) Sample preparation and analyses were conducted by P.T. Intertek Utama Services in Jakarta.

(3) Gold assayed by 50g Fire Assay/AAS Finish.

(4) Silver assayed by Mixed Acid Digest/AAS Finish.

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.

CORPORATE GOVERNANCE cont'd

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. 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 and to provide input directly where appropriate.

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 comprised of a majority of independent Directors. The Board is currently comprised of the Bruce Watson: independent Non-Executive Chairman, John Carlile: Managing Director and two independent Non-Executive Directors: George Tahija and Robert Willcocks.

RECOMMENDATION 2.2

The Chairperson should be an independent Director.

The Chairman (Bruce Watson) of the Company is an independent Director.

RECOMMENDATION 2.3

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

The roles of Chairperson and Managing Director are not exercised by the same individual.

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.

The Board believes that this is appropriate given the size of the Board and the geographic split with two of the Directors being permanently based in Indonesia. Given the size of the Board and the nature and extent of the Company's operations the Directors work closely together and provide feedback in respect of Board performance to the Chairman on an ongoing basis

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.

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

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.

CORPORATE GOVERNANCE cont'd

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.

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 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 design and implementation of risk management and internal control systems to enhance the Company's financial reporting processes is an ongoing process

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.

CONSOLIDATED FINANCIAL REPORT

For the year ended 31 December 2010

CONTENTS

DIRECTORS' REPORT

The directors present their report together with the financial statements of the consolidated entity (the 'Group') consisting of Arc Exploration Limited (the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2010.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

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

· the undertaking of gold exploration in Indonesia at Trenggalek (East Java) and Bima (East Sumbawa); and

· providing support to Anglo American to undertake copper/gold exploration in Indonesia at Aisasjur (West Papua).

REVIEW OF OPERATIONS

Exploration

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

Trenggalek Project, East Java (Arc – 95%)

The Company operates a joint venture with P.T. Sumber Mineral Nusantara, which holds the Trenggalek Exploration IUP license covering an area of 30,044 ha (~300 km2) in the Southern Mountains of East Java. The Southern Mountains lie within the Sunda-Banda magmatic arc, which is highly prospective for epithermal gold-silver and porphyry-related copper-gold deposits; highlighted by the results of our own work and by Intrepid's' major emerging copper-gold project, Tujuh Bukit, located about 250 km east of Trenggalek.

The Company completed its initial scout drilling program at Trenggalek in East Java. The program comprised 5,030 metres in 45 holes and tests multiple vein and breccia targets identified within an extensive mineralised epithermal field inside the approximately 300 km2 IUP tenement. The drilling intersected significant gold mineralisation with locally high-grades at three of five prospects tested and demonstrates excellent potential for multiple gold resources in the project area.

Previous mapping and sampling by Arc Exploration Limited confirmed the presence of gold-bearing epithermal veins (Sentul, Buluroto, Kojan and Dalangturu), high-grade vein float (Jati, Jombok and Salak), and gold-arsenic-antimony-mercury anomalous silica cappings, jasperoids and hydrothermal breccias (Dalangturu, Suruh, Gregah and Timahan) in the project area. These prospects are distributed over a large area and represent the eroded remnants of epithermal gold systems formed in an ancient geothermal field located in the underexplored Southern Mountains Arc of East Java.

The 2010 drilling program tested outcropping vein targets (Sentul, Buluroto and Kojan), an IP-resisitivity anomaly (Dalangturu), and for the source of high-grade vein float (Jati). The objective of this program was to obtain significant gold intercepts and to rank the prospects for subsequent infill drilling and resource estimation. This objective was achieved. Gold mineralisation with locally high grades was recorded in three of the five targets tested. Highlights included:-

· 2.0m at 17.2 g/t Au & 13 g/t Ag within a composite intersection of 9.6m at 4.5 g/t Au & 8 g/t Ag from 111.3m in hole TRDD-4 at Sentul

· 2.0m at 8.7 g/t Au & 48 g/t Ag within a composite intersection of 13.7m at 3.2 g/t Au & 60 g/t Ag/t from 13.4m in hole TRDD-37 at Buluroto

· 1.9m at 11.3 g/t Au & 293 g/t Ag within a composite intersection of 6.6m at 4.9 g/t Au & 149 g/t Ag from 62.4m in hole TRDD-35 at Kojan

· 31m grading 0.11 g/t Au from 74.3 m in hole TRDD-20 at Dalangturu

At least two large epithermal vein systems have been confirmed. Veins intersected at Sentul are up to 10-15 m wide and represent greater than 8 km collective length. Kojan comprises multiple parallel veins up to 3-5 m wide and has at least several kilometres collective length. Less than 10-20% of both vein systems have been drill tested to-date and nearly all of the 34 holes drilled on these two prospects, reported in previous ASX releases, have intersected gold mineralisation of varying degrees of intensity.

Drilling at Buluroto highlighted potential for shallow gold and possibly gold-copper resources in mineralised breccia (e.g. 27m at 0.49 g/t Au & 0.19% Cu in TRDD-25) developed between two epithermal veins. It is possible that a mineralised porphyry-style gold-copper system occurs at greater depth or beside the breccia. Trenggalek lies in the same belt of volcanic rocks as the Tujuh Bukit Project, located about 250 km to the east, where results of drilling by Intrepid Mines are proving the porphyry copper-gold potential of the Southern Mountains Arc.

Gold mineralisation intersected at Sentul, Buluroto and Kojan is open along strike and at depth. The likelihood of finding high-grade ore shoots within these systems is therefore considered to be very high. Prospectivity is further enhanced by the fact that they all lie on structural lineaments that extend for several kilometres to tens of kilometres outside the respective prospect areas. The area of gold mineralisation identified at each of these prospects will no doubt be expanded through further exploration.

Other prospects and geochemical anomalies within the IUP remain to be tested by scout drilling. Silica cappings, jasperoids and hydrothermal eruption breccias, highlighted by coherent gold-arsenic-antimony-mercury surface geochemical anomalies, feature in the northeastern corner of the tenement. These record the presence of a once extensive (~50 km2), partly eroded geothermal palaeosurface with exploration potential at depth for gold-bearing veins, stockworks and breccias.

Initial scout drilling has confirmed the excellent potential for defining multiple gold resources in an extensively mineralised epithermal field that is largely underexplored. Further surface work and drilling are proposed in 2011 to expand the potential at Sentul, Buluroto and Kojan, and to progress these targets to resource estimation. Surface work and scout drilling will also be undertaken to test the remaining prospects and any new targets generated.

Bima Project, East Sumbawa (Arc – 95%)

The Company operates a joint venture with P.T. Sumber Mineral Nusantara, which holds the Bima Exploration IUP license covering an area of 24,980 ha (~250 km2) East Sumbawa, West Nusa Tenggara Province.

The Bima Project is located about 230 km east of Newmont's giant Batu Hijau and Elang porphyry copper-gold deposits and lies on the same segment of the Sunda-Banda magmatic arc. This highly prospective terrane is underlain by Early Miocene to Pliocene intermediate-felsic volcanic and volcaniclastic rocks, fossiliferous limestone and high-level intrusions. Targets identified at Bima are gold and base metal-rich intermediate-sulphidation epithermal veins, high-level silicification in limestones, and gold-rich high-sulphidation lithocaps, all of which may be related to buried porphyry copper-gold targets.

Field activities were accelerated late in the year and included a 1:50,000 scale litho-structural interpretation of the entire Bima IUP using satellite imagery, prospecting, detailed geological mapping, surface geochemical sampling and trenching at Baku, Kowo and Soro prospects.

The Company identified Baku during field verification of the source of a spectral anomaly highlighted in ASTER imagery. Initial rock chip samples taken from altered outcrops found in the anomalous area produced results of 0.29 to 2.75 g/t Au, and 22 to 48 ppm antimony in five grab samples.

Initial trench results at Baku indicate a coherent gold mineralized stockwork zone that is at least 300m long and approximately 100m wide. Highlights included: -

· 86m at 2.78 g/t Au & 8 g/t Ag in BT01 including 4m at 15.0 g/t Au and 4m at 34.3 g/t Au & 73 g/t Ag

· 2m at 24.8 g/t Au in BT01 BRN

· 22m at 2.15 g/t Au & 2m at 12.1 g/t Au and 2m at 7.49 g/t Au in BT09

DIRECTORS' REPORT cont'd

The mineralized stockwork is open to the east. The results also demonstrate locally high-grade intercepts and these are associated with gold-bearing quartz veins up to 3-4m wide within more extensive lower grade stockwork.

