



ARCEXPLORATION

Annual Report 2013



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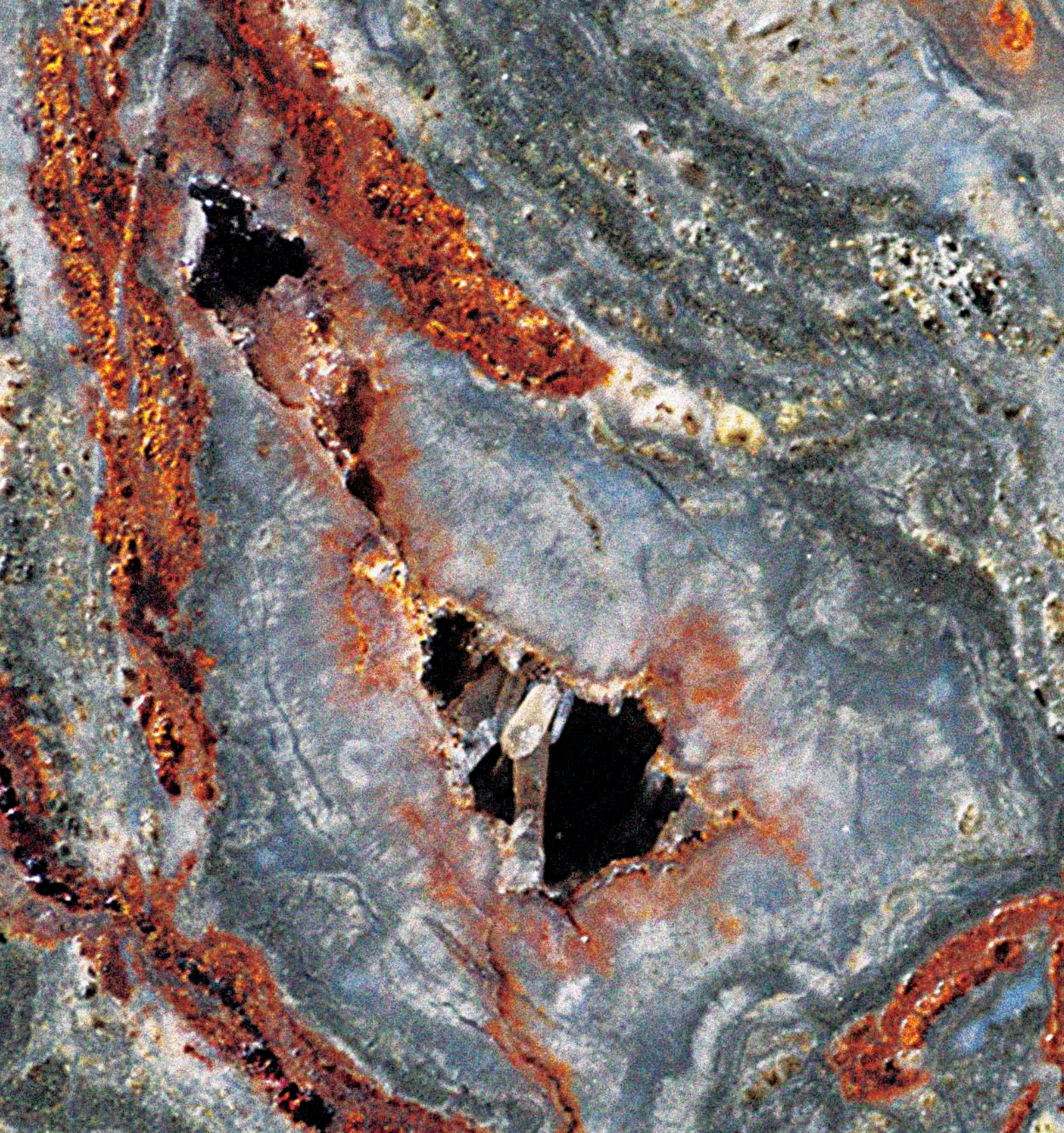
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AGM

The Annual General Meeting of the Company will be held at KPMG, Level 15, 10 Shelley Street, Sydney NSW, Australia at 10:00am on Thursday, 22 May 2014.

The background is a vibrant blue with a fine, woven texture. A large, organic, green shape, resembling a leaf or a drop, is positioned in the lower half of the frame. The green shape has a slightly darker, more saturated center and a lighter green border. The text is white and placed within the green shape.

2013 has seen progress and
diversification for our company
as well as some changes at
the corporate level.



At the end of 2013 we had adequate cash on hand to conduct our continuing operations and no debt.

Chairman's letter

Dear Shareholder

2013 has seen progress and diversification for our company as well as some changes at the corporate level.

Exploration of Trenggalek with our joint venture partner Anglo American has continued with both surface work and drilling designed to determine the best likely locations for major porphyry copper-gold deposits in what is a large exploration tenement area. Drilling recently recommenced on one of several newly generated targets. Anglo American continues to fund the work programme at Trenggalek. The Papua Joint Venture in which we have a 20% carried interest had minimal exploration activities during 2013. This project is under the control and management of Anglo American and ARX's interest in it is essentially that of an equity holder.

As reported last year, we have been investigating gold and copper-gold properties in Eastern Australia and after an exhaustive search during 2013 we entered into options to farm into properties at Junee and Oberon in New South Wales and at Mount Garnet in Queensland. ARX has the right, but not the obligation, to earn up to an 80% interest in each of these properties by undertaking exploration expenditure over time. ARX was also granted an additional Exploration Licence covering 36 square kilometres adjoining the optioned Junee tenement. We believe these tenements to be very promising. They are located in established gold areas. While ARX remains committed to Indonesia and sees its future principally in that country, these projects have been taken on as part of a prudent program of diversification.

2013 was also a year of transition in a corporate sense. John Carlile retired as Managing Director and CEO and was succeeded by Dr Jeff Malaihollo. John has made a huge contribution to ARX over many years including steering the Company through some difficult times. We are delighted that he has agreed to remain on the Board in a non-executive capacity. Dr Malaihollo is well qualified to take our Company to the next stage of its development. An Indonesian, Dr Malaihollo has significant experience as a mining analyst and also in gold and base metal exploration sector with both major and smaller companies. He also has many years' experience running listed companies in Australia and the United Kingdom. He is well placed to address the issues associated with operating within Indonesia. Dr Malaihollo's PhD from the University of London dealt with aspects of the geology of eastern Indonesia which is particularly relevant to ARX. Also as announced in March 2014 Mr George Tahija will retire following the forthcoming AGM. Mr Tahija's contribution to ARX over many years cannot be overstated and his deep insights and guidance have been invaluable. We are pleased that he will remain as an advisor to the Company.

At the end of 2013 we had adequate cash on hand to conduct our continuing operations and no debt. We plan to press ahead with what we consider to be a promising project portfolio which, after all, is why the company exists. At some point we will be seeking to raise additional funding and as always shareholders will be kept fully informed.

I would like to thank Directors and staff for their contributions to our company. But mostly I would like to thank our shareholders for their support. We look forward to delivering the results such sustained support deserves.

Yours faithfully



Bruce J. Watson
Chairman

Review of Activities

for year ended 31 December 2013



Exploration

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

The primary focus of activities during the year was on the joint venture with Anglo American to explore for copper-gold at Trenggalek in East Java. This work was fully funded by Anglo American and managed by ARX.

ARX also has a strategic alliance with Anglo American to explore for copper-gold in West Papua. Minimal activity was undertaken here whilst awaiting the necessary forestry permits to work in this area. Anglo American manages and funds all activities in West Papua.

In addition, ARX entered into options to farm into three gold projects located in Eastern Australia during the year. This followed an extensive search for new opportunities in Australia that targeted accessible projects containing at least one advanced gold prospect together with additional exploration

upside for further discoveries in a productive mineral province. Initial work commenced on these projects late in the year with the aim further assessing their potential toward a decision to proceed with formal joint ventures on each.

Trenggalek Project, East Java (ARX – 95%)

ARX operates a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara, who holds the Trenggalek Exploration IUP tenement, located in the Southern Mountains of East Java. The Southern Mountains is composed of an older segment of the Sunda-Banda magmatic arc which hosts the Tumpangpitu porphyry copper-gold located about 200 km to the east of Trenggalek, and the large Batu Hijau and Elang porphyry

copper-gold deposits located on Sumbawa Island.

The Trenggalek Project is currently a single Exploration IUP tenement that is valid until November 2016. The tenement area covers about 300 km². It was slightly reduced in size during the year, from 30,044 ha to 29,969 ha, to resolve an overlap with some small local dimension stone and clay mining tenements. The removal of these areas has no impact on the Company's exploration activities.

An extension to the *Pinjam-Pakai* ("Borrow Use") Forestry Permit for the Trenggalek IUP was granted during the year by the Indonesian Ministry of Forestry. This allows the company to conduct exploration work on several targets in production forestry areas within the tenement.

Formal legal documentation was signed in support of Anglo American farming into the Trenggalek Project with ARX and its Indonesian partner, PT. Sumber Mineral Nusantara ("SMN"). Under the terms of the Anglo American – ARX – SMN Joint Venture Agreement, Anglo American can earn up to 75% of the Trenggalek Project by sole funding US\$20 million of exploration expenditure and will then free-carry ARX (20%) and SMN (5%) through completion of a Pre-Feasibility Study.

Early exploration work carried out by ARX-SMN, prior to the Anglo American JV, concentrated on testing of intermediate-sulphidation epithermal gold vein and breccia targets at multiple prospects identified within the IUP. These gold targets are hosted by Oligo-Miocene age volcanic and volcanoclastic rocks, limestone, subvolcanic plugs and possible diatreme breccias. Several of the prospects have had limited drill testing and produced some significant gold-silver intercepts including 9 m at 4.9 g/t Au & 19 g/t Ag at Sentul, 13.7 m at 3.2 g/t Au & 60 g/t Ag at Buluroto, and 6.6 m at 4.9 g/t Au & 149 g/t Ag at Kojan.

The discovery of a high-sulphidation epithermal ("HSE") alteration system at Sumber Bening in late 2011, and other similar alteration systems since, highlighted the potential for porphyry gold-copper systems within the Trenggalek IUP.

The Joint Venture with Anglo American is a major step forward for the project. It has provided for increased exploration activity at Trenggalek during the year and the opportunity to test the porphyry copper-gold potential in this highly prospective mineral district.

Major activities conducted during the year included a geophysical interpretation and target generation from the airborne magnetic and radiometrics data acquired over the entire IUP, a ground electrical geophysical survey at Sumber Bening, soil geochemical sampling, mapping and the commencement of drilling on a new prospect generated in the south-eastern corner of the IUP.

Trenggalek IUP – Target Generation

A geophysical consultant from Moore Geophysics Pty Ltd completed a first-pass two-dimensional interpretation of processed magnetics and radiometrics data acquired from an airborne survey flown in 2012. Multiple targets were generated in this work. These targets were derived from geophysical responses recognized over geological features that could indicate the occurrence of porphyry deposits, including interpreted structural junctions, dilational zones, and hydrothermal alteration footprints associated with clusters of volcanic plugs and other high-level intrusions.

The geophysical interpretation was integrated with geological and geochemical information to refine and rank targets ahead of follow-up ground evaluations. The combined use of airborne magnetics, surface geochemistry and spectral analysis of near-surface alteration features was important in the discovery of the large Tumpangpitu porphyry copper-gold deposit in the Tujuh Bukit district.

Jerambah

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

Jerambah is a potential porphyry target generated from interpretative work on the airborne magnetics data. Additional 3D magnetics-inversion modelling was completed on Jerambah and the surrounding area. The geophysical signatures highlighted at Jerambah indicate possible structural lineaments interacting with inferred alteration zones that are centred on intrusive plugs and connected to a stock-like intrusion at depth. These features are considered to be similar to those documented at the Tumpangpitu porphyry deposit.



