



ARCEXPLORATION

Arc Exploration Limited
ABN 48 002 678 640

Notice of Annual General Meeting and Explanatory Statement

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR ATTENTION

This document does not take into account your individual circumstances. If you are in doubt about how to deal with it, please consult your financial or other professional adviser.

10.00am
Thursday, 22 May 2014
Level 15, 10 Shelley Street
Sydney NSW 2000

2013 Annual Report:
http://www.arcexploration.com.au/IRM/content/newsreports_annual.html

Notice of Annual General Meeting

NOTICE is given that the Annual General Meeting of the Company will be held at KPMG, Level 15, 10 Shelley Street, Sydney NSW Australia at 10.00am on Thursday, 22 May 2014.

ORDINARY BUSINESS

1. Receipt of the Financial Report for the year ended 31 December 2013

Receipt of the Company's Financial Report and the Directors' Report and the Auditor's Report for the year ended 31 December 2013.

2. Remuneration Report

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

"That the Remuneration Report for the year ended 31 December 2013 be adopted."

3. Re-elect Mr John Carlile as a Director of the Company

To consider and, if thought fit, pass the following Resolution as an ordinary resolution

"To elect Mr John Carlile as a Director of the Company, who retires in accordance with the Constitution of the Company, and being eligible, offers himself for re-election."

4. Elect Dr Jeffrey Malaihollo as a Director of the Company

To consider and, if thought fit, pass the following Resolution as an ordinary resolution

"To elect Dr Jeffrey Malaihollo as a Director of the Company, who having been appointed as a Director by the Board since the date of the last Annual General Meeting, retires in accordance with the Constitution of the Company, and being eligible, offers himself for election".

5. Approve the Grant of Options to Mr Bruce Watson (Non-Executive Chairman)

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

"That, for the purposes of Chapter 2E of the Corporations Act 2001 and Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Mr Bruce Watson** a total of five million four hundred and five thousand one hundred and forty five (**5,405,145**) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting."

The company will disregard any votes cast on Resolution 5 by Mr Bruce Watson and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Under section 224 of the Corporations Act 2001, a related party and its associates are not permitted to vote on a proposed resolution which confers a financial benefit upon them. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed by writing that specified how the proxy is to vote on the proposed resolution and it is not cast on behalf of the related party or its associates. For the purposes of the Corporations Act 2001 and Listing Rule 10.11, Mr Bruce Watson is a related party of the Company.

6. Approve the Grant of Options to Dr Jeffrey Malaihollo (Managing Director)

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

"That, for the purposes of Chapter 2E of the Corporations Act 2001 and Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Dr Jeffrey Malaihollo** a total of sixteen million two hundred and fifteen thousand four hundred and thirty five (**16,215,435**) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting."

The Company will disregard any votes cast on Resolution 6 by Dr Jeffrey Malaihollo and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Under section 224 of the Corporations Act 2001, a related party and its associates are not permitted to vote on a proposed resolution which confers a financial benefit upon them. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed by writing that specified how the proxy is to vote on the proposed resolution and it is not cast on behalf of the related party or its associates. For the purposes of the Corporations Act 2001 and Listing Rule 10.11, Dr Jeffrey Malaihollo is a related party of the Company.

7. Approve the Grant of Options to Mr John Carlile (Non-Executive Director)

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That, for the purposes of Chapter 2E of the Corporations Act 2001 and Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Mr John Carlile** a total of three million six hundred and three thousand four hundred and thirty (**3,603,430**) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

The company will disregard any votes cast on Resolution 7 by Mr John Carlile and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Under section 224 of the Corporations Act 2001, a related party and its associates are not permitted to vote on a proposed resolution which confers a financial benefit upon them. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed by writing that specified how the proxy is to vote on the proposed resolution and it is not cast on behalf of the related party or its associates. For the purposes of the Corporations Act 2001 and Listing Rule 10.11, Mr John Carlile is a related party of the Company.

8. Approve the Grant of Options to Mr Robert Willcocks (Non-Executive Director)

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That, for the purposes of Chapter 2E of the Corporations Act 2001 and Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Mr Robert Willcocks** a total of three million six hundred and three thousand four hundred and thirty (**3,603,430**) options to purchase fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

The company will disregard any votes cast on Resolution 8 by Mr Robert Willcocks and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Under section 224 of the Corporations Act 2001, a related party and its associates are not permitted to vote on a proposed resolution which confers a financial benefit upon them. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed by writing that specified how the proxy is to vote on the proposed resolution and it is not cast on behalf of the related party or its associates. For the purposes of the Corporations Act 2001 and Listing Rule 10.11, Mr Robert Willcocks is a related party of the Company.