Kowo Prospect, located in the northern part of the IUP, is represented by a 2km by 1.5km exposure of altered volcaniclastic rocks hosting quartz-baryte-sulphide stockwork and surrounded by younger volcanic cover.

Previous soil sampling over the stockworked volcaniclastic rocks highlighted a large elongated lead-barium anomaly that includes a 200m by 300m zone of elevated gold surrounded by younger cover at the northern end of the anomaly.

Initial trenching on the gold soil anomaly at Kowo intersected broad zones of low grade gold-silver mineralisation. Highlights included: -

· 28m at 0.47 g/t Au & 12 g/t Ag in KT04

· 32m at 0.68 g/t Au & 44 g/t Ag in KT06

The Company identified Soro during early reconnaissance work in 2009. Soro is located about 6km south of the Kowo Prospect.

Soro is represented by a +1km2 area of limestone hosting patchy silicification and low-sulphide quartz veining. The silicified limestone potentially caps an underlying mineralized vein system in volcanic rocks that are similar to or an extension from the neighbouring Kowo Prospect.

Results from soil sampling highlighted a 1km by 0.5km arcuate-shaped gold-arsenic-antimony-molybdenum anomaly underlain by boulders of gossanous silicified calcareous rocks and fresh limestone outcrops. Fifteen soil samples within the gold anomaly returned highly elevated results ranging from 0.14 to 0.75 ppm Au, 291 to 613 ppm As, 8 to 32 ppm Sb, and 5 to 20 ppm Mo.

The early exploration results from these three prospects support the potential for a large near-surface bulk tonnage gold deposits that may be related to deeper porphyry-style copper-gold mineralisation.

The Company will focus on defining drill targets by conducting further trenching, surface geochemical sampling and geophysical surveys (electrical and ground magnetics) at thee prospects. The aim is to advance the project to the scout drilling stage to be undertaken in 2011.

Aisasjur Project – Anglo Strategic Allinace (Arc – 20%)

The Company extended its strategic alliance with the Anglo American Group (Anglo) through to 2014 to explore for copper-gold deposits in Papua and West Papua provinces. Key elements of the Alliance are summarised as follows:

· Anglo holds an 80% interest by sole funding exploration expenditure through to the first decision to mine;

· Arc Exploration Limited's 20% interest is carried (not free carried) through to a Decision to Mine at which time Arc Exploration Limited becomes liable to repay 10% of exploration and predevelopment costs out of its share of project proceeds (non-recourse to Arc Exploration Limited);

· If following completion of a Feasibility Study, Anglo makes a Decision to Mine then a Joint Venture shall be formed and each of Anglo and Arc Exploration Limited shall participate (and fund capital expenditure) according to their 80/20 project interests. Arc Exploration Limited dilutes if it does not contribute;

· In the event that a resource of less than one million tonnes of contained copper equivalent or 1 million ounces of gold is identified, then Anglo may not offer any interest in the resource to a third party without first making an offer to Arc Exploration Limited either that such project revert to Arc Exploration Limited on an 80/20 basis (with Arc Exploration Limited holding 80%) or that 100% be transferred to Arc Exploration Limited with Anglo retaining a 2% Net Smelter Royalty

Aisasjur, the first project in the Alliance, is located in remote, heavily forested and mountainous terrain at the centre of the Birds Head peninsula in West Papua. The project area has no major road network and access is mainly by helicopter (about 1 hour) via the major provincial towns of Sorong and Manokwari.

The project originally comprised three KP tenements (KP's 1, 2 & 3). These were amalgamated into a single Ijin Usaha Pertambangan (IUP) during the year. The new Exploration IUP covers an area of 99,410 hectares (nearly 1,000 km2) and is valid until 2017.

Previous exploration work at Aisasjur has highlighted potential for a multimillion ounce, bulk-tonnage gold resource. Surface work and drilling have proved the occurrence of gold mineralisation over an area of greater than 1 km2 and persisting to a depth of at least 700 m.

Although the copper-gold grades obtained from the deeper drilling completed to date are low, the copper/gold ratios and the presence of bornite in the deeper porphyry-related quartz-pyrite-pyrrhotite-chalcopyrite veins provide strong evidence on the potential for high-grade copper-gold porphyry deposits in the project area.

Further exploration in the Aisasjur project area is in the planning stage.

Consolidated Results

The net result of operations after applicable income tax expense and before discontinued operations for the year was a loss of $2,686,180 (2009 - profit of $1,607,318)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

Throughout January 2011 the bulk of the ARXOA options were exercised by option holders. These options had an exercise price of 3.6 cents and expired on 31 January 2011. As a result the Group raised a total of $6.9 million which will be utilised as working capital and to advance the Group's gold exploration activities in Indonesia.

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 successful capital raising through the exercise of ARXOA options.

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	13,349,907	3,328,766	-	18,000
George Tahija	10,597,474	2,219,177	-	324,675
John Carlile	17,000,000	9,986,298	-	73,511
Robert Willcocks	4,125,000	2,219,177	-	-
	45,072,381	**17,753,418**	**-**	**416,186**

DIRECTORS' REPORT cont'd

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 Geo. Soc.Lond. 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 has a Bachelor of Arts and Bachelor of Laws (Australian National University) and Master of Laws (University of Sydney).

Mr Willcocks is and has been a director of a number of listed and unlisted public companies, including Orion Petroleum Limited.

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 SECRETARY

Mr. Andrew J. Cooke LLB, FAICS

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

DIRECTORS' REPORT cont'd

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
	Orion Petroleum Limited	Director since April 2010

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.

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

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

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

Non-Executive Directors

The Chairman (non-executive) receives directors 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.

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.

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

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.

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 ECOP of the Group was established in 2001.

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

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

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

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

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

ii. Options issued pursuant to shareholder approval

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

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

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

Service agreements

Remuneration and other terms of employment for executive directors and senior executives are formalised in service agreements. Each of these agreements provide for participation, when eligible, in the Arc Exploration Limited Employee & Contractors Option Plan ("ECOP").

All contracts with executives may be terminated early by either party with 3 months notice, subject to termination payments.

DIRECTORS' REPORT cont'd

b. Details of remuneration (audited)

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

Name of Executive	Title	Period of Responsibility
John Carlile	Managing Director	Full year
Cahyono Halim	Chief Financial Officer	Full year
Andrew Cooke	Company Secretary	Full year
Anthony Nadalin	Financial Controller	1 January to 7 July 2010
Brad Wake	Exploration Manager	Full year
Renato Bobis	Chief Generative Geologist	1 April to 31 December 2010

Remuneration details of Non-Executive Directors

2010	Directors Fees $	Superannuation $	Options (c) $	Total $
Name				
Bruce Watson	45,000	4,050	28,303	77,353
George Tahija (a)	-	-	18,869	18,869
Robert Willcocks (b)	22,500	8,175	18,869	49,544
Total	**67,500**	**12,225**	**66,041**	**145,766**

2009	Directors Fees $	Superannuation $	Options (c) $	Total $
Name				
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 current or previous year.

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

(c) The value of options granted during the year was calculated at grant date using a Black-Scholes option-pricing model.
This model requires assumptions to be made regarding inputs such as volatility. The actual "value" to the optionholders will depend on the share price at exercise date and cannot be known with certainty until this point.

Other Key Management Personnel of the Group and Specified Remunerated Executives

2010	Short-term benefits		Post-employment benefits		Share Based Payments	
	Cash Salary and Fees	Non-monetary Benefits	Superannuation	Termination Benefits	Options (d)	Total
Name	$	$	$	$	$	$
Executive Director						
John Carlile	329,260	44,196	10,249	-	84,914	468,619
Executives						
Cahyono Halim	226,906	9,378	8,244	-	56,608	301,136
Andrew Cooke	177,600	-	-	-	56,608	234,208
Anthony Nadalin (a)	40,963	-	3,687	-	22,906	67,556
Brad Wake	221,720	26,264	-	-	56,608	304,592
Renato Bobis	150,230	20,314	-	-	22,731	193,275
Total	**1,146,679**	**100,152**	**22,180**	**-**	**300,375**	**1,569,386**

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(c)	44,601	872	1,581	-	-	47,054
Sucipto Marijan(c)	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**

(a) Mr. Nadalin passed away 7 July 2010

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

(c) 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.

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

This model requires assumptions to be made regarding inputs such as volatility. The actual "value" to the optionholders will depend on the share price at exercise date and cannot be known with certainty until this point.