DR JEFFREY MALAIHOLLO AT TRENGGALEK DISCOVERY VEIN



JERAMBACH DRILL CORE

Review of Activities

for year ended 31 December 2013

The follow-up field evaluation identified an extensive 2 km x 1.5 km alteration zone associated with a diorite intrusion. Spectral analyses done on altered rock outcrops within the area indicated the presence of higher temperature clay alteration minerals, including pyrophyllite and dickite, suggesting the roots of another HSE-alteration lithocap and the potential for a porphyry system at depth. Initial rock chip grab sampling of altered outcrops within the target area returned up to 562 ppm copper and 37 ppm molybdenum.

Results from the magnetics modelling and field evaluation were sufficiently encouraging to plan an initial scout drill hole testing beneath the near-surface alteration features and to further assess the potential to host a large porphyry deposit in the prospect area.

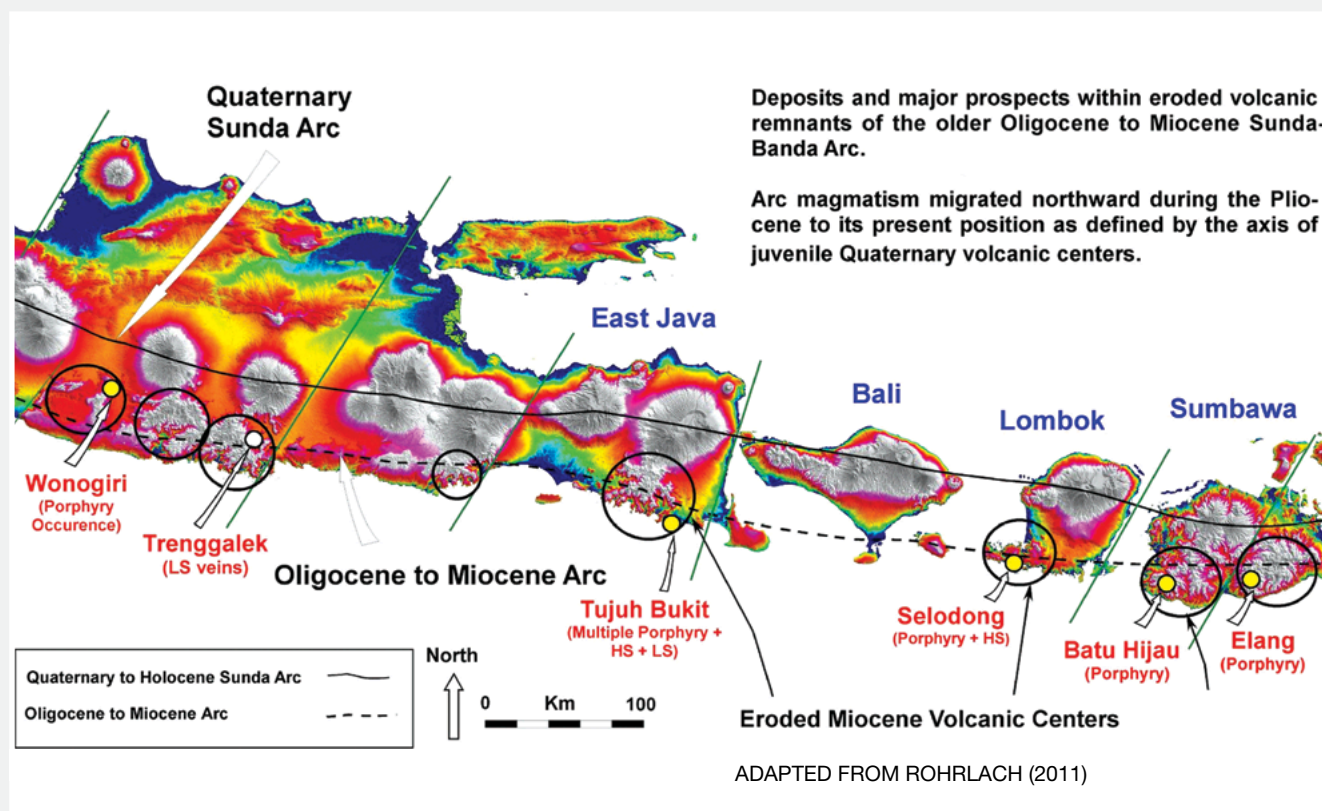
One inclined diamond hole (TRDD054) was drilled to a final depth of 1022.3 m late in the year.

The hole intersected a thick package of altered breccias cutting volcanoclastic rocks, limestone and various intrusive rock types including diorite, tonalite and andesite porphyry. The breccias are interpreted to occupy a large pipe-like feature, which is common in porphyry systems. The alteration assemblages intersected in the hole indicate higher temperature conditions (e.g. epidote, magnetite, garnet, secondary biotite) and late stage overprinting cooler, more acid fluids (e.g. dickite, pyrophyllite, illitic clays). Up to about 5% disseminated pyrite mineralisation was intersected throughout the hole and only traces of base metal and other sulphide mineralisation were recorded, which is

consistent with the patchy base metal results received from sampling and assaying of the drill core.

A best intercept of 2 m at 0.1% Cu with 0.05 g/t Au, 12 g/t Ag & 12 parts per million ("ppm") Mo was returned from 459m down-hole. It occurs within a broader intercept of low-grade molybdenum-arsenic-antimony mineralisation, returning 36 m at 7 ppm Mo, 125 ppm As & 6 ppm Sb from 451 m down-hole, in silicified limestone ("jasperoid").

The initial interpretation is that the hole intersected the weaker mineralised margins of a possible porphyry copper-gold system. Soil sampling and additional drilling are planned to further test this target in 2014.



SUNDA BANDA ARC SEGMENT



MAJOR GOLD DEPOSITS – INDONESIA ARCHIPELAGO



JERAMBAH DRILLING



SINGGAHAN SOIL SAMPLING



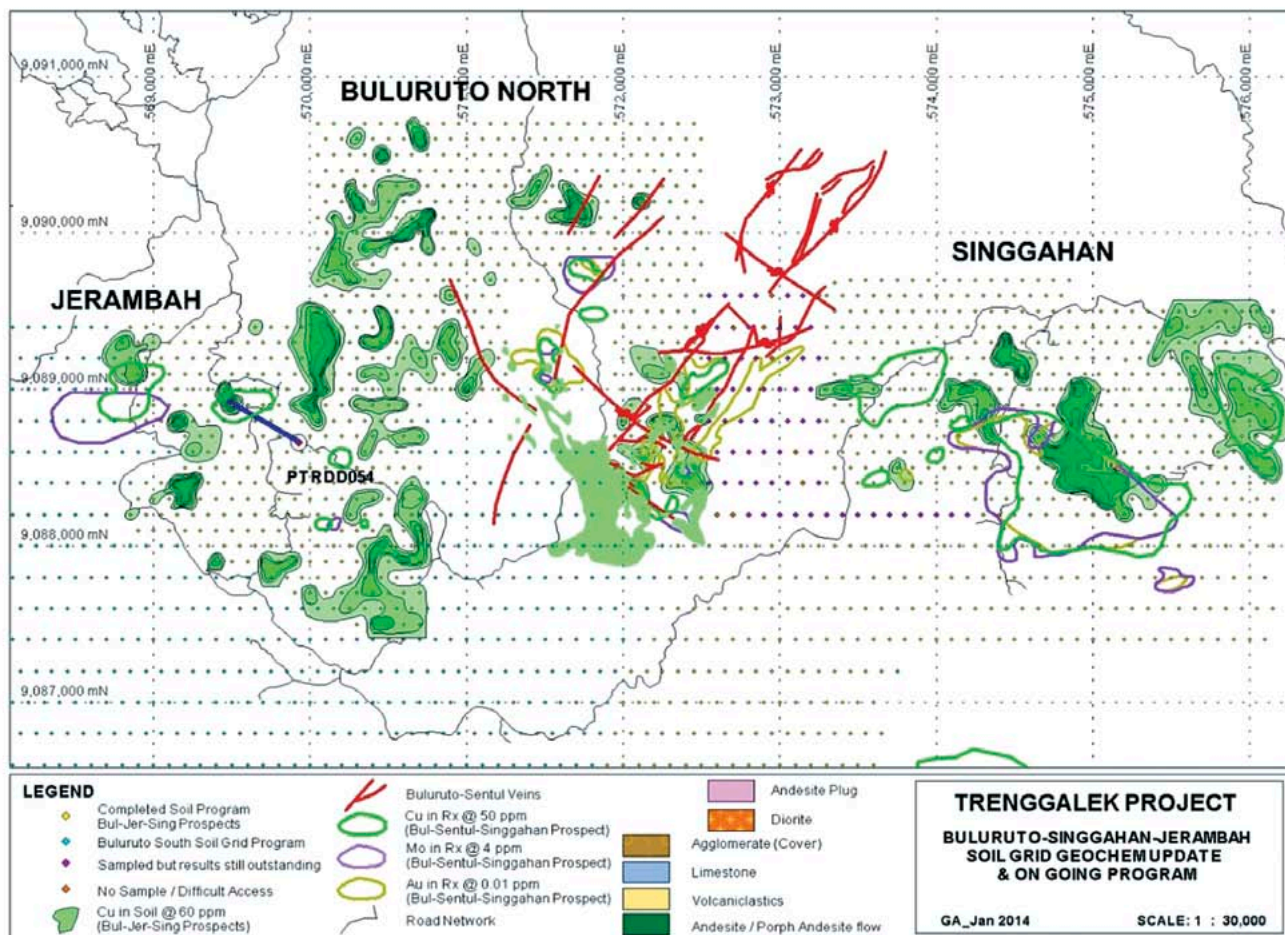
SUMBER BENING IP SURVEY



SUMBER BENING IP SURVEY

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COPPER SOIL ANOMALIES

Singgahan

Singgahan Prospect is located about 3 km east of Buluruto. Singgahan was originally highlighted as gold-copper drainage anomaly from a previous stream sediment survey. It is also a geophysical target generated from interpretative work on the airborne magnetics data.

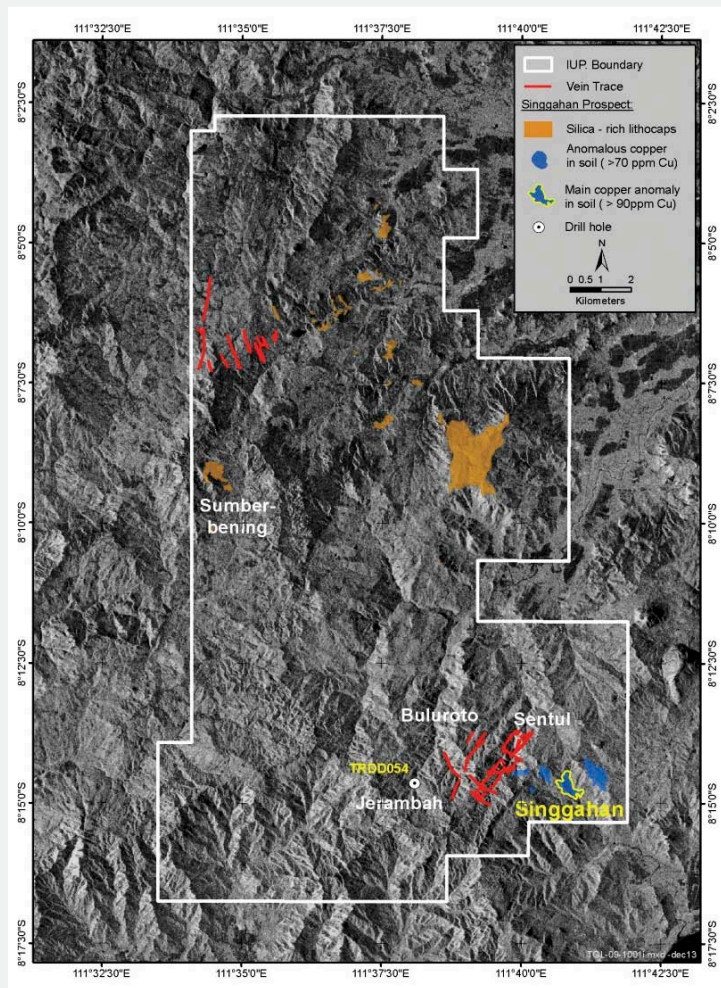
Grid-based soil geochemical sampling and mapping were completed here during the year. The results produced several geochemical anomalies within the grid area, the most significant of which is an approximately 500 m wide

and 1,000 m long coincident gold-copper-molybdenum anomaly that is underlain by extensive silica-clay-pyrite alteration in a diorite intrusion and andesitic volcanics. This main anomaly is highlighted by +20 parts per billion ("ppb") gold, +90 copper and +4 ppm molybdenum contours and contains peak results of 0.191 ppm gold, 585 ppm copper and 29 ppm molybdenum.