9. Approve the Grant of Options to Senior Management

To consider and, if thought fit, pass the following as an ordinary resolution of the Company:

“That for the purpose of Listing Rule 7.1 of the Listing Rules of the Australian Securities Exchange and for all other purposes, the proposed issue by the Company of twenty five million nine hundred and forty four thousand six hundred and ninety six (25,944,696) options to the senior management of the Company as specified in Section 10 of the Explanatory Memorandum annexed to and forming part of this Notice of Meeting, be approved.”

The company will disregard any votes cast on Resolution 9 by:

- any of the proposed recipients of the Options identified in Resolution 9 and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and
- an associate of any of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

10. Approve Allotment of Shares to Mr Bruce Watson in lieu of Directors Fees owed

To consider, and if thought fit, to pass the following resolution as an ordinary resolution of the Company:

“That, for the purposes of Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Mr Bruce Watson** a total of six hundred and fifty six thousand three hundred and thirty three (**656,333**) fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

The company will disregard any votes cast on Resolution 10 by Mr Watson and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

11. Approve Allotment of Shares to Dr Jeffrey Malaihollo in lieu of salary owed

To consider, and if thought fit, to pass the following resolution as an ordinary resolution of the Company:

“That, for the purposes of Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Dr Jeffrey Malaihollo** a total of four million and twenty five thousand (**4,025,000**) fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

The company will disregard any votes cast on Resolution 11 by Dr Malaihollo and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

12. Approve Allotment of Shares to Mr John Carlile in lieu of Directors Fees owed

To consider, and if thought fit, to pass the following resolution as an ordinary resolution of the Company:

“That, for the purposes of Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Mr John Carlile** a total of four hundred and thirty seven thousand five hundred (**437,500**) fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

The company will disregard any votes cast on Resolution 12 by Mr Carlile and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

13. Approve Allotment of Shares to Mr Cahyono Halim in lieu of salary owed

To consider, and if thought fit, to pass the following resolution as an ordinary resolution of the Company:

“That, for the purposes of Listing Rule 10.11 of the Listing Rules of the Australian Securities Exchange and all other purposes, the Company be authorised to issue to **Mr Cahyono Halim** a total of three million two hundred and thirty seven thousand five hundred (**3,237,500**) fully paid ordinary shares in the capital of the Company, on the terms and for the purposes set out in the Explanatory Memorandum annexed to and forming part of this Notice of Meeting.”

The company will disregard any votes cast on Resolution 13 by Mr Halim and any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

VOTING EXCLUSIONS – KEY MANAGEMENT PERSONNEL (KMP)

Resolution 2:

The Company will disregard any votes cast on Resolution 2:

- by or on behalf of a member of the KMP (as defined in Section 9 of the Corporations Act 2001 (Cth)) details of whose remuneration are included in the Remuneration Report;
- by or on behalf of a closely related party (as defined in Section 9 of the Corporations Act 2001 (Cth) such as close family members and any controlled companies) of a member of the KMP; or
- as a proxy by a member of the KMP or a KMP's closely related party,

unless the vote is cast as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form.

Important Notice for Resolution 2: If a shareholder appoints the Chairman of the meeting as the shareholder's proxy and does not specify how the Chairman is to vote on Resolution 2, the Chairman will vote, as proxy for that shareholder, in favour of Resolution 2.

Resolutions 6, 7, 8, 9, 11, 12 & 13:

A vote must not be cast on resolutions 6, 7, 8, 9, 11, 12 & 13 by a KMP, or a closely related party of a KMP, acting as a proxy, if their appointment does not specify the way the proxy is to vote on these resolutions. This voting exclusion does not apply if the KMP is the Chairman of the meeting acting as proxy and their appointment expressly authorises the chair to exercise the proxy even though the resolution is connected with the remuneration of a member of the key management personnel for the Company.