DIRECTORS' REPORT cont'd

b. Details of remuneration (audited) (continued)

Options

The Directors granted options to key management personnel during the year at follows:

On 19 May 2010 2,219,177 options were granted to Mr. Tony Nadalin (Financial Controller) which had an exercise price of 3.6 cents per share and an expiry date of 11 December 2014. These options were granted on essentially the same terms as those granted to Mr. Nadalin following shareholder approval in December 2009 with the additional provision that they would vest immediately for the benefit of his estate in the event of Mr. Nadalin's death. 50% of these options vested on 1 July 2010 and the remaining 50% vested on 7 July 2010 being the date that Mr. Nadalin passed away. The value of these options at grant date was $0.01032 per option.

The total cost of options issued by directors to key management personnel charged to profit and loss for 2010 was $300,375.

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:

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	**2010**	2009
Directors				
John Carlile	-	9,986,298	4,993,149	-
Bruce Watson	-	3,328,766	1,664,383	-
Robert Willcocks	-	2,219,177	1,109,589	-
George Tahija	-	2,219,177	1,109,589	-
Executives				
Andrew Cooke	-	6,657,532	3,328,766	-
Brad Wake	-	6,657,532	3,328,766	-
Cahyono Halim	-	6,657,532	3,328,766	-
Anthony Nadalin	2,219,177	2,219,177	2,219,177	-
Renato Bobis	3,000,000	-	-	-
Total	**5,219,177**	**39,945,191**	**21,082,184**	**-**

b. Details of remuneration (audited) (continued)

Options (continued)

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

	Balance at 1 January	Granted during year	Lapsed during year	Relinquished during year	Exercised during the year	Balance at 31 Dec or date ceased to be KMP
2010						
Directors						
John Carlile	9,986,298	-	-	-	-	9,986,298
Bruce Watson	3,328,766	-	-	-	-	3,328,766
Robert Willcocks	2,219,177	-	-	-	-	2,219,177
George Tahija	2,219,177	-	-	-	-	2,219,177
Executives						
Andrew Cooke	6,657,532	-	-	-	-	6,657,532
Cahyono Halim	6,657,532	-	-	-	-	6,657,532
Brad Wake	6,657,532	-	-	-	-	6,657,532
Anthony Nadalin	2,219,177	2,219,177	(2,219,177)	-	-	2,219,177
Renato Bobis	-	3,000,000	-	-	-	3,000,000
Total	**39,945,191**	**5,219,177**	**(2,219,177)**	**-**	**-**	**42,945,191**
2009						
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**

DIRECTORS' REPORT cont'd

b. Details of remuneration (audited) (continued)

Options (continued)

	A Remuneration consisting of options	B Granted during year	C Exercised during year	D Lapsed during year
2010	%	$	$	$
Directors				
John Carlile	18%	-	-	-
Bruce Watson	37%	-	-	-
Robert Willcocks	38%	-	-	-
George Tahija	100%	-	-	-
Executives				
Andrew Cooke	24%	-	-	-
Cahyono Halim	19%	-	-	-
Brad Wake	19%	-	-	-
Anthony Nadalin	34%	22,906	-	3,573
Renato Bobis	21%	30,308	-	-
2009				
Directors				
John Carlile	1%	103,079	-	-
Bruce Watson	1%	34,359	-	-
Robert Willcocks	1%	22,906	-	-
George Tahija	100%	22,906	-	-
Executives				
Andrew Cooke	1%	68,719	-	-
Sucipto Marijan	0%	-	-	-
Hermani Soeprapto	0%	-	-	-
Cahyono Halim	1%	68,719	-	-
Brad Wake	1%	68,719	-	-
Anthony Nadalin	1%	3,573	-	-

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 was granted using the Black Scholes option-pricing model assuming the performance criteria had been achieved.

c. Service Agreements - audited

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.

	Remuneration
Director	
John Carlile	$23,000 per month
Executives	
Cahyono Halim	$18,500 per month
Andrew Cooke	$14,800 per month (based on a 4 day week)
Brad Wake	$18,500 per month
Anthony Nadalin	$850 per day part-time casual rate
Renato Bobis	$16,667 per month

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 47 and forms part of this Directors' Report.

NON-AUDIT SERVICES

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

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

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

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

	$
Tax compliance and consultancy services	7,000
Total non-audit services	7,000

DIRECTORS' REPORT cont'd

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, 2010 and the number of meetings attended by each Director:

	Meetings of Directors **		Audit Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Bruce Watson	15	15	6	6
George Tahija	15	13	*	*
John Carlile	15	15	*	*
Robert Willcocks	15	15	6	6

* Not a member of the relevant committee

**Including meetings by circular resolution

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

Dated this 30th day of March 2011.

John C. Carlile
Managing Director

Bruce J. Watson
Non-Executive Chairman

Consolidated Statement of Comprehensive Income

	2010 $	2009 $
Continuing operations		
Other income	10,870	2,550,194
Employee expenses	(1,454,592)	(402,719)
Depreciation expenses	(63,323)	(114,738)
Loss on disposal of plant and equipment	-	(1,008)
Management, administrative and occupancy expenses	(1,320,338)	(826,279)
Exploration expenses written-off	-	(11,284)
Unrealised foreign exchange gain/(loss)	305,825	843,131
Profit/(loss) before financing costs	**(2,521,558)**	**2,037,297**
Interest income	102,261	46,573
Finance expenses	(266,883)	(476,552)
Profit/(loss) before income tax	**(2,686,180)**	**1,607,318**
Income tax (expense)/benefit	-	-
Profit/(loss) from continuing operations	(2,686,180)	1,607,318
Profit/(loss) from discontinued operations	-	12,717,421
Profit/(loss) for the period	**(2,686,180)**	**14,324,739**
Other comprehensive income		
Foreign currency translation differences for foreign operations	420,183	7,195,495
Income tax on other comprehensive income	-	-
Other comprehensive income for the period, net of tax	**420,183**	**7,195,495**
Total comprehensive income for the period	(2,265,997)	21,520,234
Profit/(loss) attributable to:		
Equity holders of the Company	(2,686,180)	14,324,739
Non controlling interest	-	-
Profit/(loss) for the period	(2,686,180)	14,324,739
Total comprehensive income attributable to:		
Equity holders of the Company	(2,265,997)	21,520,234
Non controlling interests	-	-
Profit/(loss) for the period	**(2,265,997)**	**21,520,234**
Earnings per share		
Basic earnings/(loss) per share (cents per share)	(0.67)	8.42
Diluted earnings/(loss) per share (cents per share)	(0.67)	8.42
Continuing operations		
Basic earnings/(loss) per share (cents per share)	(0.67)	0.94
Diluted earnings/(loss) per share (cents per share)	(0.67)	0.94

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

	Notes	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	**10**	4,037,462	3,283,922
Receivables	**11**	33,906	63,429
Other	**13**	131,553	177,707
TOTAL CURRENT ASSETS		**4,202,921**	**3,525,058**
NON-CURRENT ASSETS			
Receivables	**12**	266,286	101,896
Plant and equipment	**14**	47,550	92,845
Exploration and evaluation expenditure	**15**	3,558,274	1,411,347
TOTAL NON-CURRENT ASSETS		**3,872,110**	**1,606,088**
TOTAL ASSETS		**8,075,031**	**5,131,146**
CURRENT LIABILITIES			
Trade and other payables	**16**	238,814	176,224
Interest bearing liabilities	**19**	1,498,576	-
Other	**18**	34,887	33,190
TOTAL CURRENT LIABILITIES		**1,772,277**	**209,414**
NON-CURRENT LIABILITIES			
Interest bearing liabilities	**19**	1,498,576	3,233,801
Provisions	**17**	47,715	10,862
TOTAL NON-CURRENT LIABILITIES		**1,546,291**	**3,244,663**
TOTAL LIABILITIES		**3,318,568**	**3,454,077**
NET ASSETS		**4,756,463**	**1,677,069**
EQUITY			
Contributed equity	**20**	140,292,319	135,313,344
Reserves		1,000,466	213,867
Accumulated losses		(136,536,322)	(133,850,142)
Total equity attributable to equity holders of the Company		4,756,463	1,677,069
Non controlling interest		-	-
TOTAL EQUITY		**4,756,463**	**1,677,069**