Recent benching and geological mapping work has identified anomalous gold-copper-molybdenum in weathered bedrock with remnants of quartz

stockwork with magnetite, chalcopyrite and pyrite, typical of porphyry style mineralisation.

Further work at Singgahan in 2014 will include detailed geological mapping, benching and rockchip sampling to provide further definition of the geochemical anomalies, ahead of possible scout drilling.



TRENGGALEK IUP PROSPECTS

Sumber Bening

Sumber Bening, one of the principal targets generated from early prospecting, lies on prominent north-northwest-trending structures that cut across a 4 km diameter-circular feature on the western side of the IUP. The prospect contains high linear ridges composed of resistive massive to vuggy silica ledges surrounded by more extensive silica-clay-rich alteration in host rocks comprising varying proportions of quartz, kaolinite, dickite, pyrophyllite, alunite, illitic muscovite and disseminated pyrite.

The alteration system, extending over 3 km by 2 km at surface, is a high-sulphidation epithermal ("HSE") alteration lithocap developed in several quartz-feldspar porphyry ("QFP") intrusions into volcanoclastic rocks, andesite flows and limestone.

Low-level gold and multi-element (copper-bismuth-molybdenum) geochemical anomalies occur in rock and soil samples collected at Sumber Bening including up to 0.14 g/t gold, 1410 ppm bismuth, 277 ppm copper and 37 ppm molybdenum.

These anomalies are associated with vuggy silica zones, silicified breccias and quartz-limonite stockworks cutting the altered intrusions and surrounding country rocks.

The alteration lithocap, geochemical anomalies and associated intrusions all indicate potential for a deeper porphyry copper-gold target. These geological features are similar to those reported in rocks lying above the Tumpangtiti porphyry deposit.

Ground work completed at Sumber Bening during the year included a ground 3-Dimensional IP-Resistivity ("3D IP-R") survey done over the entire prospect. A total of 43.2 line kms was surveyed and covered an area of about 10 km².

The results of this survey were processed, modelled and interpreted by a geophysical consultant from Moore Geophysics Pty Ltd. It was concluded that potential exists for a porphyry deposit at depth. The geophysical responses suggest that the near-surface alteration lithocap identified at Sumber Bening extends at depth and that it may grade into zones of secondary (replacement) magnetite-rich potassic alteration and structures associated with porphyry emplacement and copper-gold mineralisation.

A scout drilling program has been designed to test the porphyry target at Sumber Bening. Drilling will commence on completion of socialisation of the work program to the local community.

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VIEW TOWARD SOUTHERN PART OF TRENGGALEK IUP – TOWARD JERAMBAH

Australia

ARX entered into option agreements to farm-in to three gold projects located in Eastern Australia during the year. Junee and Oberon projects in New South Wales owned by New South Resources Pty Ltd (“NSR”), and Mount Garnet Project in Queensland owned by Snowmist Pty Ltd (“Snowmist”).

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

ARX has commenced further evaluations on each of the projects. Should ARX elect to proceed with the farm-ins it may earn up to 80% on each of the projects.

Junee

The Junee Project, located near the major regional centre of Wagga Wagga, comprises four contiguous Exploration Licences (EL’s 6516, 6658, 6768 & EL 8152) covering about 87 km². These tenements straddle part of the major regional Gilmore Fault Zone and contain rocks of the Junee-Narromine Volcanic Belt, part of the highly prospective Ordovician-Early Silurian Macquarie Volcanic Arc in the Lachlan Orogen. Large porphyry-related gold and gold-copper deposits, such as Northparkes, Gidginbung and Cowal, occur along this fertile volcanic belt and their distribution is also spatially related to the Gilmore Fault Zone and its associated fault splays.

EL 6516 contains the 77,000-ounce Dobroyde gold deposit (see ASX announcements of 3rd and 10th July 2013) on which historic drilling has produced some spectacular high-grade gold intercepts within a low-grade mineralisation envelope, including 22m at 37.3 g/t gold, 16 m at 10.5 g/t gold and 6m at 18.2 g/t gold.

Dobroyde is a high-sulphidation epithermal gold deposit that was discovered in outcrop by Getty Oil in the early 1980’s. It occurs

in structurally controlled zones of siliceous alteration and cross-cutting baryte veins surrounded by clay-rich alteration zones in andesitic volcanic host rocks.

One diamond hole (NDD2) was drilled by NSR at Dobroyde in late 2012 to confirm the occurrence of high-grade gold mineralisation and to provide material for future metallurgical testing. Assaying of the core by NSR in 2013 produced an intercept of 22.5 m at 8.75 g/t gold in quartz-baryte-sulphide breccia and stockwork hosted in silica-dickite-pyrophyllite-kaolinite altered andesitic volcanic rock. The estimated true-width of this intercept was 10-15 metres.

ARX undertook check assaying at another commercial laboratory and validated the result. The gold intercept obtained in NDD2 confirms the occurrence of high-grade gold at Dobroyde and raises the possibility for further high-grade mineralisation in other parts of the project area.

ARX commissioned Perth-based consultant, Orefind Pty Ltd, to do a 3-Dimensional (“3D”) exploration targeting analysis of the historic drilling gold-assay database integrated with the interpretative geology of the



Dobroyde gold deposit. This work confirmed that gold mineralisation at Dobroyde is controlled by a northwest-trending fault and fracture zone that is up to about 120 m wide and occurs adjacent to the major regional Gilmore Fault Zone. The gold mineralisation envelope is elongated NW-SE and extends over 400 m strike-length.

The analysis supported the potential for an extension to the 77,000 ounce gold resource, which is open along a shallow plunge to the northwest and below about 150 m depth. Four additional targets were also identified.

Planned work for the remainder of the Option Period in 2014 includes reprocessing and modelling of detailed geophysical data previously acquired over Dobroyde. This includes high-resolution airborne magnetics, radiometrics and a 3-Dimensional IP-Resistivity ground survey. Results from this will be used to help explore for additional gold resources and for porphyry gold-copper targets, which are commonly associated with high-sulphidation epithermal gold deposits like Dobroyde.

Follow-up on the proposed metallurgical test work on drill core from hole NDD2 will also be done.

Oberon

The Oberon Project, located near the major regional centre of Bathurst, comprises one large licence EL 6525 and a smaller adjoining licence EL 8110, covering approximately 265 km².

The Bathurst region is highly endowed in metallogenic resources and contains a number of major mineral deposit styles including orogenic gold (e.g. Hill End), gold-rich volcanic-hosted massive (& disseminated) sulphide ("VHMS") (e.g. Lewis Ponds, McPhillamys), porphyry copper-gold ("PCD") (e.g. Cadia), and granite-related gold skarn (e.g. Browns Creek, Lucky Draw).

The tenements cover Siluro-Devonian felsic volcanosedimentary rocks (prospective for VHMS & orogenic gold), Ordovician mafic volcanosedimentary rocks (prospective for PCD & orogenic gold), and Carboniferous granites (prospective for granite-related gold skarns).

The project area is crossed by the west-northwest trending Lachlan Transverse Zone, an inferred arc-normal structural corridor that is interpreted by Glen *et al.* (2007) to have influenced the emplacement

of mineralising monzonite intrusions (e.g. Cadia) and felsic volcanic centres (e.g. McPhillamys) in the Bathurst region. The same structure may have similarly influenced the distribution of gold-base metal prospects in the project area.

EL 6525 contains the 150,000-ounce *Murphys* gold deposit (see ASX announcements of 3rd and 10th July 2013) on which historic drilling has produced some broad low-grade gold intercepts including 49 m at 0.75 g/t gold, 23 m at 1.05 g/t gold and 34 m at 0.62 g/t gold. The deposit has been drilled to only shallow depth (<150 m) and is believed to be open at depth.

Murphys is a VMS-related or orogenic gold deposit discovered by Newmont Mining in the late 1970's. Gold occurs disseminated through quartz-muscovite-sulphide altered rhyodacitic volcanoclastic rocks and in cross-cutting sulphidic quartz-stockworks.

A 3-Dimensional ("3D") modelling of historic drilling database on *Murphys* was conducted in early 2014 and the work confirmed that coherent gold and base metal distribution are structurally controlled. Furthermore mineralisation is identified to be open at depth, plunging towards historic copper-

Review of Activities

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gold workings. Potential resource extensions were also recognised.

Planned evaluation work for the remainder of the Option Period of 2014 includes reprocessing and modelling of high-resolution Falcon Airborne Gravity Gradiometer (AGG) and magnetics-radiometrics data that were previously acquired over the entire project area. Results from this will be used to assess the potential of the project area for additional gold resources and porphyry copper-gold targets.

Mount Garnet

The Mount Garnet Project, located near the major regional centre of Cairns, comprises three Mining Leases (ML's 4363, 4390 & 20018) covering about 150 hectares. A new exploration licence located east of these mining leases is currently under application.

The project lies within the Mt Garnet tin-base metal mining subdistrict of the Herberton Tinfield and at the southern end of a belt of Siluro-Devonian metasedimentary rocks intruded by Permo-Carboniferous granites that are host to the large Mungana/Red Dome gold-base metal skarn, quartz-stockwork and breccia deposits in the Chillagoe mining district, located about 100 km to the northwest of Mount Garnet.

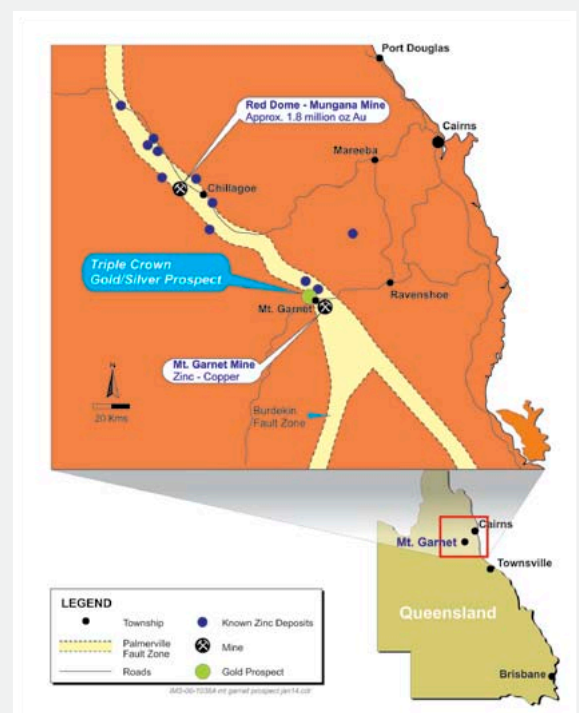
ML 4363 contains the 69,000-ounce *Triple Crown* gold deposit (see ASX announcement of 21st August 2013) on which historic drilling has produced some broad low-grade gold intercepts including 22 m at 2.33 g/t gold, 51 m at 1.73 g/t gold and 35m at 1.39 g/t gold. The deposit has been drilled to only shallow depth (<200 m) and is believed to be open at depth.