Undirected proxy voting by the Chairman of the meeting

If you appoint the Chairman of the meeting as your proxy, and you do not provide a voting direction in respect of Resolutions 6,7,8,9,11,12 & 13 on the proxy form, you will be taken to have expressly authorised the Chairman of the meeting to exercise your proxy even though Resolutions 6,7,8,9,11,12 & 13 are connected with the remuneration of a member of the key management personnel for the Company.

The Chairman of the meeting intends to vote all undirected proxies able to be voted in favour of Resolutions 6,7,8,9,11,12 & 13.

Resolutions 5 & 10:

A vote must not be cast on Resolutions 5 & 10 by a KMP, or a closely related party of a KMP, acting as a proxy, if their appointment does not specify the way the proxy is to vote on these resolutions. This voting exclusion does not apply if the KMP is the Chairman of the meeting acting as proxy and their appointment expressly authorises the chair to exercise the proxy even though the resolution is connected with the remuneration of a member of the key management personnel for the Company.

Undirected proxy voting by the Chairman of the meeting

The Chairman of the meeting will not vote any undirected proxies in relation to any of Resolutions 5 & 10 unless the shareholder specifically authorises the Chairman to vote in accordance with the Chairman's stated voting intentions. If a shareholder wishes to nominate the Chair as their proxy for the purpose of any of Resolutions 5 & 10 the shareholder must either tick the 'for', 'against' or 'abstain' box directing the Chairman how to vote, or tick the box authorising the Chairman to vote in accordance with his or her stated voting intentions, on the enclosed Proxy Form in order for their proxy vote to be counted. Alternatively, shareholders can nominate as their proxy for the purpose of Resolutions 5 & 10 a proxy who is not a member of the Company's Key Management Personnel or Closely Related Party. That person would be permitted to vote undirected proxies.

The Chairman intends to vote all available proxies in favour of Resolutions 5 & 10.

Dated at Sydney, on the 11th day of April 2014



By order of the Board
Andrew J. Cooke
Company Secretary

2013 Annual Report:

The 2013 Annual Report is available on the Company's Website:

www.arcexploration.com.au and http://www.arcexploration.com.au/IRM/content/newsreports_annual.html

Proxies

- A shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy or not more than two proxies to attend and vote instead of the shareholder.
- Where two proxies are appointed:
 - (i) a separate proxy Form, should be used to appoint each proxy;
 - (ii) the Proxy Form may specify the proportion, or the number, of votes that the proxy may exercise, and if it does not do so the proxy may exercise half of the votes.
- A shareholder can appoint any other person to be their proxy. A proxy need not be a shareholder of the Company. The proxy appointed can be described in the Proxy Form by an office held e.g. "the Chair of the Meeting".
- In the case of shareholders who are individuals, the Proxy Form must be signed:
 - (i) if the shares are held by one individual, by that shareholder;
 - (ii) if the shares are held in joint names, by any one of them.
- In the case of shareholders who are companies, the Proxy Form must be signed:
 - (i) if it has a sole director who is also sole secretary, by that director (and stating the fact next to, or under the signature on the Proxy Form);
 - (ii) in the case of any other company by either two directors or a director and secretary.

The use of the common seal of the company, in addition to those required signatures, is optional.
- If the person signing the Proxy Form is doing so under a power of attorney, or is an officer of a company outside those referred to above but authorised to sign the Proxy Form, the power of attorney or other authorisation (or a certified copy of it), as well as the Proxy form, must be received by the Company by the time and at the place specified below.
- A Proxy Form accompanies this notice. To be effective, your proxy must be received by the Company no later than 48 hours before the time for the holding of the meeting:
 - (i) **by facsimile:** on 1 800 783 447 (within Australia) or +61 3 9473 2555 (from outside of Australia); or
 - (ii) **by mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia ; or
 - (iii) **Lodge your vote Online:** www.investorvote.com.au using the Control Number and your SRN/HIN which are provided on the front side of your Proxy Form.
 - (iv) **Custodians:** Intermediary Online subscribers only, cast the shareholder's vote online by visiting www.intermediaryonline.com

Shareholders who are entitled to vote

In accordance with the Corporations Act 2001 (Cth), the directors have determined that a person's entitlement to vote at the meeting will be the entitlement of that person set out in the register of members as at 7.00pm on 20 May 2014.