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

Consolidated Statement of Changes in Equity

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total	Non-controlling interests	Total Equity
	$	$	$	$	$	$	$
Balance at 1 January 2010	**135,313,344**	**209,132**	**4,735**	**(133,850,142)**	**1,677,069**	**-**	**1,677,069**
Total comprehensive income for period							
Profit/(loss)	-	-	-	(2,686,180)	(2,686,180)	-	(2,686,180)
Other comprehensive income							
Foreign currency translation differences	-	420,183	-	-	420,183	-	420,183
Total other comprehensive income	-	420,183	-	-	(2,265,997)	-	(2,265,997)
Total other comprehensive income for the year	-	420,183	-	(2,686,180)	(2,265,997)	-	(2,265,997)
Transactions with equity holders in their capacity as equity holders							
Absorption of prior year non controlling interest losses with additional capital contributed to the subsidiary by the non controlling interest party	-	-	-	-	-	-	-
Employee share options expense	-	-	366,416	-	366,416	-	366,416
Employee share options relinquished – vested options	-	-	-	-	-	-	-
Employee share options relinquished – unvested options	-	-	-	-	-	-	-
Contribution of equity, net of transaction costs	4,978,975	-	-	-	4,978,975	-	4,978,975
Additional capital contributed to a subsidiary by a non controlling interest party	-	-	-	-	-	-	-
Total transactions with equity holders	4,978,975	-	366,416	-	5,345,391	-	5,345,391
Total equity at the end of period	**140,292,319**	**629,315**	**371,151**	**(136,536,322)**	**4,756,463**	**-**	**4,756,463**

Consolidated Statement of Changes in Equity cont'd

	Share Capital	Translation Reserve	Share-Based Payment Reserve	Accumulated Losses	Total	Non-controlling interests	Total Equity
	$	$	$	$	$	$	$
Balance at 1 January 2009	**132,058,588**	**(6,986,363)**	**593,180**	**(148,313,222)**	**(22,647,817)**	**-**	**(22,647,817)**
Total comprehensive income for period							
Profit/(loss)	-	-	-	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	-	-	21,520,234	-	21,520,234
Total other 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							
Absorption of prior year non controlling interest losses with additional capital contributed to the subsidiary by the non controlling interest party	-	-	-	-	-	(1,303,109)	(1,303,109)
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)
Contribution of equity, net of transaction costs	3,254,756	-	-	-	3,254,756	-	3,254,756
Additional capital contributed to a subsidiary by a non controlling interest	-	-	-	-	-	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 period	**135,313,344**	**209,132**	**4,735**	**(133,850,142)**	**1,677,069**	**-**	**1,677,069**

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

Consoldated Statement of Cash Flows

	Notes	2010 $	2009 $
Cash flows from operating activities			
Receipts from customers		-	16,703
Payments to suppliers and employees		(1,861,807)	(1,489,162)
Exploration expenditure not capitalised		-	(11,284)
Interest received		89,337	38,881
Finance costs		(78,551)	(40,602)
Net cash used in operating activities		**(1,851,021)**	**(1,485,464)**
Cash flows from investing activities			
Refund of security deposits		-	27,117
Payments for office furniture, equipment and vehicles		(27,095)	(11,960)
Proceeds on sale of plant and equipment		-	55,546
Exploration and evaluation expenditures		(2,146,927)	(353,839)
Proceeds from sale of subsidiary		-	1
Loans to other entities		(166,506)	-
Project development expenditures		-	(1,905,932)
Net cash used in investing activities		**(2,340,528)**	**(2,189,067)**
Cash flows from financing activities			
Settlement of convertible notes		-	(221,117)
Loan from Cibaliung Project joint venture partner - PT Aneka Tambang Tbk ("Antam")		-	1,278,850
Net proceeds from the issue of share capital		4,954,851	3,278,880
Net cash from financing activities		**4,954,851**	**4,336,613**
Net increase/(decrease) in cash and cash equivalents		**763,301**	**662,082**
Cash and cash equivalents at beginning of the period		3,283,922	2,075,747
Cash included as assets classified as held for sale		-	1,441,394
Cash balance of sold subsiduary		-	(854,504)
Effects of exchange rate changes on balances of cash held in foreign currencies		(9,761)	(40,797)
Cash and cash equivalents at the end of the period		**4,037,462**	**3,283,922**

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

Notes to the Consolidated Financial Statements

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 2010 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 Company and its controlled entities were:

- the undertaking of gold exploration in Indonesia at Trenggalek (East Java) and Bima (East Sumbawa); and
- providing support to Anglo American to undertake copper/gold exploration in Indonesia at Aisasjur (West Papua).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

Statement of Compliance

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

The financial report covers the economic entity of Arc Exploration Limited and its controlled entities.

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

The financial statements were approved by the Board of Directors on 30 March 2011.

Going Concern Basis

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

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the effects of any derivative financial instruments which are measured at fair value.

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

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

- Exploration and evaluation expenditure
- Recognition of tax losses

Refer to Note 5 for further details.

Changes in accounting policies

Removal of parent entity financial statements.

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd

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.

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 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.

Group Entities

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

· assets and liabilities are translated at the closing exchange rate at the date of the statement of financial position;

· income and expenses are translated at the average exchange rate for the period (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the dates of the transaction); and

· all resulting exchange differences are recognised as a separate component of equity.

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

Derivative Financial Instruments

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

Fair value estimation

The 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. Techniques, such as estimated discounted cash flows, are used to determine fair value for financial instruments.

Notes to the Consolidated Financial Statements cont'd

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd

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

Acquisition of Assets

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

Plant and Equipment

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

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

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

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

Depreciation

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

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

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

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

Exploration and Evaluation Expenditure

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

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

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

a) The rights to tenure of the area of interest are current; and

b) At least one of the following conditions is also met:

(i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; or

(ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

· Acquisition of rights to explore;

· Topographical, geological, geochemical and geophysical studies;

· Exploratory drilling, trenching, and sampling; and

· Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

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

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

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

Impairment testing of exploration and evaluation assets

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

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

· The term of exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;

· Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;

· Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or

· Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Cash

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

Trade Receivables

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

Notes to the Consolidated Financial Statements cont'd

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd

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

Trade and other Payables

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are non-interest bearing, unsecured and generally paid within 30 days of recognition.

Comparative Information

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

Impairment of Assets

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

Share-based payment transactions

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

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

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.

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 profit and loss. 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.

Basic/Diluted Earnings/(loss) per Share

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

Interest bearing liabilities

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

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

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

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.

Employee Benefits

Wages, salaries, and annual leave

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

Long Service Leave

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

Post employment benefits

The Group provides post-employment benefits for its employees in Indonesia in accordance with Indonesian Labor Law NO 13/2003. This benefit program is deemed a defined benefit plan. 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 a

Notes to the Consolidated Financial Statements cont'd

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd

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.

Provisions

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

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

Contributed Equity

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

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.

Restoration, Rehabilitation and Environmental Expenditure

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

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

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.

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.

Other income

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

Leases

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

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

Finance Costs

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

The finance expense included in the profit and loss are in relation to unsecured loans (refer note 19).

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

Goods and services taxes

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

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

Value added taxes

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

Income Tax

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

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

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

Notes to the Consolidated Financial Statements cont'd

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd

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

Segment Reporting

The Group 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.

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

3 FINANCIAL RISK MANAGEMENT

Overview

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

· credit risk

· liquidity risk

· market risk

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

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

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

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

Other receivables

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

Guarantees

As at 31 December 2010 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 Group to continue to meet the financial obligations they are incurring will depend on the ability of the Company to successfully complete capital raisings as required. Given the Group's financial position during 2009 and 2010, the Group's approach to managing liquidity was to ensure that liabilities were only incurred where there were sufficient available funds to meet those liabilities within normal trading terms or alternatively where there were reasonable grounds to believe that additional funding would be raised within the required timeframe required to settle such liabilities when they fell due.

Market risk

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

(i) Foreign exchange risk

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

The Group 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. 50% of this loan is repayable in March 2011 with the remainder repayable in March 2012.

Notes to the Consolidated Financial Statements cont'd

(ii) Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2009 the Company settled its fixed interest rate Convertible Note loans and as at 31 December 2010 the only interest bearing loans are the fixed rate Unsecured Loans .

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

(iii) Other market price risk

The Group did not hold any investments during the 2010 financial year.

Capital management

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

As an exploration entity, the Group monitors capital and financing facilities on a liquidity basis. The Group's liquidity position is calculated as current assets less current liabilities ($2,430,644) and also considers future exploration commitments.

The Company commenced share capital raisings in the last quarter of 2010 to fund corporate operating costs in Australia and Indonesia and expanded exploration activities in Indonesia. 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.

4 GOING CONCERN

The financial report is prepared on a going concern basis which reflects the Directors' expectation that the Group will be able to realise its assets and settle its obligations in the normal course of business. In making this assessment the Directors have taken the following into consideration:

· As reported in note 34 Events Subsequent to Reporting Date, during January 2011 the Group raised additional funds of approximately $6.9M from the exercise of ARXOA options.

· Based on a cash flow forecast for the period 1 January 2011 to 31 March 2012, the Group has sufficient funds to continue its planned exploration program in Indonesia and also to meet corporate operating costs in both Australia and Indonesia during this period. In addition, whilst not reflected in the current budgets or forecasts, management have the ability to reduce expenditure in certain areas (if required by unforeseen events) to further preserve the Group's cash.