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

A detailed ground assessment of the project tenements will be done during the option period in 2014. This may include ground geophysical surveys. Potential for additional gold resources is considered to be high.



NSW PROJECTS LOCATIONS – JUNEE (DOBROYD) AND OBERON (MURPHYS)



QUEENSLAND PROJECT LOCATION – MT GARNET (TRIPLE CROWN)

Summary Statement of Resources

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

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

Indonesian Tenements

Tenement	IUP Type	Area	Expiring	ARX interest
Trenggalek	Exploration	29,969 ha	1 November 2016	95% Joint Venture
West Papua	Exploration	99,410 ha	15 April 2017	20% Strategic Alliance
	Exploration	99,410 ha	20 October 2018	20% Strategic Alliance
	Exploration	100,000 ha	21 October 2018	20% Strategic Alliance

Competent Person Statement

The information in this report that relates to the following were created and reported in accordance with the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves':

- Trenggalek Targets and Sumber Bening Prospect on the Trenggalek Project in West Java, Indonesia – created and released to the ASX on 17 October 2013 entitled September 2013 Quarterly Activities Report;
- Historic drilling on the Junee Project in New South Wales, Australia – created and released to the ASX on 9 October 2013 entitled New Exploration Licence in Australia;
- High-Grade Gold Validation on the Junee Project in New South Wales, Australia – created and released to the ASX on 4 November 2013 entitled High-Grade Gold Confirmed At Dobroyde;
- 3 Dimensional exploration targeting on the Dobroyde gold deposit on the Junee Project in New South Wales, Australia – created and released to the ASX on 4 November 2013 entitled 3D Geological Analysis And Targeting At Dobroyde.

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

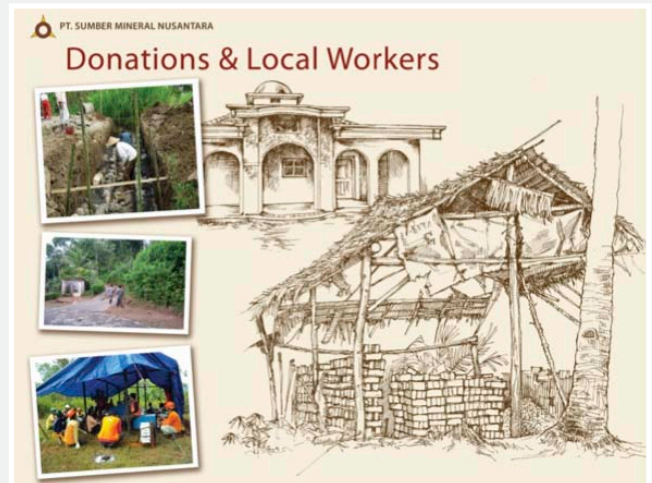
With the exception of the above, the information in this report that relates to Exploration Results is based on information compiled by Mr Brad Wake, BSc(Applied Geology), who is a member of the Australian Institute of Geoscientists. Mr Wake has sufficient experience that is relevant to the styles of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

The information in this report that relates to:

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

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

Corporate Responsibilities



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

The Community

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

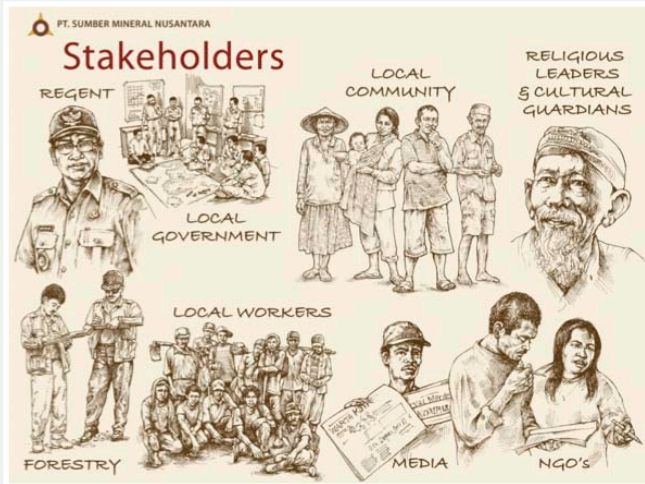
We acknowledge the fact that whilst we work and live within local communities our relationship with the local people is critical to the development of the Company's business. However, we are also aware that our projects are still at the high-risk exploration stage. We therefore need to correctly manage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

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

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

The Environment

The Company is also conscious of its responsibility in relation to the environment and we strive to achieve minimal impact as far as possible in our work areas. All Arc Exploration's Directors, management and staff are required to pay the highest respect to the environment as an obligation



of employment and ensure that environmental management is carried out to the highest level achievable within the Company's operations. All of our employees and contractors are made aware of this policy.

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

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

Our Employees

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

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

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

Corporate Governance

for year ended 31 December 2013

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 with 2010 Amendments.

Recommendation 1.1

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

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

Management is charged with the day to day running and administration of the Group consistent with the objectives and policies as set down by the Board. Within this framework, the Managing Director is directly accountable to the Board for the performance of the management team. Dr Jeffrey Malaihollo was appointed as Managing Director on 1 October 2013.

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, Dr Jeffrey Malaihollo: Managing Director, John Carlile: Non-Executive (former Managing Director) and two Independent Non-Executive Directors: George Tahija and Robert Willcocks.

Recommendation 2.2

The Chair should be an independent Director.

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

Recommendation 2.3

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

The roles of Chair 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 three of the Directors being based overseas. 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 diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

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

Recommendation 3.3

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Company is committed to promoting a culture of diversity in the workplace including gender diversity.

The number of women participating throughout the workplace is reviewed on an annual basis and reported to the Board.

The Company's policies and procedures are reviewed on an annual basis to ensure that they adequately focus on the participation of women in the workforce.

Corporate Governance

for year ended 31 December 2013

Women are considered for all positions in the Company extending from field assistants through to senior management and the Board as and when opportunities or vacancies arise.

The Company aims to achieve gender diversity across all levels of its organisation subject to the nature and scope of the Company's operations and the availability of suitably qualified candidates.

Recommendation 3.4

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The whole organisation is comprised of:

- a) four people in Australia of which one is a women; and
- b) Twenty eight people in Indonesia of which five are women.

The Company's Financial Controller is a woman.

The Company has a Board of five of which none are women.

Recommendation 3.5

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 Mr Bruce Watson (the Chairman) and Mr Robert Willcocks (a Non-Executive Director). Given the size of the Company and the Board, the Audit Committee is made up of only two members, while other Directors and the Company's external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

Recommendation 4.3

The Audit Committee should have a formal charter.

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

Recommendation 4.4

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

The Company has provided this information.

Recommendation 5.1

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

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

Recommendation 5.2

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

The Company has provided this information.

Recommendation 6.1

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

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

Recommendation 6.2

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

The Company has provided this information.

Recommendation 7.1

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

There are inherent risks associated with exploration and in particular in operating in overseas countries. The Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks. The Company has adopted a Risk Management Statement and a Financial and Commodity Risk Management Policy. The Risk Management Statement is reproduced on the Company's website.

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

Recommendation 7.2

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

The Managing Director and Chief Financial Officer (Cahyono Halim) are both based in Jakarta and manage the implementation of risk management and internal control systems to manage the company's material business risks. Management has confirmed to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

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

Corporate Governance

for year ended 31 December 2013

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 risks.

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

The remuneration committee should be structured so that it:

- **consists of a majority of independent directors**
- **is chaired by an independent chair**
- **has at least three members.**

The Board has not maintained a formal Remuneration Committee.

Recommendation 8.3

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 employee's 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 8.4

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

The Company has provided this information.

Arc Exploration Limited
ABN 48 002 678 640

Annual Consolidated Financial Report

For the year ended 31 December 2013

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Annual Consolidated Financial Report

for year ended 31 December 2013

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 2013.

Directors

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

Name	Period of Directorship
Executive	
Dr Jeffrey Malaihollo (Managing Director, CEO)	Appointed October 2013
Non-Executive	
Mr Bruce J. Watson (Chairman of the Board and the Audit Committee)	Appointed Chairman (Board and Audit Committee) 2005 Director 1998-2001, Director since 2005
Mr John Carlile	Retired as Managing Director remained as Non-Executive Director October 2013 Appointed Managing Director January 2008 Director since 1998
Mr 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:

- undertaking of gold exploration at Trenggalek (East Java);
- providing support to Anglo American Group ('Anglo American') to undertake copper/gold exploration on the Strategic Alliance project area in West Papua; and
- exploring opportunities in Australia.

Review of Operations

Exploration

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

The primary focus of activities during the year was on the joint venture with Anglo American to explore for copper-gold at Trenggalek in East Java. This work was fully funded by Anglo American and managed by ARX.

ARX also has a strategic alliance with Anglo American to explore for copper-gold in West Papua. Minimal activity was undertaken here whilst awaiting the necessary forestry permits to work in this area. Anglo American manages and funds all activities in West Papua.

In addition, ARX entered into options to farm into three gold projects located in Eastern Australia during the year. This followed an extensive search for new opportunities in Australia that targeted accessible projects containing at least one advanced gold prospect together with additional exploration upside for further discoveries in a productive mineral province. Initial work commenced on these projects late in the year with the aim further assessing their potential toward a decision to proceed with formal joint ventures on each.

Indonesia

ARX operates a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara, who holds the Trenggalek Exploration IUP tenement, located in the Southern Mountains of East Java.

The Trenggalek Project is currently a single Exploration IUP tenement that is valid until November 2016. The tenement area covers about 300 km². It was slightly reduced in size during the year, from 30,044 ha to 29,969 ha, to resolve an overlap with some small local dimension stone and clay mining tenements. The removal of these areas has no impact on the Group's exploration activities.

An extension to the *Pinjam-Pakai* ("Borrow Use") Forestry Permit for the Trenggalek IUP was granted during the year by the Indonesian Ministry of Forestry. This allows the Group to conduct exploration work on several targets in production forestry areas within the tenement.

On 22 August 2013, formal legal documentation was signed in support of Anglo American farming into the Trenggalek Project with ARX and its Indonesian partner, PT. Sumber Mineral Nusantara ("SMN"). Under the terms of the Anglo American – ARX – SMN Joint Venture Agreement, Anglo American can earn up to 75% of the Trenggalek Project by sole funding US\$20 million of exploration expenditure and will then free-carry ARX (20%) and SMN (5%) through completion of a Pre-Feasibility Study.

The Joint Venture with Anglo American is a major step forward for the project. It has provided for increased exploration activity at Trenggalek during the year and the opportunity to test the porphyry copper-gold potential in this highly prospective mineral district.

Major activities conducted during the year included a geophysical interpretation and target generation from the airborne magnetic and radiometrics data acquired over the entire IUP, a ground electrical geophysical survey at Sumber Bening, soil geochemical sampling, mapping and the commencement of drilling on a new prospect generated in the south-eastern corner of the IUP.

Australia

ARX entered into option agreements to farm-in to three gold projects located in Eastern Australia during the year. Junee and Oberon projects in New South Wales owned by New South Resources Pty Ltd, and Mount Garnet Project in Queensland owned by Snowmist Pty Ltd.

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

ARX has commenced further evaluations on each of the projects. Should ARX elect to proceed with the farm-ins it may earn up to 80% on each of the projects.

Consolidated Results

The loss after tax for the year was \$1,466,017 (2012: loss of \$1,198,304).

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

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

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

Likely Developments and Expected Results of Operations

Likely developments in the operations of the Group include ongoing exploration at Trenggalek in Indonesia in joint venture with Anglo American Group and the possibility of the Group exercising its option to earn a direct interest in one of three exploration projects in Australia that the Group currently holds options over.