Explanatory Statement

1. Financial Report – Year ended 31 December 2013

The Corporations Act requires the financial report (which includes the financial statements and the directors' declaration), the directors' report and the auditor's report to be laid before the Annual General Meeting. There is no requirement either in the Corporations Act or in the Constitution of the Company for Shareholders to approve the financial report, the directors' report or the auditor's report. Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the financial report.

2. Resolution 2 – Remuneration Report

The Directors' Report for the year ended 31 December 2013 contains a Remuneration Report which sets out the policy on remuneration of the directors of the Company and specified executives on the Company.

The Corporations Act requires that a resolution be put to the vote that the Remuneration Report be adopted. The Corporations Act expressly provides that the vote is advisory and does not bind the directors of the Company. Shareholders attending the Annual General Meeting will be given a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

3. Resolution 3 – Re-election of Mr John Carlile as a Director

Mr John Carlile – Mr Carlile is a geologist with a BSc. (Hons) degree in Geology from the University of Reading and a MSc. (DIC) in Mineral Exploration from the Royal School of Mines, University of London. Mr Carlile is a Fellow of The Aus.I.M.M. and Geo.Soc.Lond. He has over 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. From 14 January 2008 to 30 September 2013 Mr Carlile again served as the Managing Director of the Company. On 1 October 2013 he retired from the position of Managing Director and now remains as a member of the Board as a Non-Executive Director. Mr Carlile was formerly a Director of Castlemaine Goldfields Limited and formerly Chairman of PEARL Energy Limited, a Singapore company focused on oil and gas exploration and production in South-East Asia.

4. Resolution 4 – Election of Dr. Jeffrey Malaihollo as a Director

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

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

5. Resolutions 5, 6, 7 & 8 – Approve the Grant of Options to the Managing Director and Non-Executive Directors

The proposed issue of options was originally announced to the market on 5 November 2013.

The issue of options to Dr Jeffrey Malaihollo (Managing Director) and to Mr Bruce Watson, Mr John Carlile and Mr Rob Willcocks (non-executive directors) is designed to better align the interests of these parties with those of the Company and its shareholders and is intended to provide incentive for each of them to further enhance the growth and value of the Company.

While the Directors consider that the terms of the Options would be reasonable in the circumstances if the Company were dealing with the Directors at arm's length, the determination of the number of Options to be issued to each Director necessarily involves a degree of subjectivity. For this reason shareholder approval is being sought for the purposes of Chapter 2E of the Corporations Act 2001. See below, the reasoning for determining the number of Options to be issued.

Corporate Governance

The options to be issued to the Managing Director are in addition to the remuneration package payable by the Company to him. The ASX Corporate Governance Council Corporate Governance Principles and Recommendations (Box 8.1) recognise that most executive remuneration packages will involve a balance between fixed and incentive pay. The options to be granted to the Managing Director constitute equity-based remuneration. The Board believes that these options are an effective tool to provide incentive to the Managing Director and to also promote the interests of the Company and its shareholders.

The options to be issued to the non-executive directors are in addition to the Directors Fees payable by the Company to each of them.

The Board acknowledges that the issue of options to non-executive directors is a departure from the ASX Corporate Governance Corporate Governance Principles and Recommendations (Box 8.2).

Nevertheless, the Board considers the issue of the options to non-executive directors to be an effective means to compensate non-executive directors more adequately at no cash cost to the Company, allowing it to constrain the levels of fees otherwise payable to non-executive directors and to attract suitably skilled and qualified persons to become and remain members of the Board. The Board considers that skewing compensation away from cash payments made irrespective of the Company's performance to one related to its share price, is in the interests of shareholders and aligns the Board to them directly,

Options on identical terms will also be offered to senior management and officers of the Company (refer Resolution 9 below) to also further align the interests of these parties with those of the Company and its shareholders and to provide an incentive for each of them to further enhance the growth and value of the Company. Accordingly, the Board considers that the terms of the Options would be reasonable in the circumstances if the Company were dealing with each Director at arm's length.