· During the 2010 year the Company continued to demonstrate its ability to raise shareholder funds for its exploration program via the share placement in October 2010 which raised $1.2M and the Share Purchase Plan which closed over subscribed on 27 October 2010 and raised $3.0M.

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.

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(i) Exploration and evaluation expenditure

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance group's accounting policy (refer note2(b)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or

5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS cont'd

alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to Reserves, the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy described in note 2(b), a judgment is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement. The carrying amounts of exploration and evaluation assets are set out in note 15.

(ii) Deferred tax

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

The Group has not recognised a net deferred tax asset for temporary differences and tax losses as at 31 December 2010 on the basis that the ability to utilise these temporary differences and tax losses can not yet be regarded as probable.

Notes to the Consolidated Financial Statements cont'd

6 REVENUE AND EXPENSES

	2010	2009
	$	$
(a) (i) Other income		
Gain on settlement of convertible notes	-	1,990,053
Gain on debt forgiven by related party	-	536,852
Sundry income	10,870	23,289
	10,870	2,550,194
(ii) Finance income		
Interest received or receivable from third parties	102,261	46,753
(b) Employee expenses		
Wages and salaries	1,037,641	739,405
Superannuation & post employment benefits	50,535	27,183
Increase/(decrease) in liability for annual leave	-	(14,394)
Increase/(decrease) in liability for long service leave	-	(548)
Unvested options relinquished	-	(353,662)
Share based payments expense	366,416	4,735
	1,454,592	402,719
(c) Finance expenses		
Interest paid or payable:		
- Related party	266,578	47,693
- Other persons	305	318,901
- Convertible notes	-	109,958
	266,883	6,468,945
(d) Rental expense relating to operating leases		
Lease payments	28,494	52,236

7 EARNINGS / (LOSS) PER SHARE

Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share	(2,265,997)	1,607,318
Profit/(loss) from discontinued operations	-	12,717,421
Net profit/(loss) used in calculating basic and diluted earnings per share	(2,265,997)	14,324,739
Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share	403,299,888	170,164,920
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share	403,299,888	170,164,920
Basic earnings/(loss) per share (cents per share)	(0.67)	8.42
Diluted earnings/(loss) per share (cents per share)	(0.67)	8.42
Continuing operations		
Basic earnings/(loss) per share (cents per share)	(0.67)	0.94
Diluted earnings/(loss) per share (cents per share)	(0.67)	0.94

Information Concerning the Classification of Securities
Employee and Director Options

The options granted to directors, employees and contractors are not included in the calculation of diluted earnings per share because the average market price exceeded the exercise price and are therefore considered as antidilutive for the years ended 31 December 2010 and 2009.

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 2010 and 2009. These options could potentially dilute earnings per share in the future.

Notes to the Consolidated Financial Statements cont'd

8 DISCONTINUED OPERATIONS

	2010 $	2009 $
Results from discontinued operations		
Employee expenses	-	63,780
Write-back of liquidation expense provision	-	627,291
Gain on deconsolidation of disposed subsidiaries	-	12,026,350
Profit / (Loss) before income tax	-	12,717,421
Income tax	-	-
Profit / (Loss) from discontinued operations	-	12,717,421
Cash flows from/(used in) discontinued operations		
Net cash used in operating activities	-	-
Net cash used in investing activities	-	(1,850,385)
Net cash from financing activities	-	1,278,850
Net cash from/(used in) discontinued operations	-	(571,535)

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

9 INCOME TAX EXPENSE

	2010 $	2009 $
Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax benefit	(2,686,180)	14,324,739
Income tax expense/(benefit) at the statutory rate of 30% (2009:30%)	(805,854)	4,297,422
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowed for tax	-	-
Non-assessable gain on deconsolidation of disposed subsidiaries	-	(3,607,905)
Non-deductible / assessable investment diminution and doubtful debts expense-related party	-	-
Non-deductible / assessable foreign translation (gain)/loss	126,055	(252,939)
Non-deductible exploration expense written-off	-	3,385
Share issue costs	(87,748)	(108,651)
Non-assessable credit on relinquished employee share options	-	(136,452)
Non deductible share based payments expense	109,925	1,421
	(657,622)	196,281
Prior year losses utilised	-	(196,281)
Less tax losses not recognised and carried forward	657,622	-
Income tax expense/(benefit)	-	-

10 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	335,157	683,922
Short term deposits	3,702,305	2,600,000
	4,037,462	3,283,922

Notes to the Consolidated Financial Statements cont'd

11 CURRENT RECEIVABLES

	2010 $	2009 $
Other debtors	-	10,921
Goods and services tax (GST) and other consumption taxes recoverable	13,289	44,815
Interest receivable	20,617	7,693
	33,906	63,429

12 NON-CURRENT RECEIVABLES

Other debtors	266,286	101,896
	266,286	101,896

13 OTHER CURRENT ASSETS

Prepayments	73,435	119,464
Security deposits	23,231	23,356
Monies held in trust	34,887	34,887
	131,553	177,707

14 PLANT AND EQUIPMENT

	2010	2009
	$	$
(a) Office furniture and equipment		
Gross carrying amount		
Opening balance	351,942	446,097
Additions	24,526	10,793
Disposals and transfers	(26,769)	(11,735)
Net foreign exchange differences	(38,205)	(93,213)
Closing balance	311,494	351,942
Accumulated depreciation		
Opening balance	(276,394)	(257,109)
Depreciation expense	(42,631)	(81,400)
Depreciation reversed on disposals	24,905	10,368
Net foreign exchange differences	29,820	51,747
Closing balance	(264,300)	(276,394)
Net office furniture and equipment	47,194	75,548
(b) Motor vehicles		
Gross carrying amount		
Opening balance	82,989	107,440
Additions	-	-
Disposals and transfers	-	-
Net foreign exchange differences	(9,749)	(24,451)
Closing balance	73,240	82,989
Accumulated depreciation		
Opening balance	(65,692)	(57,749)
Depreciation expense	(14,909)	(21,085)
Disposals and transfers	-	-
Depreciation capitalised	-	-
Assets classified as held for sale	-	-
Net foreign exchange differences	7,717	13,142
Closing balance	(72,884)	(65,692)
Net motor vehicles	356	17,297
Carrying amounts		
Total plant and equipment – at 1 January	92,845	238,679
Total plant and equipment – at 31 December	47,550	92,845

Notes to the Consolidated Financial Statements cont'd

15 EXPLORATION AND EVALUATION EXPENDITURE

	2010	2009
	$	$
Opening balance	1,411,347	1,057,507
Additions	2,146,927	365,124
Exploration costs written-off	-	(11,284)
	3,558,274	1,411,347

The Group's exploration activities are conducted via contractual arrangements with certain Indonesian companies and individuals under which each party contributes assets and/or expertise. These agreements create relationships similar in nature to a joint venture operation or joint venture asset as defined in AASB 131 Interests in Joint Ventures, however do not give the parties joint control over the contributed assets or operations. Subject to the agreements, the parties have rights and obligations in proportion to agreed "ownership" levels and, as at 31 December 2010, the Group's ownership level was 95% (2009: 95%). The Group has capitalised its share of the exploration expenditure in accordance with the accounting policy set out in Note 2(b), and its share of any capital commitments and contingent liabilities are included in the amounts disclosed in Notes 30 and 33.

16 TRADE AND OTHER PAYABLES

Trade payables and accrued expenses	204,569	141,832
Goods and services tax (GST) and other consumption taxes payable	34,245	34,392
	238,814	176,224

17 PROVISIONS

Current liabilities		
Employee leave entitlements	-	-
	-	-
Non-current liabilities		
Post employment benefits	47,715	10,862
	47,715	10,862
Current and non-current provisions	47,715	10,862

18 OTHER CURRENT LIABILITIES

	2010	2009
	$	$
Amounts payable to other persons	34,887	33,190
	34,887	33,190

19 INTEREST BEARING LIABILITIES

	2010	2009
Current Liabilities		
Unsecured loans – related parties	149,857	-
Unsecured loans	1,348,719	-
	1,498,576	-
Non-Current Liabilities		
Unsecured loans – related parties	149,857	323,380
Unsecured loans	1,348,719	2,910,421
	1,498,576	3,233,801
Current and non-current interest bearing liabilities	2,997,152	3,233,801

Terms and debt repayment schedule

Terms and conditions of outstanding loans as at the end of 2010 financial years are as follows:

				31 December 2010		31 December 2009	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured loans	USD	5%	2012	2,816,391	2,997,152	3,233,800	3,233,800

As at 31 December 2010 the outstanding unsecured loans balance is US $3 million. Until 1 July 2010 the loan interest rate was 10% per annum with the interest being capitalised quarterly in arrears. From the 1 July 2010 the loan interest rate is 5% per annum with the interest being paid in cash quarterly in arrears. 50% of the principal and capitalised interest will be repayable in March 2011 and the remaining 50% will be repayable in March 2012.