Directors' Report

for year ended 31 December 2013

Dividends

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

Statement of Interests of Directors

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

Directors	Shares	Director & Employee Options
Jeffrey Malaihollo *	–	–
Bruce Watson	13,349,907	5,383,766
John Carlile **	30,445,339	16,151,298
George Tahija	10,597,472	3,589,177
Robert Willcocks	5,125,000	3,589,177
	59,517,718	28,713,418

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

Indemnities and Insurance of Directors, Officers and Auditors

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

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

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

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

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

Dr Jeffrey Malaihollo – Dr Jeffrey Malaihollo is originally from Indonesia with a PhD in Geological Sciences from the University of London researching the tectonics of eastern Indonesia. Dr Malaihollo has been involved in the exploration and mining industry for over 20 years working with both major and junior exploration companies in Indonesia, Australia and elsewhere. He was the Managing Director and a founder of AIM-ASX listed GGG Resources Plc, which in 2010 acquired a four hundred thousand ounce gold resource in Western Australia and within less than three years, increased this to over three million ounces. Prior to this he was the Head of Research at a specialist mining finance house in London. Dr Malaihollo 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 on 1 October 2013.

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

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

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.

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

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

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

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

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

Company Secretary

Mr Andrew J. Cooke LLB, FAICS

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

Directorships of ther Listed Companies

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

Director	Company	Period of Directorship
Jeffrey Malaihollo*	Marshall Lake Mining Plc	Director from 30 April 2013 to now
	Bullabulling Gold Ltd	Managing Director from 15 September 2011 to 30 April 2012
		Director from 1 May 2012 to 2 July 2012
	GGG Resources Plc (formerly Central China Goldfields Plc)	Managing Director from 3 November 2004 to 15 March 2012
Bruce Watson	Orion Petroleum Limited	Director from April 2011 to June 2011
John Carlile**	Nil	–
George Tahija	PT Austindo Nusantara Jaya Tbk (listed 8 May 2013)	Commissioner
Robert Willcocks	APAC Resources Limited	Director since July 2007
	Mt Gibson Iron Limited	Alternate Director from December 2008 to February 2011
	Orion Petroleum Limited	Chairman from April 2010 to June 2011
	Living Cell Technologies Limited	Director from March 2011

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

Directors' Report

for year ended 31 December 2013

Remuneration Report

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

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

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

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

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

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

Non-Executive Directors

The Chairman (non-executive) is entitled to receive directors fees of \$45,000 per annum. Other non-executive directors are entitled to receive directors fees of \$30,000 per annum. 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 9.25% are paid in relation to the directors fees where appropriate for the Australian based non-executive directors.

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

Share Performance and Shareholder Wealth

	2013 \$	2012 \$	2011 \$	2010 \$	2009 \$
Profit (loss) attributable to owners of the company	(1,466,017)	(1,198,304)	(3,245,959)	(2,686,180)	14,324,739
Dividends paid	–	–	–	–	–
Change in share price	0.0020	(0.0100)	(0.0200)	–	0.0100
Return on capital employed	–	–	–	–	–

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

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

Directors' post employment benefits

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

Executive directors and other key management personnel

Executive remuneration packages comprise a mix of the following components:

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

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

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

Fixed remuneration

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

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.

There are no performance hurdles for any share options granted as at 31 December 2013 because the main activities of the Group relate to early stage exploration, the success of which cannot be judged in terms of traditional financial measures. If the Group does in due course have exploration success and prove up an economic resource and ultimately develop an economically viable mining project then it is likely that appropriate performance hurdles would be introduced to apply to any options that may be granted at that time to key management personnel.

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

ii. Options issued pursuant to shareholder approval

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

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

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

Directors' Report

for year ended 31 December 2013

Remuneration Report (continued)

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

Service/Employment agreements – audited

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

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

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

Director	Remuneration
Jeffrey Malaihollo*	\$13,800 per month (from 1/10/13)
John Carlile**	\$15,333 per month (to 30/09/13)
Executives	
Cahyono Halim	\$15,417 per month
Andrew Cooke	\$7,500 per month (based on a 2 day week)
Brad Wake	\$18,500 per month

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

** From 1 October 2013 to 31 January 2014 Mr Carlile will be available to provide services to the Company for 10 days per month at a rate of \$1,250 per day if requested.

b. Details of remuneration (audited)

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

Name of Executive	Title	Period of Responsibility
Jeffrey Malaihollo	Managing Director, CEO	From 1 October 2013
John Carlile	Non-Executive Director	From 1 October 2013
John Carlile	Managing Director	Managing Director to 30 September 2013
Cahyono Halim	Chief Financial Officer	Full year
Andrew Cooke	Company Secretary	Full year
Brad Wake	Exploration Manager	Full year

Remuneration details of Non-Executive Directors

	Directors Fees \$	Superannuation \$	Options ^d \$	Total \$
2013				
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
2012				
Bruce Watson	30,000	2,700	12,426	45,126
George Tahija ^b	–	–	8,286	8,286
Robert Willcocks ^c	20,000	–	8,285	28,285
Total	50,000	2,700	28,997	81,697

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

Other Key Management Personnel of the Group and Specified Remunerated Executives

	Short-term benefits		Post-employment benefits		Share Based Payments	Total \$	Proportion of remuneration performance related %
	Cash Salary and Fees \$	Non-monetary Benefits \$	Cash Salary and Fees \$	Non-monetary Benefits \$	Options ^a \$		
2013							
Director							
Jeffrey Malaihollo [*]	41,400	10,397	–	–	–	51,797	–
John Carlile ^{**}	226,595	54,800	5,216	–	–	286,611	–
Executives							
Cahyono Halim	192,757	6,796	6,764	–	–	206,317	–
Andrew Cooke	90,000	–	–	–	–	90,000	–
Brad Wake	228,153	16,891	–	–	–	245,044	–
Total	778,905	88,884	11,980	–	–	879,769	
2012							
Director							
John Carlile	208,732	45,734	6,806	–	37,284	298,556	–
Executives							
Cahyono Halim	156,797	6,001	5,474	–	24,858	193,130	–
Andrew Cooke	97,300	–	–	–	24,858	122,158	–
Brad Wake	226,979	18,639	–	–	24,856	270,474	–
Total	689,808	70,374	12,280	–	111,856	884,318	

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

^{*} Appointed 1/10/2013

^{**} Retired as Managing Director 30/09/2013

^{**} Non-Executive Director from 1/10/2013

Directors' Report

for year ended 31 December 2013

Remuneration Report (continued)

b. Details of remuneration (audited) (continued)

Options

The total cost of options issued by directors to key management personnel charged to profit and loss for 2013 was nil (2012: 140,853). For exercise price of options see page 33 'Unissued shares under option'.

Details of options that were granted or vested during the year to Directors 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	
	2013	2012	2013	2012
Directors				
Jeffrey Malaihollo*	–	–	–	–
Bruce Watson	–	–	–	1,027,500
John Carlile**	–	–	–	3,082,500
Robert Willcocks	–	–	–	685,000
George Tahija	–	–	–	685,000
Executives				
Andrew Cooke	–	–	–	2,055,000
Brad Wake	–	–	–	2,055,000
Cahyono Halim	–	–	–	2,055,000
Total	–	–	–	11,645,000

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 year	Other changes*	Balance at 31 December or date ceased to be KMP
2013							
Directors							
Jeffrey Malaihollo*	–	–	–	–	–	–	–
Bruce Watson	5,383,766	–	–	–	–	–	5,383,766
John Carlile**	16,151,298	–	–	–	–	–	16,151,298
Robert Willcocks	3,589,177	–	–	–	–	–	3,589,177
George Tahija	3,589,177	–	–	–	–	–	3,589,177
Executives							
Andrew Cooke	10,767,532	–	–	–	–	–	10,767,532
Cahyono Halim	10,767,532	–	–	–	–	–	10,767,532
Brad Wake	10,767,532	–	–	–	–	–	10,767,532
Total	61,016,014	–	–	–	–	–	61,016,014
2012							
Directors							
Bruce Watson	5,383,766	–	–	–	–	–	5,383,766
John Carlile	16,151,298	–	–	–	–	–	16,151,298
Robert Willcocks	3,589,177	–	–	–	–	–	3,589,177
George Tahija	3,589,177	–	–	–	–	–	3,589,177
Executives							
Andrew Cooke	10,767,532	–	–	–	–	–	10,767,532
Cahyono Halim	10,767,532	–	–	–	–	–	10,767,532
Brad Wake	10,767,532	–	–	–	–	–	10,767,532
Total	61,016,014	–	–	–	–	–	61,016,014

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

Directors' Report

for year ended 31 December 2013

Remuneration Report (continued)

b. Details of remuneration (audited) (continued)

Name	A	B	C	D
	Remuneration consisting of options %	Granted during year \$	Exercised during year \$	Lapsed during year \$
2013				
Directors				
Jeffrey Malaihollo*	0%	—	—	—
Bruce Watson	0%	—	—	—
John Carlile**	0%	—	—	—
Robert Willcocks	0%	—	—	—
George Tahija	0%	—	—	—
Executives				
Andrew Cooke	0%	—	—	—
Cahyono Halim	0%	—	—	—
Brad Wake	0%	—	—	—
2012				
Directors				
Bruce Watson	28%	—	—	—
John Carlile	12%	—	—	—
Robert Willcocks	29%	—	—	—
George Tahija	100%	—	—	—
Executives				
Andrew Cooke	20%	—	—	—
Cahyono Halim	13%	—	—	—
Brad Wake	9%	—	—	—

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.

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

Unissued shares under option

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

Expiry date	Exercise price	Number of shares
11 December 2014	3.6 cents	39,945,191
27 May 2016	4.2 cents	23,290,000

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

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 71 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.

	\$
Tax compliance and consultancy services	13,732
Total non-audit services	13,732

Directors' Report

for year ended 31 December 2013

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, 2013 and the number of meetings attended by each Director:

	Meetings of Directors^^		Audit Committee^^	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Jeffrey Malaihollo*	2	2	^	^
Bruce Watson	11	11	6	6
John Carlile**	11	11	^	^
George Tahija	11	9	^	^
Robert Willcocks	11	11	6	6

^ Not a member of the relevant committee

^^ Including meetings by circular resolution

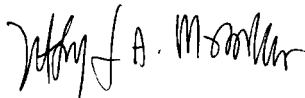
* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

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

Dated this 25th day of March 2014.