Terms and conditions of the options

- Each option entitles the holder to subscribe for one ordinary share in the Company at a price of 0.9 cents. This exercise price represents a 28% premium over the Volume Weighted Average Price for the 10 days prior to 5 November 2013 being the date that the proposal to grant these options was announced to the market (or a 51% premium over the Volume Weighted Average Price for the 30 days prior to 5 November 2013).
- The options will be issued for no consideration.
- The options will have a grant date of 22 May 2014.
- The options shall vest on 31 December 2014 subject to the optionholder still being a Director of the Company on the vesting date. The options shall also vest if a person becomes entitled to in excess of 30% of the shares in the Company.
- The options will have an expiry date of 31 December 2018.
- The Company will not apply to the ASX for official quotation of the options but will apply for granting of official quotation of shares issued pursuant to exercise of the options.
- Shares issued on the exercise of the options will rank equally with the then existing issued ordinary shares in the Company.
- In the event of any reorganisation (including reconstruction, consolidation, subdivision, reduction or return) of the issued capital of the Company, the options will be reorganised as required by the ASX Listing Rules, but in all other respects the terms of exercise will remain the same. In the event of the Company effecting a Rights Issue at a discount the exercise price of the options shall be adjusted in accordance with the formula in ASX Listing Rule 6.22.2.
- Holders of options will not be entitled to participate in new issues of capital which may be offered to shareholders during the currency of the options without exercising their options.
- If a takeover bid is made for the shares of the Company then, at any time during the Takeover Period, the option holder may exercise each option at the exercise price, despite the fact that either it is then outside an exercise period specified in the option or a performance hurdle specified in the option has not yet been satisfied. "The Takeover Period" is from the start of the offer period until one month after the end of the offer period.
- The options shall not expire by reason of the optionholder subsequently resigning or ceasing to be a Director of the Company. The option shall not expire by reason of the optionholder becoming deceased in which case they shall vest immediately for the benefit of the optionholders estate.

Directors interests and recommendations

Each of the Directors named in Resolutions 5-8 has an interest in the outcome of the resolution in which they are named by reason of the benefit that they will receive if each relevant resolution is passed, and therefore declines to make a recommendation to shareholders in relation to that resolution.

In accordance with ASIC's view that it is good practice for Directors to avoid making a recommendation for resolutions about each other's remuneration as there may be a conflict of interest, the Director's make no recommendation to shareholders in relation to Resolutions 5-8.

Other information that is reasonably required by the shareholders to make a decision and that is known to the company or any of its directors

If all of the Options to be issued under Resolutions 5-8 are exercised and no further shares are issued by the Company in the meantime, the total number of ordinary fully paid shares issued would increase by 28,827,440 to 945,361,238 and the newly issued shares would comprise 3.05% of the issued shares at that time and thus diluting the shareholding of existing shareholders also by approximately 3.05% on an undiluted (excluding existing options) basis.

The following table sets out the current interests (both directly and indirectly) of the Directors to ordinary fully paid shares in the Company and their entitlement if they exercised all of the Options referred to in Resolutions 5-8, and no other shares are issued by the Company).

Director	No. of Shares (current)	No. of Shares (post exercise of Directors Options)	% of Issued Capital (post exercise of Options)
John Carlile	30,445,339	34,048,769	3.61%
Bruce Watson	13,349,907	18,755,052	1.99%
George Tahija*	10,597,472	10,597,472	1.12%
Robert Willcocks	5,125,000	8,728,430	0.93%
Jeffrey Malaihollo	0	16,215,435	1.72%

* Mr Tahija has advised that he proposes to resign as a Director of the Company at the conclusion of the Company's Annual General Meeting to be held on 22 May 2014.

The lowest price of shares in the Company in the past 12 months on the ASX was 0.2 cents on 24, 26 and 28 June 2013 and 1 and 2 July 2013. The highest price of shares in the Company in the past 12 months on the ASX was 0.8 cents on 29, 30 and 31 October 2013 and 1 November 2013.

The closing price of shares in the Company on 31 March 2014, being the last trading day before the Notice of General Meeting and Explanatory Statement were lodged to the Australian Securities and Investments Commission for its review and approval was 0.5 cents.

Details of other remuneration received by the Directors during the financial year ended 31 December 2013 and disclosed in the 2013 Financial Report are as follows:

Remuneration details of Non-Executive Directors

2013	Directors Fees \$	Superannuation \$	Options ^d \$	Total \$
Bruce Watson	45,000	4,078	–	49,078
John Carlile ^a	7,500	–	–	7,500
George Tahija ^b	–	–	–	–
Robert Willcocks ^c	30,000	–	–	30,000
Total	82,500	4,078	–	86,578

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

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

2013	Short-term benefits		Post-employment benefits		Share Based Payments	Total \$
	Cash Salary and Fees \$	Non-monetary Benefits \$	Cash Salary and Fees \$	Non-monetary Benefits \$	Options ^a \$	
Director						
Jeffrey Malaihollo*	41,400	10,397	–	–	–	51,797
John Carlile**	226,595	54,800	5,216	–	–	286,611

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

It is not intended that there will be any material change to the Directors' remuneration as set out above.