Notes to the Consolidated Financial Statements cont'd

20 CONTRIBUTED EQUITY

	31/12/2010 Number	31/12/2009 Number	**31/12/2010 $**	31/12/2009 $
At 31 December	614,504,798	344,451,974	140,292,319	135,313,344
Fully paid ordinary shares				
At the beginning of the year	344,451,974	149,761,711	135,313,344	132,058,588
Shares issued as placements @ 1.8 cents	-	22,464,276	-	404,357
Shares issued under rights issue @ 1.8 cents	-	172,225,987	-	3,100,068
Listed options 56,250,000 issued @ 0.2 cents	-	-	-	112,500
Exercise of shareholder options @ 3.6 cents	346,696	-	12,481	-
Exercise of shareholder options @ 75 cents	1	-	1	-
Shares issued for services rendered at right issue @ 3.6 cents	1,944,444	-	70,000	-
Shares issued in consideration for drilling service@ 1.8 cents	51,817,835	-	932,721	-
Shares issued as placement @ 2.0 cents	59,750,000	-	1,195,000	-
Shares issued under share placement plan @ 2.2 cents	137,443,848	-	3,023,765	-
Listed options issued	18,750,000	-	37,500	-
Transaction costs relating to share issues			(292,493)	(362,169)
	614,504,798	344,451,974	140,292,319	135,313,344

(a) Share-based payment options

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

20 CONTRIBUTED EQUITY cont'd

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

Option Series	Opening balance 1 January	Issued	No. of options Relinquished	Lapsed	No. of options outstanding 31 December
2010					
Options issued to Directors and Employees exercisable at $0.036	39,945,191	5,219,177	-	(2,219,177)	42,945,191
	39,945,191	5,219,177	-	(2,219,177)	42,945,191
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

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.

The following options were granted to employees during the year :

(a) On 11 May 2010 3,000,000 options were granted to Dr. Renato Bobis (Chief Generative Geologist) which had an exercise price of 4.6 cents (being a 10 premium over 10 day VWAP prior to 1 April 2010) and an expiry date of 31 March 2013. These options are to vest as follows:

- 1,000,000 to vest upon acquisition of 1st new project identified for the Company as a result of the holders generative work; and
- 1,000,000 to vest upon acquisition of 2nd new project identified for the Company as a result of the holders generative work; and
- 1,000,000 to vest upon completion of initial 12 month employment.

(b) On 19 May 2010 2,219,177 options were granted to Mr. Tony Nadalin (Financial Controller) which had an exercise price of 3.6 cents per share and an expiry date of 11 December 2014. These options were granted on essentially the same terms as those granted to Mr. Nadalin following shareholder approval in December 2009 with the additional provision that they would vest immediately for the benefit of his estate in the event of Mr. Nadalin's death. 50% of these options vested on 1 July 2010 and the remaining 50% vested on 7 July 2010 being the date that Mr. Nadalin passed away.

Notes to the Consolidated Financial Statements cont'd

(a) 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.

(b) Listed Options

The number of listed options over unissued ordinary shares as at 31 December 2010 is 206,820,410 (2009: 161,535,968). The terms of these options are as follows:

Listed Options	Number	Exercise Price	Expiry Date
Listed options ARXO	7,940,728	$0.750	30/06/2012
Listed options ARXOA	198,879,682	$0.036	31/01/2011
	206,820,410		

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

	2010	2009
Number of listed options ARXO		
Balance as at 1 January	7,940,729	7,940,729
Options issued	-	-
Options converted to shares	(1)	-
Balance as at 31 December	**7,940,728**	**7,940,729**
Number of listed options ARXOA		
Balance as at 1 January	153,595,239	-
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 attached to employee options issued	18,750,000	-
Options attached with shares issued for services rendered	26,881,139	-
Options converted to shares	(346,696)	-
Balance as at 31 December	**198,879,682**	**153,595,239**

(d) Unlisted Options

The number of unlisted options over unissued ordinary shares as at 31 December 2010 is 17,775,000 (2009:17,775,000.)

21 RESERVES

	2010 $	2009 $
Foreign currency translation reserve		
Balance at the beginning of financial year	209,132	(6,986,363)
Translation of foreign operations during the year	420,183	7,195,495
Balance at end of the financial year	629,315	209,132
Share-based payments reserve		
Balance at the beginning of financial year	4,735	593,180
Options expense	366,416	4,735
Options relinquished- unvested	-	(454,839)
Options relinquished- vested	-	(138,341)
Balance at end of the financial year	371,151	4,735
Total Reserves	1,000,466	213,867

Foreign currency translation reserve

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

Share-based payments reserve

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

22 ACCUMULATED LOSSES

	2010 $	2009 $
Balance at the beginning of the financial year	(133,850,142)	(148,313,222)
Transfer of options reserve amount for relinquished vested options	-	138,341
Net profit/(loss) attributable to Arc Exploration Limited	(2,686,180)	14,324,739
Balance at the end of the financial year	(136,536,322)	(133,850,142)

Notes to the Consolidated Financial Statements cont'd

23 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
Non-Executive Directors	
Bruce Watson	Chairman
George Tahija	Director
Robert Willcocks	Director
Other Key Management Personnel	
Cahyono Halim	Chief Financial Officer
Andrew Cooke	Company Secretary
Anthony Nadalin	Financial Controller (passed away 7 July 2010)
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

There are no loans to key management personnel. For information on other transactions between key management personnel and entities in the Group, refer Note 26.

(b) Remuneration

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

	2010 **$**	2009 $
Short term employee benefits	1,076,287	867,282
Post employment benefits	22,180	42,766
Termination benefits	-	34,436
Share-based payments	277,644	4,735
	1,376,111	949,219

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

	Balance at 1 January	Granted as remuneration	Options lapsed	Options relinquished	Total at 31 Dec	Exercisable at 31 Dec
2010						
Directors						
J Carlile	9,986,298	-	-	-	9,986,298	4,993,149
B Watson	3,328,766	-	-	-	3,328,766	1,664,383
R Willcocks	2,219,177	-	-	-	2,219,177	1,109,589
G Tahija	2,219,177	-	-	-	2,219,177	1,109,589
Other Key Management Personnel						
A Cooke	6,657,532	-	-	-	6,657,532	3,328,766
C Halim	6,657,532	-	-	-	6,657,532	3,328,766
B Wake	6,657,532	-	-	-	6,657,532	3,328,766
A Nadalin (1)	2,219,177	2,219,177	(2,219,177)	-	2,219,177	2,219,177
2009						
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 (2)	280,000	-	-	(280,000)	-	-
H Soeprapto (2)	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 (1)	160,000	2,219,177	-	(160,000)	2,219,177	-

(1) Mr A Nadalin passed away on 7 July 2010

(2)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.

Notes to the Consolidated Financial Statements cont'd

23 KEY MANAGEMENT PERSONNEL DISCLOSURES cont'd

(c) 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

	Balance as at 1 January	Other changes	Balance as at 31 December
2010			
Directors			
B Watson	18,000	-	18,000
G Tahija	324,675	-	324,675
J Carlile	73,511	-	73,511
Other Key Management Personnel			
A Cooke	3,200	-	3,200
2009			
Directors			
B Watson	18,000	-	18,000
G Tahija	324,675	-	324,675
J Carlile	73,511	-	73,511
Other Key Management Personnel			
A Cooke	3,200	-	3,200
H Soeprapto (1)	81,169	(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's options as at 28 February 2009.