Jeffrey Malaihollo
Managing Director



Bruce Watson
Non-Executive Chairman

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for year ended 31 December 2013

	Notes	2013 \$	2012 \$
Continuing operations			
Other income	6a (i)	875,488	1,048,133
Employee expenses	6b	(859,157)	(1,151,015)
Depreciation expenses		(28,372)	(28,814)
Management, administrative and occupancy expenses		(750,458)	(890,111)
Exploration expenses		(770,267)	(244,266)
Foreign exchange losses		(26,625)	(108,931)
Loss before financing costs		(1,559,391)	(1,375,004)
Interest income	6a (ii)	93,374	194,350
Finance expenses	6c	–	(17,650)
Loss before income tax		(1,466,017)	(1,198,304)
Income tax (expense)/benefit		–	–
Loss after tax		(1,466,017)	(1,198,304)
Other comprehensive income			
Items that will not be reclassified to profit and loss		–	–
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		43,001	96,327
Tax on items that may be reclassified subsequently to profit or loss		–	–
Other comprehensive income for the period, net of tax		43,001	96,327
Total comprehensive income for the period		(1,423,016)	(1,101,977)
Loss attributable to:			
Equity holders of the Company		(1,466,017)	(1,198,304)
Loss for the period		(1,466,017)	(1,198,304)
Total comprehensive income attributable to:			
Equity holders of the Company		(1,423,016)	(1,101,977)
Total comprehensive income for the period		(1,423,016)	(1,101,977)
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)		(0.16)	(0.13)

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

Consolidated Statement of Financial Position

for year ended 31 December 2013

	Notes	2013 \$	2012 \$
Current Assets			
Cash and cash equivalents	9	2,205,476	3,771,887
Receivables	10	460,999	309,651
Other	12	150,005	96,896
Total Current Assets		2,816,480	4,178,434
Non-Current Assets			
Receivables	11	177,631	182,554
Plant and equipment	13	18,188	37,431
Exploration and evaluation expenditure	14	5,117,557	4,958,792
Intangible asset	15	276,235	–
Total Non-Current Assets		5,589,611	5,178,777
Total Assets		8,406,091	9,357,211
Current Liabilities			
Trade and other payables	16	592,742	165,898
Other	18	34,861	34,861
Total Current Liabilities		627,603	200,759
Non-Current Liabilities			
Provisions	17	199,752	154,700
Total Non-Current Liabilities		199,752	154,700
Total Liabilities		827,355	355,459
Net Assets		7,578,736	9,001,752
Equity			
Contributed equity	19	148,387,790	148,387,790
Reserves		1,637,548	1,594,547
Accumulated losses		(142,446,602)	(140,980,585)
Total equity attributable to equity holders of the Company		7,578,736	9,001,752
Total equity		7,578,736	9,001,752

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

Consolidated Statement of Changes in Equity

for year ended 31 December 2013

	Share Capital \$	Translation Reserve \$	Share-Based Payment Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 January 2013	148,387,790	691,974	902,573	(140,980,585)	9,001,752
Total comprehensive income for period					
Profit/(loss)	–	–	–	(1,466,017)	(1,466,017)
Other comprehensive income					
Foreign currency translation differences	–	43,001	–	–	43,001
Total other comprehensive income	–	43,001	–	–	43,001
Total comprehensive income for the year	–	43,001	–	(1,466,017)	(1,423,016)
Transactions with equity holders in their capacity as equity holders					
Share options expense	–	–	–	–	–
Contribution of equity, net of transaction costs	–	–	–	–	–
Total transactions with equity holders	–	–	–	–	–
Total equity at the end of period	148,387,790	734,975	902,573	(142,446,602)	7,578,736
	Share Capital \$	Translation Reserve \$	Share-Based Payment Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 January 2012	147,765,528	595,647	760,924	(139,782,281)	9,339,818
Total comprehensive income for period					
Profit/(loss)	–	–	–	(1,198,304)	(1,198,304)
Other comprehensive income					
Foreign currency translation differences	–	96,327	–	–	96,327
Total other comprehensive income	–	96,327	–	–	96,327
Total comprehensive income for the year	–	96,327	–	(1,198,304)	(1,101,977)
Transactions with equity holders in their capacity as equity holders					
Employee share options expense	–	–	141,649	–	141,649
Contribution of equity, net of transaction costs	622,262	–	–	–	622,262
Total transactions with equity holders	622,262	–	141,649	–	763,911
Total equity at the end of period	148,387,790	691,974	902,573	(140,980,585)	9,001,752

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

Consolidated Statement of Cash Flows

for year ended 31 December 2013

	Notes	2013 \$	2012 \$
Cash flows from operating activitiesw			
Consulting fees		247,590	749,715
Partner Contribution		1,277,119	–
Payments to suppliers and employees		(2,368,392)	(1,783,036)
Exploration and evaluation expenditure		(618,441)	(244,266)
Interest received		102,877	206,077
Finance costs		–	(17,676)
Net cash used in operating activities	27b	(1,359,247)	(1,089,186)
Cash flows from investing activities			
Payments for office furniture, equipment and vehicles		(3,123)	(4,710)
Proceeds on sale of plant and equipment		–	13,667
Security deposits		(10,000)	–
Exploration and evaluation expenditures		(169,420)	(373,974)
Net cash used in investing activities		(182,543)	(365,017)
Cash flows from financing activities			
Repayment of loan		–	(651,186)
Net cash (used in)/from financing activities		–	(651,186)
Net increase/(decrease) in cash and cash equivalents		(1,541,790)	(2,105,389)
Cash and cash equivalents at beginning of the period		3,771,887	5,851,354
Effects of exchange rate changes on balances of cash held in foreign currencies		(24,621)	25,922
Cash and cash equivalents at the end of the period		2,205,476	3,771,887

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

1. Reporting Entity

Arc Exploration Limited ("Arc" or the "Company") is a publicly listed company that is incorporated and domiciled in Australia and is a for-profit entity. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its controlled entities (together referred to as the "consolidated entity" or "Group") and the Group's interest in associates and jointly controlled entities.

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

Level 8
65 York Street
Sydney NSW 2000

During the year, the principal activities of Company and its controlled entities were:

- undertaking of gold exploration at Trenggalek (East Java);
- providing support to Anglo American Group ('Anglo American') to undertake copper/gold exploration on the Strategic Alliance project area in West Papua; and
- exploring opportunities in Australia.

2. Summary of Significant Accounting Policies

a. Basis of preparation

Statement of Compliance

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

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

The financial statements were approved by the Board of Directors on 25 March 2014.

Going Concern Basis

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

Basis of Measurement

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

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

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

- Exploration and evaluation expenditure
- Recognition of tax losses
- Refer to Note 5 for further details.

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.

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

2. Summary of Significant Accounting Policies (continued)

Changes to accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- AASB 10 Consolidated Financial Statements (2011) (AASB 10)
- AASB 11 Joint Arrangements (AASB 11)
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- Presentation of Items of Other Comprehensive Income (Amendments to AASB 101)
- AASB 119 Employee Benefits (2011)

The nature and effects of the accounting standards above have not had a material impact to the Group. Key changes have been explained below.

i. Subsidiaries

As a result of AASB 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

This change in policy did not change the entities that are consolidated.

ii. Joint arrangements

As a result of AASB 11, the Group has changed its accounting policy for its interests in joint arrangements. Under AASB 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. The Group has re-evaluated its involvement in all its joint arrangement. This change in policy did not impact the recognised assets, liabilities and comprehensive income of the Group's joint arrangements.

iii. Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASBs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7.

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

Basis of Consolidation

Controlled entities

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

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

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

Foreign Currencies

Functional and presentation currency

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

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

Transactions and balances

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

Group Entities

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

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

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

Derivative Financial Instruments

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

Fair value estimation

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

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

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

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

Acquisition of Assets

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

2. Summary of Significant Accounting Policies (continued)

Plant and Equipment

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

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

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

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

Depreciation

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

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

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

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

Exploration and Evaluation Expenditure

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

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

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

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

Exploration and evaluation assets include:

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

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

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

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

Impairment testing of exploration and evaluation assets

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

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

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Intangible assets

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

Cash

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

Trade Receivables

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

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

2. Summary of Significant Accounting Policies (continued)

Trade and other Payables

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

Comparative Information

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

Impairment of Assets

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

Share-based payment transactions

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

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

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

Basic/Diluted Earnings/(loss) per Share

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

Interest bearing liabilities

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

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

Employee Benefits

Wages, salaries, and annual leave

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

Long Service Leave

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

Post employment benefits

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

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

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

Provisions

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

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

Contributed Equity

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

2. Summary of Significant Accounting Policies (continued)

Restoration, Rehabilitation and Environmental Expenditure

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

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

Other income

Interest income

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

Sundry income

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

Leases

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

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

Finance Costs

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

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

Goods and services taxes

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

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

Value added taxes

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

Income Tax

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

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

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

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

Segment Reporting

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

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

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

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial Group.

3. Financial Risk Management

Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

3. Financial Risk Management (continued)

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 2013 the Group has not provided financial guarantees to any third party.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The ability of the Group to continue to meet the financial obligations they are incurring will depend on the ability of the Company to successfully complete capital raisings as required. Given the Group's financial position during 2012 and 2013, 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.

ii. Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At 31 December 2013 there are no interest bearing loans.

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

iii. Other market price risk

The Group did not hold any investments during the 2013 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 (\$2,188,877) and also considers future exploration commitments.

4. Going Concern

The financial report is prepared on a going concern basis which reflects the Directors' expectation that the Group will be able to realise its assets and settle its obligations in the normal course of business. In making this assessment the Directors have prepared cash flows forecasts until 31 March 2015, taking the following into consideration:

- The Group's cash burn rate is expected to be maintained at a relatively low level due to reduced expenditure at Trenggalek resulting from the Anglo American Group arrangement. This has the effect of Anglo funding project expenditure at Trenggalek to earn a direct equity interest in that project;
- The Group having secured an option interest in three projects in Australia and is expecting a relatively low level of expenditure during the initial option period;
- The Group is in a strong cash position with \$2,205,476 in cash as at 31 December 2013 which is expected to be sufficient to meet the Group's cash burn rate and committed obligations; and
- The Group contemplates that it may raise additional new capital during the course of the year ended 31 December 2014 to fund other future exploration works subject to suitable market conditions.

5. Critical Accounting Estimates and Assumptions

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

i. Exploration and evaluation expenditure

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

ii. Deferred tax

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

The Group has not recognised a net deferred tax asset for temporary differences and tax losses as at 31 December 2013 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

for year ended 31 December 2013

6. Revenue and Expenses

	2013 \$	2012 \$
a. i. Other income		
Consulting fees	875,488	1,034,477
Gain on sale of PPE	–	13,656
	875,488	1,048,133
ii. Finance income		
Interest income	93,374	194,350
b. Employee expenses		
Wages and salaries	835,865	949,709
Superannuation & post employment benefits	23,292	60,453
Share based payments expense	–	140,853
	859,157	1,151,015
c. Finance expenses		
Interest paid or payable:		
– Related party	–	17,650
	–	17,650

7. Earnings/(Loss) Per Share

	2013 \$	2012 \$
Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share	(1,466,017)	(1,198,304)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss) used in calculating basic and diluted earnings per share	(1,466,017)	(1,198,304)
Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share	916,533,798	891,531,336
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	916,533,798	825,024,776
Effect of share option exercised	–	1
Shares issued to repay loan	–	66,506,559
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share	916,533,798	891,531,336
Basic earnings/(loss) per share (cents per share)	(0.16)	(0.13)
Diluted earnings/(loss) per share (cents per share)	(0.16)	(0.13)

Information Concerning the Classification of Securities

Employee and Director Options

The options granted to directors, employees and contractors are not included in the calculation of diluted earnings per share because the exercise price exceeded the average market price and are therefore considered as antidilutive for the years ended 31 December 2013 and 2012.

Listed and Unlisted Options

There are no listed options at 31 December 2013.

Unlisted options are not included in the calculation of diluted earnings per share because the exercise price exceeded the average market price and are therefore considered as antidilutive for the years ended 31 December 2013 and 2012. These options could potentially dilute earnings per share in the future.