It is a requirement of ASIC that a dollar value be placed on the Options to be issued in these circumstances. Black & Scholes methodology has been used to value the Options. In determining the value of the Options, the following inputs have been assumed:

Directors Options

Consideration for grant	Nil
Vesting	31 December 2014
Exercise price	\$0.009
Grant date	22 May 2014
Expiry date	31 December 2018
Price volatility of the company's shares	150%
Expected dividend yield	0.00%
Discount rate	2.9%

Based on the above, the value of each Option to be issued to Directors is \$0.00356.

The Options have been valued in accordance with Australian Accounting Standards Board (**AASB**) accounting standards including AASB 2 Share-based payment.

Accordingly the value of the proposed option payments to each director will be:

Director	Total Number of Options to be issued	Total Value of Options to be issued
Jeffrey Malaihollo	16,215,435	\$57,726.95
Bruce Watson	5,405,145	\$19,242.32
John Carlile	3,603,430	\$12,828.21
Robert Willcocks	3,603,430	\$12,828.21

The total balance sheet and earnings impact attributable to the granting of these options is \$102,625.69 over the period in which the options vest.

From an economic and commercial point of view the Board considers that the potential cost and detriment to the Company resulting from the granting of these Options is nominal given that Directors must subscribe \$259,447 to the Company in order to exercise these options. Furthermore, the Board considers it important to adequately compensate Executive Directors and non-executive directors in order to attract and retain such people with appropriate qualifications and skills to be able to contribute to the success of the Company.

In determining the number and terms of the options to be issued to each Director, consideration was given to the relevant experience and role of each Director, each Director's overall remuneration terms, the current market price of shares in the Company and applicable principles of corporate governance.

ASX Listing Rules

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the company, such as a director, without the company obtaining the approval by ordinary resolution of its shareholders. The Company is seeking approval of shareholders under ASX Listing Rule 10.11 to allow the Company to issue these options (up to a maximum of 28,827,440 options in aggregate) to Dr Jeffrey Malaihollo, Mr Bruce Watson, Mr John Carlile and Mr Robert Willcocks. If shareholders approve the issue of options under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

The Options will be issued for no cost and no funds will be raised from the issue of the options unless and until they are exercised. The amount of funds raised from the exercise of all of the options the subject of Resolutions 5-8 will amount to a total of approximately \$259,447. If such options are exercised these funds will form part of the working capital of the Company.

No other shares or options have been issued to directors of the Company pursuant to any share or option incentive scheme in the past 12 months.

Subject to the approval of Resolutions 5-8 the issue of a maximum of twenty eight million eight hundred and twenty seven thousand four hundred and forty (28,827,440) options, as referred to in these resolutions, will be issued to the Directors (effective as at the date of this meeting) as soon as practicable after the date of the meeting and in any event within one month of the date of the Annual General Meeting.

6. Resolution 9 – Approve the Proposed Grant of Options to Senior Management

In addition to the options to be granted to Directors referred to above, the Board proposes to issue an aggregate of 25,944,696 options to senior management and officers of the Company.

These options are to be granted to further align the interests of the Company's senior management and officers with those of the Company and its shareholders and to provide an incentive for each of them to further enhance the growth and value of the Company.

The options to be granted to senior management and officers of the Company shall be on the same terms as those to be issued to Directors (refer Resolutions 5-8) and as set out below:

Terms and Conditions of the Options

- Each option entitles the holder to subscribe for one ordinary share in the Company at a price of 0.9 cents. This exercise price represents a 28% premium over the Volume Weighted Average Price for the 10 days prior to 5 November 2013 being the date that the proposal to grant these options was announced to the market (or a 51% premium over the Volume Weighted Average Price for the 30 days prior to 5 November 2013).
- The options will be issued for no consideration.
- The options will have a grant date of 22 May 2014.
- The options shall vest on 31 December 2014 subject to the optionholder still being a senior executive or officer of the Company on the vesting date. The options shall also vest if a person becomes entitled to in excess of 30% of the shares in the Company.
- The options will have an expiry date of 31 December 2018.
- The Company will not apply to the ASX for official quotation of the options but will apply for granting of official quotation of shares issued pursuant to exercise of the options.
- Shares issued on the exercise of the options will rank equally with the then existing issued ordinary shares in the Company.
- In the event of any reorganisation (including reconstruction, consolidation, subdivision, reduction or return) of the issued capital of the Company, the options will be reorganised as required by the ASX Listing Rules, but in all other respects the terms of exercise will remain the same. In the event of the Company effecting a Rights Issue at a discount the exercise price of the options shall be adjusted in accordance with the formula in ASX Listing Rule 6.22.2.
- Holders of options will not be entitled to participate in new issues of capital which may be offered to shareholders during the currency of the options without exercising their options.
- If a takeover bid is made for the shares of the Company then, at any time during the Takeover Period, the option holder may exercise each option at the exercise price, despite the fact that either it is then outside an exercise period specified in the option or a performance hurdle specified in the option has not yet been satisfied. "The Takeover Period" is from the start of the offer period until one month after the end of the offer period.
- The options shall not expire by reason of the optionholder subsequently resigning or ceasing to be a senior executive or officer of the Company. The option shall not expire by reason of the optionholder becoming deceased in which case they shall vest immediately for the benefit of the optionholders estate.

ASX Listing Rule 7.1 limits the number of equity securities that a company may issue without member approval to 15% of the issued capital of the company in any 12 month period (subject to certain exceptions, including where prior shareholder approval is obtained).

If the issue of the securities has the prior approval of the shareholders in accordance with the proposed resolution, the issue will not be included in the 15% limit on the Company to raise funds without shareholder approval.

The Company is seeking shareholder approval of the issue of 25,944,696 options to senior management and officers of the Company under ASX Listing Rule 7.1 so that this number of securities is not included in the 15% calculation set out in ASX Listing Rule 7.1.

The grant of options will be effected by the Board to senior management and officers of the Company as set out below:

Senior Manager/Officer	Number of Options
Brad Wake – Exploration Manager	10,810,290
Cahyono Halim – Chief Financial Officer	10,810,290
Andrew Cooke – Company Secretary	4,324,116
TOTAL	25,944,696

The Options will be issued for no cost and no funds will be raised from the issue of the options unless and until they are exercised. The amount of funds raised from the exercise of these options will amount to approximately \$233,502. If such options are exercised these funds will form part of the working capital of the Company.

The options will all be issued and allotted within three months of the date of the Annual General Meeting.

7. Resolutions 10, 11, 12 & 13 – Issue of Shares for Directors Fees / Salary to preserve existing cash resources

The Company proposes to issue ordinary shares in the capital of the Company to each of Mr Bruce Watson, Dr Jeffrey Malaihollo, Mr John Carlile and Mr Cahyono Halim in lieu of directors fees/salary owed by the Company to each of them.

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

The shares are to be issued as part of an arrangement designed to preserve the Company's cash resources. Pursuant to this arrangement Directors and Employees could elect to take 35% of their gross monthly salaries for the months of April, May and June 2014 in shares instead of cash. It is anticipated that these arrangements may continue in the future subject to shareholder approval again at a later date.

Should shareholders not approve the issue of shares contemplated by these resolutions the outstanding Directors Fees and salaries will be paid in cash.

The shares are to be allotted on Friday, 20 June 2014.

The issue price for the shares to be issued is 0.6 cents being the volume weighted average price of the Company's ordinary shares as traded on the Australian Securities Exchange (ASX) over the 10 days on which the shares traded prior to 4 April 2014 being the day on which this Notice of Meeting was finalised with the ASX. Accordingly, the Directors consider that the shares are being issued on terms that would be reasonable in the circumstances if the Company were dealing with the Directors at arm's length.

The closing price of shares in the Company on 3 April 2014, being the last trading day before the Notice of General Meeting and Explanatory Statement were lodged to the Australian Securities and Investments Commission for its review and approval was 0.5 cents.