(ii) Listed options ARXOA	Balance as at 1 January	Received from rights issue or rights issue shortfall	Purchases	Sales	Balance as at 31 December
2010					
Directors					
B Watson	4,095,278	-	-	-	4,095,278
G Tahija	-	-	-	-	-
J Carlile	5,477,850	-	-	-	5,477,850
R Willcocks	1,375,000	-	-	-	1,375,000
Other Key Management Personnel					
A Cooke	256,605	-	-	-	256,605
2009					
Directors					
B Watson	-	2,755,000	1,340,278	-	4,095,278
G Tahija	-	5,298,737	-	(5,298,737)	-
J Carlile	-	1,519,391	3,958,459	-	5,477,850
R Willcocks	-	1,375,000	-	-	1,375,000
Other Key Management Personnel					
A Cooke	-	256,605	-	-	256,605

(d) 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:

	Balance as at 1 January	Purchases	Sales	Subscription to capital raisings, rights issue or rights issue shortfall	Other changes	Balance as at 31 December
2010						
Directors						
B Watson	8,680,556	574,073	-	-	-	9,254,629
G Tahija	10,597,474	-	-	-	-	10,597,474
J Carlile	12,194,482	574,073	-	-	-	12,768,555
R Willcocks	2,750,000	-	-	-	-	2,750,000
Other Key Management Personnel						
A Cooke	613,209	450,375	-	-	-	1,063,584

Notes to the Consolidated Financial Statements cont'd

23 KEY MANAGEMENT PERSONNEL DISCLOSURES cont'd

(d) Shares (continued)

	Balance as at 1 January	Purchases	Sales	Subscription to capital raisings, rights issue or rights issue shortfall	Other changes	Balance as at 31 December
2009						
Directors						
B Watson	490,000	2,680,556	-	5,510,000	-	8,680,556
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
R Willcocks	-	-	-	2,750,000	-	2,750,000
Other Key Management Personnel						
A Cooke	100,000	1	-	413,900	-	513,901
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 applied in determining all other shareholder Shortfall allocations.

(e) 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.

24 OPERATING SEGMENTS

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 2010 year the Group had only one reportable segment. During the 2009 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)

(a) Information about reportable segments

	Exploration		**Mine Development (Discontinued)**		**Consolidated**	
	2010 $	2009 $	**2010 $**	2009 $	**2010 $**	2009 $
External revenues	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Interest income	-	-	-	-	-	-
Depreciation and amortisation	-	-	-	-	-	-
Reportable segment profit/(loss) before income tax-	-	(11,284)	-	63,780	-	52,496
Reportable segment assets	3,558,274	1,429,700	-	-	3,558,274	1,429,700
Capital expenditure (including capitalised Cibaliung Project costs)	-	9,477	-	391,055	-	400,532

Notes to the Consolidated Financial Statements cont'd

24 OPERATING SEGMENTS cont'd

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

	2010 $	2009 $
Profit or Loss		
Total profit/(loss) for reportable segments	-	52,496
Gain on settlement of convertible notes	-	1,990,053
Gain of debt forgiven by third party	-	536,852
Unrealised foreign exchange gain (loss)	305,825	843,131
Gain on disposal of subsidiaries	-	12,653,641
Finance expenses	(266,883)	(476,552)
Interest income	102,261	46,574
Unallocated amounts: other corporate expenses	(2,827,383)	(1,321,457)
Consolidated profit/(loss) before tax	(2,686,180)	14,324,738
Assets		
Total assets for reportable segments	3,558,274	1,429,700
Other unallocated amounts	4,516,757	3,701,445
Consolidated total assets	8,075,031	5,131,145

25 INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entity	Country of Incorporation	Class of Shares	Equity Holdings 2010 %	2009 %
PT Indonusa Mining Services	Indonesia	Ord	100	100

26 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
Bruce Watson	Non-Executive Chairman
George Tahija	Non-Executive Director
Robert Willcocks	Non-Executive Director

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

During the 2009 financial year the ANZ did not elect to participate in the November Rights Issue and also sold some of it's share holdings. As at 31 December 2009 the ANZ held 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. During the 2010 financial year ANZ did not elect to participate in Capital raising activities and as at 31 December 2010 the ANZ held 8.08% of issued capital of the company.

Material transactions with the ANZ during the period which ANZ was considered to a related party:	**2010 $**	2009 $
Transactions with ANZ		
Trade and other payables balance forgiven by ANZ	-	(536,852)
(c) Transactions with Directors and Director Related Entities:		
PT Austindo Nusantara Jaya, a company in which Mr. Tahija is a Director and a direct shareholder, purchased surplus Cibaliung Project fixed assets	-	55,546
Mr. Carlile received interest payments or had interest payments capitalised on a loan provided to the Company.	26,083	37,281
Loan of US $304,600 (2009: US$290,000) owed by the Company to Mr. Carlile. Up until 30 June 2010 all interest at 10% was capitalised, from 1 July 2010 interest at 5% was paid in cash.	299,714	323,380
(d) 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

27 FINANCIAL INSTRUMENTS

(a) Credit risk

Cash and cash equivalents	4,037,462	3,283,922

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

Notes to the Consolidated Financial Statements cont'd

27 FINANCIAL INSTRUMENTS cont'd

(b) Liquidity risk

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

2010	Carrying amount $	Contractual cash flows $	Within 6 months $	Within 6-12 months $	1 to 2 years $	2 to 5 years $
Unsecured loans	3,119,767	3,119,767	1,559,462	41,340	1,518,965	-
Trade and other payables	238,814	238,814	238,814	-	-	-
Other current liabilities	34,887	34,887	34,887	-	-	-
	3,393,468	3,393,468	1,833,163	41,340	1,518,965	-
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	-

(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:

2010	AUD $	IDR $	USD $	Total $
Cash and cash equivalents	179,052	9,344	-	188,396
Trade and other payables	-	(90,812)	-	(90,812)
Unsecured loans	-	-	(2,997,152)	(2,997,152)
	179,052	(81,468)	(2,997,152)	(2,899,568)
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)

(c) Currency risk (continued)

The following significant exchange rates applied during the year:

AUD	Average rate 2010	2009	Reporting date spot rate 2010	2009
USD	0.9199	0.7987	1.0163	0.8969
IDR	8,348	8,064	9,142	8,429

Sensitivity analysis

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

On the USD amounts which relate to the Group balances denominated in USD, a 5% decrease in AUD/USD exchange rate from the 2010 year-end spot rate would have decreased the unrealised foreign exchange gain for the Group by $157,745 (2009:$177,200).

(d) Interest rate risk

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

	Effective average interest rate	FIxed or Floating rate	Within 6 months $	Within 6-12 months $	1 to 2 years $	2 to 5 years $	Total $
2010							
Financial Assets							
Cash at bank	0.1%	Floating	132,326	-	-	-	132,326
Cash at bank	5.6%	Fixed	3,702,305	-	-	-	3,702,305
Security deposits	5.7%	Fixed	20,000	-	-	-	20,000
Monies held in trust	0.1%	Floating	34,887	-	-	-	34,887
Financial Liabilities							
Unsecured loans	5.0%	Fixed	1,498,576	-	1,498,576	-	2,997,152
Net Position			5,388,094	-	1,498,576	-	6,886,670

Notes to the Consolidated Financial Statements cont'd

27 FINANCIAL INSTRUMENTS cont'd

	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

(e) Fair values

The fair value of financial assets and liabilities, 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.

	Carrying amount 2010 $	Fair value 2010 $	Carrying amount 2009 $	Fair value 2009 $
Financial Assets				
Cash and cash equivalents	4,037,462	4,037,462	3,283,922	3,283,922
Receivables	266,286	266,286	101,896	101,896
Other assets	131,553	131,553	177,707	177,707
Total Financial Assets	4,435,301	4,435,301	3,563,525	3,563,525
Financial Liabilities				
Trade and other payables	238,814	238,814	176,224	176,224
Unsecured loans	2,997,152	2,816,391	3,233,801	3,111,753
Other liabilities	34,887	34,887	33,190	33,190
Total Financial Liabilities	3,270,853	3,090,092	3,443,215	3,321,167

(f) Derivative financial instruments

No derivative financial instruments were held by the Group either at 31 December 2010 or 31 December 2009.

(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.

28 CASHFLOWS

(a) Reconciliation of cash and cash equivalents

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

	2010 $	2009 $
Cash at bank and in hand	335,157	683,922
Term deposits	3,702,305	2,600,000
	4,037,462	3,283,922
(b) Cash flows from operating activities		
Profit/(loss) for the financial year	**(2,686,180)**	**14,324,739**
Net depreciation	63,323	115,143
Loss on disposal of assets	1,864	1,008
Gain on disposal of subsidiaries	-	(12,026,350)
Gain on settlement of convertible notes	-	(1,990,053)
Gain on debt forgiven	-	(536,852)
Share based payments	366,416	(412,707)
Unrealised foreign exchange (gain)/loss	(305,825)	(894,481)
Income tax expense/(benefit)	-	-
(Increase)/decrease in assets:		
Current receivables	365,278	72,762
Interest receivable	(12,924)	(7,693)
Other current assets	49,428	81,831
Increase/(decrease) in liabilities:		
Current payables	100,459	(27,469)
Current provisions	42,123	(2,742)
Interest bearing liabilities	165,017	444,691
Liquidation expense provision	-	(627,291)
Net cash flow from operating activities	**(1,851,021)**	**(1,485,464)**

Notes to the Consolidated Financial Statements cont'd

29 LEASING COMMITMENTS

	2010 $	2009 $
Operating Lease Commitments		
Payable		
- not later than 1 year	-	2,078
- longer than 1 year but not later than 5 years	-	-
	-	2,078

30 COMMITMENTS FOR CAPITAL EXPENDITURE

Capital expenditure commitments:		
Payable		
Plant and equipment:		
- not longer than 1 year	-	-
	-	-

31 ECONOMIC DEPENDENCY

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

32 AUDITORS' REMUNERATION

Audit services		
Auditors of the Company		
KPMG		
Audit and review of financial reports	60,496	56,750
Other auditors		
Audit and review of financial reports	7,626	21,472
	68,122	78,222
Other services		
Auditors of the Company		
KPMG		
Tax compliance and consulting services	7,000	14,770
Review service for prospectus disclosure	-	15,000
	7,000	29,770
	75,122	107,992

33 CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2010 (2009: nil).

34 EVENTS SUBSEQUENT TO REPORTING DATE

Throughout January 2011 the bulk of the ARXOA options were exercised by option holders. These options had an exercise price of 3.6 cents and expired on 31 January 2011. As a result the Group raised a total of $6.9 million which will be utilised as working capital and to advance the Group's gold exploration activities in Indonesia.

On 23 March 2011 the Company issued 1,500,000 unlisted option having an exercise price of 7.5 cents nad an expiry date of 23 September 2012 as part consideration for corporate services to be provided by RBS Morgans Corporate Limited.

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.

35 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 31 December 2010 the parent entity of the Group was Arc Exploration Limited.

	2010 $	2009 $
Result of parent entity		
Profit/loss for the period	(2,125,985)	14,324,739
Other comprehensive income	-	-
Total comprehensive income for the period	**(2,125,985)**	**14,324,739**
Financial position of parent entity at year end		
Current assets	3,953,077	3,270,755
Total assets	7,777,637	4,788,193
Current liabilities	1,646,147	140,884
Total liabilities	3,144,723	3,374,685
Total equity of parent entity comprising of:		
Share capital	140,292,319	135,313,344
Reserve for own shares	371,151	4,735
Retain earnings/(losses)	(136,030,556)	(133,904,571)
Total equity	**4,632,914**	**1,413,508**

DIRECTORS' DECLARATION

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

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

   (i) giving a true and fair view of the Group's financial position of the as at 31 December 2010 and of its performance for the financial year ended on that date; and

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

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

   (c) as disclosed in Note 4 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 31 December 2010.

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

Dated 30 March 2011

Mr. John C. Carlile Managing Director	Bruce J. Watson Non-Executive Chairman

INDEPENDENT AUDITORS' REPORT

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Arc Exploration Limited (the Company), which comprises the statement of financial position as at 31 December 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(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 Group's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 7 to 13 of the Directors' report for the year ended 31 December 2010. 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 2010 complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Chris Sargent
Partner

Melbourne

30 March 2011

AUDITORS' 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 2010 there have been:

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

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

KPMG

KPMG

Chris Sargent
Partner

Melbourne

30 March 2011

SHAREHOLDER INFORMATION

as at 24 March 2011

(a) Number of ARX shareholders	**4,270**
Number of ARXO optionholders	**803**

(b) Total shares issued	**786,387,663**
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	**39.81%**
Percentage of total holdings by or on behalf of the 20 largest ARXO optionholders	**90.93%**

(d) Distribution schedule of holdings

	Ordinary Shares	**ARXO 30 June 2012 Options**
1-1,000	1,282	666
1,001-5,000	714	93
5,001-10,000	250	12
10,001-100,000	1,166	19
100,001 and over	832	13
less than marketable parcel	2,350	782

(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.

SHAREHOLDER INFORMATION

TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES

Rank	Name	Units	% of Units
1.	SOUTHO INVESTMENTS LIMITED	56,526,752	7.19
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	47,604,911	6.05
3.	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	47,577,171	6.05
4.	J P MORGAN NOMINEES AUSTRALIA LIMITED	15,646,569	1.99
5.	PHILLIP SECURITIES PTE LTD <CLIENT ACCOUNT>	13,970,000	1.78
6.	MR BRUCE JAMES WATSON	13,349,907	1.70
7.	STA HOLDINGS PTY LTD <THE GUESS A/C>	12,710,000	1.62
8.	SPYDER B INTERNATIONAL LIMITED	12,499,998	1.59
9.	MR MENG LUO + MRS LAN LIU <LUO & LIU FAMILY A/C>	11,500,000	1.46
10.	PT AUSTINDO NUSANTARA JAYA	10,597,472	1.35
11.	ARMCO BARRIERS PTY LTD	10,336,666	1.31
12.	GRAHAM GUERIN INVESTMENTS PTY LTD <GRAHAM GUERIN SUPER FUND AC>	9,141,457	1.16
13.	J J N A SUPER PTY LTD <CHATTERTON FAMILY SUPER A/C>	8,574,073	1.09
14.	CITICORP NOMINEES PTY LIMITED	7,713,354	0.98
15.	MR GREGORY JOHN MUNYARD + MRS MARIA ANN MUNYARD + MISS CARMEN HELENE MUNYARD <RIVIERA SUPER FUND A/C>	6,650,000	0.85
16.	TOLTEC HOLDINGS PTY LTD	6,484,919	0.82
17.	MR SCOTT JAMES TODD + MRS ADELE TODD	6,200,000	0.79
18.	NORVEST PROJECTS PTY LTD	6,000,000	0.76
19.	ASIA UNION INVESTMENTS PTY LIMITED	5,003,000	0.64
20.	PACIFIC DEVELOPMENT CORPORATION PTY LTD	5,000,000	0.64
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES		**313,086,249**	**39.81**

Substantial Shareholders	Shares to Which Entitled	% of Issued Capital
Southo Investments Limited	56,526,752	7.19
ANZ Banking Group Limited	47,577,171	6.05

SHAREHOLDER INFORMATION

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	733,536	9.24
3.	A HEWSON SUPER ADMINISTRATION PTY LTD	525,200	6.61
4.	RARE EARTHS & MINERALS PTY LTD	500,000	6.30
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	483,858	6.09
6.	PT AUSTINDO NUSANTARA JAYA	324,675	4.09
7.	MACQUARIE BANK LIMITED	225,000	2.83
8.	MR WILLIAM JOHN GAYMANS + MRS ZELDA ELIZABETH GAYMANS	200,000	2.52
9.	MR TREVOR CHARLES PAYNE + MS NAWADI TOMKHAM <THE TREVANNA SUPER FUND A/C>	200,000	2.52
10.	MRS HELEN CAMPLING	184,895	2.33
11.	MR DAVID ALAN SANDERS	180,849	2.28
12.	DISSOLVEBARRIERS PTY LTD	100,196	1.26
13.	DENMAT PTY LTD <DENMAT PROPERTY A/C>	100,000	1.26
14.	MR JOHN TALBOT REILLY	100,000	1.26
15.	MR RAJNAI SINGH	100,000	1.26
16.	MR MICHAEL TORR	100,000	1.26
17.	MR PHILIP JAMES HENLEY + MRS PENNY ELAINE HENLEY	95,000	1.20
18.	MR FANG HUA DING	87,474	1.10
19.	JYZ PAIR PTY LTD	85,000	1.07
20.	MR HERMANI SOEPRAPTO	81,169	1.02
Totals: Top 20 holders of LISTED ARXO OPTIONS		**7,220,705**	**90.93**

CORPORATE DIRECTORY

Arc Exploration Limited

ABN 48 002 678 640

A public company incorporated in New South Wales and listed on the Australian Securities Exchange (Code: ARX)

Directors

Bruce J. Watson (Non-Executive Chairman)
John C. Carlile (Managing Director)
George S. Tahija (Non-Executive Director)
Robert M. Willcocks (Non-Executive Director)

Andrew J. Cooke (Company Secretary)

Head and Registered Office

C/- Suite 1502, Level 15
Tower B
799 Pacific Highway
Chatswood NSW 2067
Australia

Telephone + (61 2) 9419 8044
Email management@arx.net.au
Website www.arcexploration.com.au

Jakarta Office

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

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

Auditors

KPMG
Australia

Kanaka Puradiredja, Robert Yogi, Suhartono
Indonesia

Share Registry

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

Telephone 1300 556 161 (within Australia)
+ (61 3) 9415 4000 (outside Australia)
Facsimile 1300 534 987
Email web.queries@computershare.com.au
Website www.computershare.com.au

STAFF

































ARCEXPLORATION
www.arcexploration.com.au