8. Income Tax

	2013 \$	2012 \$
a. Income tax expense		
Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax benefit	(1,466,017)	(1,198,304)
Income tax expense/(benefit) at the statutory rate of 30% (2012:30%)	(439,805)	(359,491)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible / assessable foreign translation (gain)/loss	–	28,898
Share issue costs	–	–
Non deductible share based payments expense	–	42,495
	(439,805)	(288,098)
Less tax losses not recognised and carried forward	439,805	288,098
Income tax expense/(benefit)	–	–
b. Recognised tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Exploration and evaluation expenditure	1,535,267	1,487,638
Tax losses recognised	(1,535,267)	(1,487,638)
Net deferred tax liability/(asset)	–	–
c. Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Provisions	49,938	38,675
Tax losses PT Indonusa Mining Services (IMS)	1,092,554	920,422
Tax losses Arc Exploration Limited (Arc)	4,579,663	5,550,267
Capital tax losses Arc	15,046,770	15,046,770
Total	20,768,925	21,556,134

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

9. Cash and Cash Equivalents

	2013 \$	2012 \$
Cash at bank and on hand	1,005,476	371,887
Short term deposits	1,200,000	3,400,000
	2,205,476	3,771,887

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

10. Current Receivables

	2013 \$	2012 \$
Trade Receivables	388,765	284,762
Other debtors	57,194	2,940
Goods and services tax (GST) and other consumption taxes recoverable	11,422	8,828
Interest receivable	3,618	13,121
	<u>460,999</u>	<u>309,651</u>

11. Non-Current Receivables

	2013 \$	2012 \$
Other debtors	177,631	182,554
	<u>177,631</u>	<u>182,554</u>

12. Other Current Assets

	2013 \$	2012 \$
Prepayments	95,144	42,035
Security deposits	20,000	20,000
Monies held in trust	34,861	34,861
	<u>150,005</u>	<u>96,896</u>

13. Plant and Equipment

	2013 \$	2012 \$
a. Office furniture and equipment		
Gross carrying amount		
Opening balance	329,460	332,039
Additions	1,786	4,710
Disposals and transfers	–	–
Net foreign exchange differences	52,870	(7,289)
Closing balance	<u>384,116</u>	<u>329,460</u>
Accumulated depreciation		
Opening balance	(304,767)	(292,667)
Depreciation expense	(16,154)	(18,526)
Depreciation reversed on disposals	–	–
Net foreign exchange differences	(48,909)	6,426
Closing balance	<u>(369,830)</u>	<u>(304,767)</u>
Net office furniture and equipment	<u>14,286</u>	<u>24,693</u>

	2013 \$	2012 \$
b. Motor vehicles		
Gross carrying amount		
Opening balance	80,851	104,775
Additions	1,337	–
Disposals and transfers	–	(21,367)
Net foreign exchange differences	12,953	(2,557)
Closing balance	95,141	80,851
Accumulated depreciation		
Opening balance	(68,113)	(81,231)
Depreciation expense	(12,217)	(10,288)
Disposals and transfers	–	21,367
Net foreign exchange differences	(10,909)	2,039
Closing balance	(91,239)	(68,113)
Net motor vehicles	3,902	12,738
Carrying amounts		
Total plant and equipment – at 1 January	37,431	62,916
Total plant and equipment – at 31 December	18,188	37,431

14. Exploration and Evaluation Expenditure

	2013 \$	2012 \$
Opening balance	4,958,792	4,631,180
Additions	158,765	327,612
	5,117,557	4,958,792

At 31 December 2013, there is \$4.9 million capitalised exploration expenditure relating to the Trenggalek Project, included in “Exploration and Evaluation Expenditure” in the statement of financial position.

On 22 August 2013, the Group entered into formal joint venture documentation with Anglo American Exploration Luxemburg Sarl (AAEL) in respect of the Trenggalek gold project located in East Java, Indonesia. The agreement requires a new Singapore limited liability company (JV Co.) to be established to hold the Trenggalek Project.

JV Co. will be initially wholly owned by Arc until AAEL earns an initial 53.68% equity interest when AAEL sole funds USD10 million exploration expenditure on the Trenggalek project by 1 October 2016. At 31 December 2013, AAEL has spent USD1.76 million.

The Group completed its due diligence and elected to proceed with an option to farm-in to earn up to 80% of two gold-copper properties, Junee and Oberon, held by New South Resources Limited under exploration licences in New South Wales.

The Group completed its due diligence and elected to proceed with an option to farm-in to earn up to 80% of the Mount Garnet gold project located in Northeast Queensland.

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

15. Intangible Assets

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

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

Project	Option Period Months	Option Period Ends	Funding commitment \$	Expenditure 2013 \$	Intangible asset
Junee	12	3/07/14	100,000	60,195	39,805
Oberon	12	3/07/14	135,000	28,423	106,577
Mount Garnet	24	19/08/15	150,000	20,147	129,853
			385,000	108,765	276,235*

* Option period liability

16. Trade and Other Payables

	2013 \$	2012 \$
Trade payables and accrued expenses	279,155	112,267
Other consumption taxes payable	37,352	53,631
Option period liability*	276,235	–
	592,742	165,898

* Refer Note 15.

17. Provisions

	2013 \$	2012 \$
Current liabilities		
Employee leave entitlements	–	–
	–	–
Non-current liabilities		
Post employment benefits	199,752	154,700
	199,752	154,700
Current and non-current provisions	199,752	154,700

18. Other Current Liabilities

	2013 \$	2012 \$
Amounts payable to other persons	34,861	34,861
	34,861	34,861

19. Contributed Equity

	31/12/13 Number	31/12/12 Number	31/12/13 \$	31/12/12 \$
At 31 December	916,533,798	916,533,798	148,387,790	148,387,790
Fully paid ordinary shares				
At the beginning of the year	916,533,798	825,024,776	148,387,790	147,765,528
Issued 91,509,021 shares @ \$0.0068 to repay loans of \$622,261	–	91,509,021	–	622,261
Exercise of option ARXO @ \$0.75	–	1	–	1
Transaction costs relating to share issues			–	–
	916,533,798	916,533,798	148,387,790	148,387,790

a. Share-based payment options

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

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

2013 Option Series	Opening balance 1 January	No. of options			No. of options outstanding 31 December
		Issued	Relinquished	Lapsed	
Options issued to Directors and Employees exercisable at \$0.042	66,235,191	–	–	(3,000,000)	63,235,191
	66,235,191	–	–	(3,000,000)	63,235,191

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

No options were granted to employees during the year.

The total cost of options issued by directors to key management personnel charged to profit and loss for 2013 was nil.

2012 Option Series	Opening balance 1 January	No. of options			No. of options outstanding 31 December
		Issued	Relinquished	Lapsed	
Options issued to Directors and Employees exercisable at \$0.042	66,235,191	–	–	(3,000,000)	63,235,191
	66,235,191	–	–	(3,000,000)	63,235,191

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

No options were granted to employees during the year.

The total cost of options issued by directors to key management personnel charged to profit and loss for 2012 was \$140,853.

Employees and Contractors Option Plan (“ECOP”)

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

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

19. Contributed Equity (continued)

b. Listed Options

The number of listed options over unissued ordinary shares as at 31 December 2013 is nil (2012:nil)

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

	2013 \$	2012 \$
Number of listed options ARXO		
Balance as at 1 January	–	7,940,728
Exercise of options	–	(1)
Options expired	–	(7,940,727)
Balance as at 31 December	–	–

c. Unlisted Options

The number of unlisted options over unissued ordinary shares as at 31 December 2013 is nil (2012:3,500,000).

	2013 \$	2012 \$
Number of unlisted options		
Balance as at 1 January	3,500,000	3,500,000
Exercise of options	–	–
Options expired	(3,500,000)	–
Balance as at 31 December	–	3,500,000

20. Reserves

	2013 \$	2012 \$
Foreign currency translation reserve		
Balance at the beginning of financial year	691,974	595,647
Translation of foreign operations during the year	43,001	96,327
Balance at end of the financial year	734,975	691,974
Share-based payments reserve		
Balance at the beginning of financial year	902,573	760,924
Options expense	–	141,649
Options relinquished – unvested	–	–
Options relinquished – vested	–	–
Balance at end of the financial year	902,573	902,573
Total Reserves	1,637,548	1,594,547

Foreign currency translation reserve

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

Share-based payments reserve

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

21. Accumulated Losses

	2013 \$	2012 \$
Balance at the beginning of the financial year	(140,980,585)	(139,782,281)
Transfer of options reserve amount for relinquished vested options	–	–
Net profit/(loss) attributable to Arc Exploration Limited	(1,466,017)	(1,198,304)
Balance at the end of the financial year	(142,446,602)	(140,980,585)

22. Key management personnel disclosures

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

a. 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

Jeffrey Malaihollo* Managing Director, CEO

Non-Executive Directors

Bruce Watson Chairman

John Carlile** Director

George Tahija Director

Robert Willcocks Director

Other Key Management Personnel

Cahyono Halim Chief Financial Officer

Andrew Cooke Company Secretary

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 to Note 25.

* Appointed 1/10/2013

**Retired as Managing Director 30/09/2013

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

22. Key management personnel disclosures (continued)

b. Remuneration

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

	2013 \$	2012 \$
Short term employee benefits	950,289	810,182
Post employment benefits	16,058	14,980
Share-based payments	–	140,853
	<u>966,347</u>	<u>966,015</u>

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

	Balance at 1 January	Granted as remuneration	Options lapsed	Total at 31 December	Vested during the year	Vested and exercisable at 31 December
2013						
Directors						
J Malaihollo*	–	–	–	–	–	–
B Watson	5,383,766	–	–	5,383,766	–	5,383,766
J Carlile**	16,151,298	–	–	16,151,298	–	16,151,298
R Willcocks	3,589,177	–	–	3,589,177	–	3,589,177
G Tahija	3,589,177	–	–	3,589,177	–	3,589,177
Other Key Management Personnel						
A Cooke	10,767,532	–	–	10,767,532	–	10,767,532
C Halim	10,767,532	–	–	10,767,532	–	10,767,532
B Wake	10,767,532	–	–	10,767,532	–	10,767,532
2012						
Directors						
B Watson	5,383,766	–	–	5,383,766	1,027,500	5,383,766
J Carlile	16,151,298	–	–	16,151,298	3,082,500	16,151,298
R Willcocks	3,589,177	–	–	3,589,177	685,000	3,589,177
G Tahija	3,589,177	–	–	3,589,177	685,000	3,589,177
Other Key Management Personnel						
A Cooke	10,767,532	–	–	10,767,532	2,055,000	10,767,532
C Halim	10,767,532	–	–	10,767,532	2,055,000	10,767,532
B Wake	10,767,532	–	–	10,767,532	2,055,000	10,767,532

No options held by key management personnel are vested but not exercisable as at 31 December 2013 or 2012.

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

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:

2013	Balance as at 1 January	Expired	Balance as at 31 December
Directors			
J Malaihollo*	–	–	–
B Watson	–	–	–
J Carlile**	–	–	–
G Tahija	–	–	–
Other Key Management Personnel			
A Cooke	–	–	–
2012			
Directors			
B Watson	18,000	(18,000)	–
J Carlile	73,511	(73,511)	–
G Tahija	324,675	(324,675)	–
Other Key Management Personnel			
A Cooke	3,200	(3,200)	–

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

22. Key management personnel disclosures (continued)

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:

2013	Balance as at 1 January	Purchases	Sales	Subscription to capital raisings, rights issue or rights issue shortfall	Other changes	Balance as at 31 December
Directors						
J Malaihollo *	–	–	–	–	–	–
B Watson	13,349,907	12,869,907	(12,869,907)	–	–	13,349,907
J Carlile **	30,445,339	–	–	–	–	30,445,339
G Tahija	10,597,472	–	–	–	–	10,597,472
R Willcocks	5,125,000	–	–	–	–	5,125,000
Other Key Management Personnel						
A Cooke	1,163,587	–	–	–	–	1,163,587

2012	Balance as at 1 January	Purchases	Sales	Subscription to capital raisings, rights issue or rights issue shortfall	Other changes	Balance as at 31 December
Directors						
B Watson	13,349,907	420,000	(420,000)	–	–	13,349,907
G Tahija	10,597,472	–	–	–	–	10,597,472
J Carlile	19,679,593	10,765,746	–	–	–	30,445,339
R Willcocks	4,125,000	1,000,000	–	–	–	5,125,000
Other Key Management Personnel						
A Cooke	1,163,584	3	–	–	–	1,163,587

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

e. Remuneration Practices

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

23. Operating Segments

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

Services

The Group currently provides consulting services for other exploration entities in Indonesia. The total other income recognised for the year ended 31 December 2013 was \$875,488 (31 December 2012: \$1,034,477).

Geographical areas

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

Major customers

Other income from one customer of the Group' represents approximately \$669,285 (2012: \$849,117) of the Group's total other income for the year ended 31 December 2013.

Segment assets and liabilities

Information about reportable segments

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

	2013 \$	2012 \$
Assets		
Australia exploration	435,000	–
Indonesia exploration	4,958,792	4,958,792
Corporate	3,012,299	4,398,419
	8,406,091	9,357,211
Liabilities		
Australia exploration	276,235	–
Indonesia exploration	–	–
Corporate	551,120	355,459
	827,355	355,459
Equity	7,578,736	9,001,752

2013

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

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

23. Operating Segments (continued)

Segment assets and liabilities (continued)

2012

In 2012, the Group had one single operating segment, being exploration activities in Indonesia, which was prepared for the Managing Director on the basis consistent with Australian Accounting Standards, and thus no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items were made.

	Australia	Indonesia	Corporate	Total
Revenue from continuing operations				
Other income	–	–	1,048,133	1,048,133
Employee expenses	–	–	(1,151,015)	(1,151,015)
Depreciation expenses	–	–	(28,814)	(28,814)
Other expenses	–	–	(890,111)	(890,111)
Exploration expenses	–	(244,266)	–	(244,266)
Foreign exchange losses			(108,931)	(108,931)
Loss before financing costs	–	(244,266)	(1,130,738)	(1,375,004)
Interest income			194,350	194,350
Finance expenses			(17,650)	(17,650)
Loss before income tax	–	(244,266)	(954,038)	(1,198,304)
Income tax (expense)/benefit			–	–
Loss after tax	–	(244,266)	(954,038)	(1,198,304)

24. Investments in Controlled Entities

Name of controlled entity	Country of Incorporation	Class of Shares	Equity Holdings	
			2013 %	2012 %
PT Indonusa Mining Services	Indonesia	Ord	100	100

25. Related Party Transactions

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

a. Directors during the year

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

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

* Appointed 1/10/2013

** Retired as Managing Director 30/09/2013

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

b. Transactions with Directors and Director Related Entities:

	2013 \$	2012 \$
Mr Carlile received interest payments or had interest payments capitalised on a loan provided to the Company	–	2,076

26. Financial Instruments

a. Credit risk

	2013 \$	2012 \$
Cash and cash equivalents	2,205,476	3,771,887
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).		
Trade and other receivables	638,630	492,205

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

b. Liquidity risk

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

	Carrying amount \$	Contractual cash flows \$	Within 6 months \$	Within 6-12 months \$	1 to 2 years \$	2 to 5 years \$
2013						
Trade and other payables	592,742	592,742	592,742	–	–	–
Other current liabilities	34,861	34,861	34,861	–	–	–
	627,603	627,603	627,603	–	–	–
2012						
Trade and other payables	165,898	165,898	165,898	–	–	–
Other current liabilities	34,861	34,861	34,861	–	–	–
	200,759	200,759	200,759	–	–	–

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:

	AUD \$	IDR \$	USD \$	Total \$
2013				
Cash and cash equivalents	134,499	15,572	–	150,071
Receivables	–	167,631	–	167,631
Trade and other payables	–	(92,661)	–	(92,661)
	134,499	90,542	–	225,041

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

26. Financial Instruments (continued)

c. Currency risk (continued)

2012	AUD \$	IDR \$	USD \$	Total \$
Cash and cash equivalents	68,230	16,456	–	84,686
Receivables	–	182,554	–	182,554
Trade and other payables	–	(40,942)	–	(40,942)
	68,230	158,068	–	226,298

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
USD	0.9600	1.0393	0.8948	1.0384
IDR	10,113	9,805	10,899	10,008

Sensitivity analysis

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

d. Interest rate risk

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

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

2012

Financial Assets							
Cash at bank	1.0%	Floating	371,887	–	–	–	371,887
Cash at bank	4.4%	Fixed	3,400,000	–	–	–	3,400,000
Security deposits	3.7%	Fixed	20,000	–	–	–	20,000
Monies held in trust	10.0%	Floating	34,861	–	–	–	34,861
Financial Liabilities							
Unsecured loans	5.0%	Fixed	–	–	–	–	–
Net Position			3,826,748	–	–	–	3,826,748

Sensitivity analysis

At 31 December 2013, if interest rates changed by +/- 100 base points from the year end rates with other variables held constant, post tax loss for the year end would have been \$31,162 lower/higher (2012: change of 100 base points \$53,654 lower/higher) as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

e. Fair values

The carrying amounts of assets and liabilities shown in the statement of financial position at 31 December 2013 and 31 December 2012 equals their fair values.

f. Derivative financial instruments

No derivative financial instruments were held by the Group either at 31 December 2013 or 31 December 2012.

g. Commodity price risk

The Group is not affected by commodity price fluctuations.

27. Cash Flows

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:

	2013 \$	2012 \$
Cash at bank and in hand	1,005,476	371,887
Term deposits	1,200,000	3,400,000
	<u>2,205,476</u>	<u>3,771,887</u>

b. Cash flows from operating activities

	2013 \$	2012 \$
Profit/(loss) for the financial year	(1,466,017)	(1,198,304)
Depreciation	28,372	28,814
Gain (loss) on disposal of assets	–	(13,667)
Share based payments	–	141,649
Unrealised foreign exchange (gain)/loss	26,625	122,816
Non cash expenses	60,569	8,158
Employee provisions	45,052	55,626
Exploration liability non cash	(276,235)	–
<i>(Increase)/decrease in assets:</i>		
Current receivables	(151,348)	(271,573)
Other current assets	(53,109)	51,128
<i>Increase/(decrease) in liabilities:</i>		
Current payables	426,844	(13,833)
Current provisions	–	–
Net cash flow from operating activities	<u>(1,359,247)</u>	<u>(1,089,186)</u>

Notes to the Consolidated Financial Statements

for year ended 31 December 2013

28. Leasing Commitments

Operating Lease Commitments	2013 \$	2012 \$
Payable		
– not later than 1 year	10,807	19,967
– longer than 1 year but not later than 5 years	–	–
– more than 5 years	–	–
	<u>10,807</u>	<u>19,967</u>

29. Commitments for Capital Expenditure

Operating Lease Commitments	2013 \$	2012 \$
Capital expenditure commitments:		
Payable		
Plant and equipment:		
– not longer than 1 year	–	–
	<u>–</u>	<u>–</u>

30. Economic Dependency

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

31. Auditors' Remuneration

	2013 \$	2012 \$
Audit services		
Auditors of the Company		
<i>KPMG – Australia</i>		
Audit and review of financial reports	68,700	63,550
<i>KPMG – Indonesia</i>		
Audit and review of financial reports	25,704	21,186
	<u>94,404</u>	<u>84,736</u>
Other services		
Auditors of the Company		
KPMG		
Tax compliance and consulting services	13,732	12,900
	<u>13,732</u>	<u>12,900</u>
	<u>108,136</u>	<u>97,636</u>

32. Contingent Liabilities

The Group has no contingent liabilities as at 31 December 2013 (2012: nil).

33. Events Subsequent to Reporting Date

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

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

34. Parent Entity Disclosures

As at, and throughout, the financial year ended 31 December 2013 the parent entity of the Group was Arc Exploration Limited.

	2013 \$	2012 \$
Result of parent entity		
Profit/(loss) for the period	(1,503,135)	(1,350,734)
Other comprehensive income	–	–
Total comprehensive income for the period	(1,503,135)	(1,350,734)
Financial position of parent entity at year end		
Current assets	2,029,350	3,665,456
Total assets	7,600,773	8,806,802
Current liabilities	389,106	92,000
Total liabilities	389,106	92,000
Total equity of parent entity comprising of:		
Share capital	148,387,790	148,387,790
Reserves	902,573	902,573
Accumulated losses	(142,078,696)	(140,575,561)
Total equity	7,211,667	8,714,802

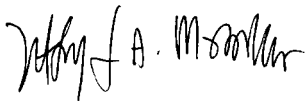
Directors' Declaration

for year ended 31 December 2013

1. In the opinion of the Directors of Arc Exploration Limited ("the Company")
 - a. the consolidated financial statements, notes and the Remuneration report in the Directors' report are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
 - ii. complying with the Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a)
 - c. as disclosed in Note 4 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the financial year ended 31 December 2013.

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

Dated 25 March 2014



Jeffrey Malaihollo
Managing Director



Bruce Watson
Non-Executive Chairman

Independent Auditor's Report

for year ended 31 December 2013



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 consolidated statement of financial position as at 31 December 2013, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independent Auditor's Report

for year ended 31 December 2013



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 the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2013 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 5 to 10 of the directors' report for the year ended 31 December 2013. 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 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney

25 March 2014

Auditor's Independence Declaration

for year ended 31 December 2013



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 2013 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Caoimhe Toouli

Caoimhe Toouli
Partner

Sydney

25 March 2014

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Shareholders Information

as at 31 March 2013

Number of ARX shareholders	3,630
Total shares issued	916,533,798
Percentage of total holdings by or on behalf of the 20 largest shareholders	56.67%
Distribution schedule of holdings	

Ordinary Shares	Number of Shareholders
1 – 1,000	1,290
1,001 – 5,000	641
5,001 – 10,000	213
10,001 – 100,000	868
100,001 and over	618
less than marketable parcel	2,908

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

Top 20 Holders of Ordinary Fully Paid Shares

Rank	Name	Units	%
1.	J P Morgan Nominees Australia Limited	96,312,173	10.51
2.	HSBC Custody Nominees (Australia) Limited	84,276,004	9.20
3.	Southo Investments Limited	56,526,752	6.17
4.	Australia And New Zealand Banking Group Limited	47,577,171	5.19
5.	Sta Holdings Pty Ltd <The Guess A/C>	36,212,557	3.95
6.	Mitchell Grass Holding Singapore Pte Ltd	25,000,000	2.73
7.	Mr Hermani Soeprapto	20,979,741	2.29
8.	Graham Guerin Investments Pty Ltd <Graham Guerin S/F A/C>	16,370,000	1.79
9.	Citicorp Nominees Pty Limited	13,514,876	1.47
10.	Oblique Pty Ltd <Watson Super No 2 Fund A/C>	13,349,907	1.46
11.	Mr Peter James Jesson	13,000,000	1.42
12.	J J N A Super Pty Ltd <Chatterton Family Super A/C>	12,574,073	1.37
13.	Norvest Projects Pty Ltd	12,500,000	1.36
14.	Spyder B International Limited	12,499,998	1.36
15.	Mr Simon Robert Hill	12,118,392	1.32
16.	Armco Barriers Pty Ltd	11,200,000	1.22
17.	Pt Austindo Nusantara Jaya	10,597,472	1.16
18.	Mr Hong Jun Qiu + Dr Cheng Jie Qiu <Qiu Family Super Fund A/C>	9,426,407	1.03
19.	Dmg & Partners Securities Pte Ltd <Clients A/C>	8,174,362	0.89
20.	Uob Kay Hian Private Limited <Clients A/C>	8,166,182	0.89

Substantial Shareholders	Shares to Which Entitled	% of Issued Capital
Southo Investments Limited	56,526,752	6.17
ANZ Banking Group Limited	47,577,171	5.19

Corporate Directory

Arc Exploration Limited
ABN 48 002 678 640

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

Directors

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

Andrew J. Cooke (Company Secretary)

Head and Registered Office

Level 8
65 York Street
Sydney NSW 2000 Australia

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

Jakarta Office

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

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

Auditors

KPMG
Australia

Siddharta & Widjaja
Indonesia

Share Registry

Computershare Investor Services Pty Limited

Level 5
115 Grenfell Street
Adelaide SA 5000 Australia

Telephone: 1300 556 161 (within Australia)
+ (61 3) 9415 4000 (outside Australia)
Facsimile: 1300 534 987
Website: www.investorcentre.com/contact



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