The table below sets out the number of shares to be issued assuming three different issue prices:

Director / Employee	Directors Fees / Salary for 3 months 1 April to 30 June 2014 A\$	35% to be paid by the issue of ordinary shares A\$	Total number of shares to be issued assuming an issue price of 0.6 cents
Bruce Watson	\$11,250	\$3,938	656,333
Dr. Jeffrey Malaihollo	\$69,000	\$24,150	4,025,000
John Carlile	\$7,500	\$2,625	437,500
Cahyono Halim	\$55,500	\$19,425	3,237,500
TOTALS	\$143,250	\$50,138	8,356,333

ASX Listing Rules

ASX Listing Rule 7.1 limits the number of equity securities that a company may issue without member approval to 15% of the issued capital of the company in any 12 month period (subject to certain exceptions).

ASX Listing Rule 10.11 provides that a Company must not issue or agree to issue equity securities to a related party of the Company, such as a person who is a director of the Company, without the Company first obtaining the approval by ordinary resolution of its shareholders.

The Company is seeking the approval of shareholders under ASX Listing Rule 10.11 to allow the Company to issue shares to each of Dr Jeffrey Malaihollo, Mr John Carlile and Mr Cahyono Halim. If shareholders approve the issue of the shares under ASX Listing Rule 10.11 approval is not required under ASX Listing Rule 7.1 so that the shares would not be taken into account in determining whether a future share issue will result in the 15% cap imposed by Listing Rule 7.1 being exceeded.

All of the shares being the subject of this resolution are ordinary fully paid shares which rank equally with all of the Company's existing ordinary fully paid up shares and are quoted on the ASX.

No new cash funds will be raised by the issue of these shares however the liability to pay the relevant directors fees/salaries will be extinguished.

Any shares issued pursuant to Resolution 10, 11 & 12 will be issued within one month of the date of the passage of this resolution.



ARC EXPLORATION LIMITED
ABN 48 002 678 640

┌ 000001 000 ARX
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030



Lodge your vote:

Online:
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GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

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(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 556 161
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online or view the annual report, 24 hours a day, 7 days a week: www.investorvote.com.au	
<input checked="" type="checkbox"/> Cast your proxy vote <input checked="" type="checkbox"/> Access the annual report <input checked="" type="checkbox"/> Review and update your securityholding	Your secure access information is: Control Number: 999999 SRN/HIN: I9999999999 PIN: 99999 PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Sydney time) Tuesday 20 May 2014

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** ➔

MR SAM SAMPLE
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Arc Exploration Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Arc Exploration Limited to be held at KPMG, Level 15, 10 Shelley Street, Sydney NSW Australia on Thursday, 22 May 2014 at 10:00am (Sydney time) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on **Items 2 & 5-13** (except where I/we have indicated a different voting intention below) even though **Items 2 & 5-13** are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: For **Items 5 & 10**, this express authority is also subject to you marking the box in the section below. If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on **Items 2 & 5-13** by marking the appropriate box in step 2 below.

Important for Items 5 & 10: If the Chairman of the Meeting is your proxy and you have not directed the Chairman how to vote on **Items 5 & 10** below, please mark the box in this section. If you do not mark this box and you have not otherwise directed your proxy how to vote on **Items 5 & 10**, the Chairman of the Meeting will not cast your votes on **Items 5 & 10** and your votes will not be counted in computing the required majority if a poll is called on **these items**. The Chairman of the Meeting intends to vote undirected proxies in favour of **Items 5 & 10** of business.

I/We acknowledge that the Chairman of the Meeting may exercise my/our proxy even if the Chairman has an interest in the outcome of **Items 5 & 10** and that votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS		For	Against	Abstain			For	Against	Abstain
2	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9	Approve the Grant of Options to Senior Management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Re-elect Mr John Carlile as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10	Approve Allotment of Shares to Mr Bruce Watson in lieu of Directors Fees owed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Elect Dr Jeffrey Malaihollo as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11	Approve Allotment of Shares to Dr Jeffrey Malaihollo in lieu of salary owed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Approve the Grant of Options to Mr Bruce Watson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12	Approve Allotment of Shares to Mr John Carlile in lieu of Directors Fees owed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Approve the Grant of Options to Dr Jeffrey Malaihollo	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13	Approve Allotment of Shares to Mr Cahyono Halim in lieu of salary owed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Approve the Grant of Options to Mr John Carlile	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					
8	Approve the Grant of Options to Mr Robert Willcocks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>					

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / / _____