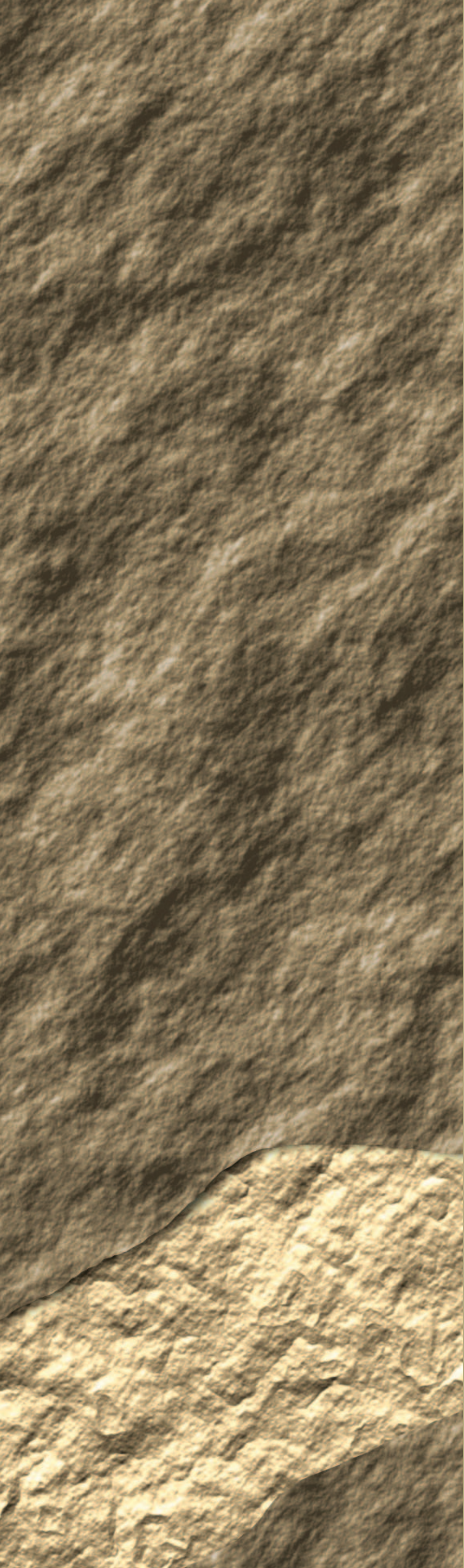
ARC EXPLORATION

ANNUAL REPORT 2012



Contents

AGM

The Annual General Meeting of the Company will be held at KPMG, Level 15, 10 Shelley St, Sydney, NSW Australia commencing at 10.00am (Sydney time) on Thursday, 23 May 2013.

Chairman's letter

Dear Shareholder,

2012 has been a year of progress for our Company against the background of continued weak equity markets in Australia particularly for junior explorers.

During the year we strengthened our relationship in Indonesia with Anglo American.

We entered into a farm-in agreement with Anglo American over the project at Trenggalek in which ARX has a 95% economic interest. This agreement gives Anglo American the right to move to 51% of the project by sole funding US$10 million before October 2016 and to move to 75% by funding a further US$10 million. ARX would then have a free carry of its residual 20% interest through to completion of any Pre-Feasibility Study.

As part of its due diligence process at Trenggalek, Anglo American funded an airborne geophysical survey over the entire exploration tenement that has generated several new copper-gold targets. A 2,000m drilling program focussing on areas of interest identified by the survey is planned to start during the second quarter of 2013.

Elsewhere in Indonesia, we hold a 20% interest in an Alliance with Anglo American to explore for copper-gold deposits in Papua. The Alliance, that is managed and funded by Anglo American, holds around 3,000 km^2 of prospective ground in West Papua Province.

These arrangements with Anglo have enabled us to continue with exploration in Indonesia while conserving our cash. Our cash position remains sound. As at 31 December 2012 we had cash of A$3.77 million and no debt.

We have also been investigating gold exploration opportunities in eastern Australia. Our search has targeted projects that contain small gold resources that have potential for enlargement and the potential for a major gold or copper-gold discovery. We are being very selective on the projects we consider as while Company funds should always be used conservatively this is particularly the case in the present equities market. We will only look to transact when we are satisfied there is value for ARX shareholders.

Yours faithfully

Bruce J. Watson
Chairman

Our cash position remains sound with $3.77m and no debt as at 31 December 2012.

Review of Activities

for year ended 31 December 2012

Exploration

Arc Exploration Limited ("ARX") is exploring for gold and copper deposits along Indonesia's highly prospective magmatic arcs and related terranes. The primary exploration targets are high-grade epithermal veins, porphyry copper-gold and associated deposits. Trenggalek Project, East Java (ARX – 95%).

INDONESIA

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 IUP tenement area covers about 300 km^2. 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.

The Southern Mountains of East Java comprise an older segment of the Sunda-Banda magmatic arc. It lies along the same belt of rocks that hosts three giant porphyry copper-gold deposits (Tujuh Bukit, East Java; Batu Hijau and Elang, Sumbawa).

Previous work by ARX at Trenggalek has identified epithermal-style gold mineralisation occurring in large quartz veins and in replacement-style ("jasperoid") alteration systems associated with shallowly eroded, fossilised hot spring features such as hydrothermal breccias, silica cappings and silica sinters. The gold mineralisation occurs in a package of Oligo-Miocene age volcaniclastic rocks, limestone and subvolcanic plugs. High sulphidation-type epithermal alteration lithocaps were identified more recently on the tenement. The presence of these suggests that the tenement area is also prospective for deeper porphyry copper-gold systems in a setting that is similar to Tujuh Bukit, located about 250 km to the east.

Exploration developments during the year included the acquisition of airborne geophysical data, joint venturing of the project to Anglo American, and the completion of limited ground work whilst waiting on the renewal of the forestry use permit ("Ijin Pinjam Pakai") from the Indonesian Ministry of Forestry.

ARX – Anglo Joint Venture

Anglo American entered into a Joint Venture with the Company and its Indonesian partner on the Trenggalek Project in December. This decision followed a period of due diligence in which Anglo American completed surface evaluations and fully funded the airborne magnetics and radiometrics survey described above. Their initial results are highly encouraging and support the potential for porphyry copper-gold deposits in the project area.

The Joint Venture is a major step forward and provides for increased exploration activity that is fully funded by Anglo American in an area that has emerging potential for porphyry copper-gold beneath extensive epithermal alteration systems identified on the project to date. With funding now in place to support a significant and ongoing work program, the Company has begun the process of applying for an extension of the term of the exploration IUP, which expires in November 2013.

The Joint Venture was deemed to commence on 1 November 2012 and formal legal documentation will be finalised early next year. The key terms of the Joint Venture are:

- Anglo American has the right to earn a 51% interest in the Trenggalek Project by sole funding US$10 million before 1 October 2016 of which not less than US$2.5 million shall be spent before 30 June 2014 and a minimum spend of US$1.6 million is required to be spent before 30 November 2013 before Anglo American can withdraw from the project.
- After spending US$10 million Anglo American can move from 51% to 75% by sole funding additional expenditure of a further US$10 million.
- On reaching 75% Anglo American will free-carry ARX for its remaining 20% through completion of a Pre-Feasibility Study.

The work program planned for Trenggalek in 2013 is aimed at identifying and testing new porphyry copper-gold targets. Initially, work will include ground geophysics (3DIP), detailed mapping and sampling in selected priority areas. It is planned to advance targets defined from this work to scout diamond drilling in the first half of 2013.

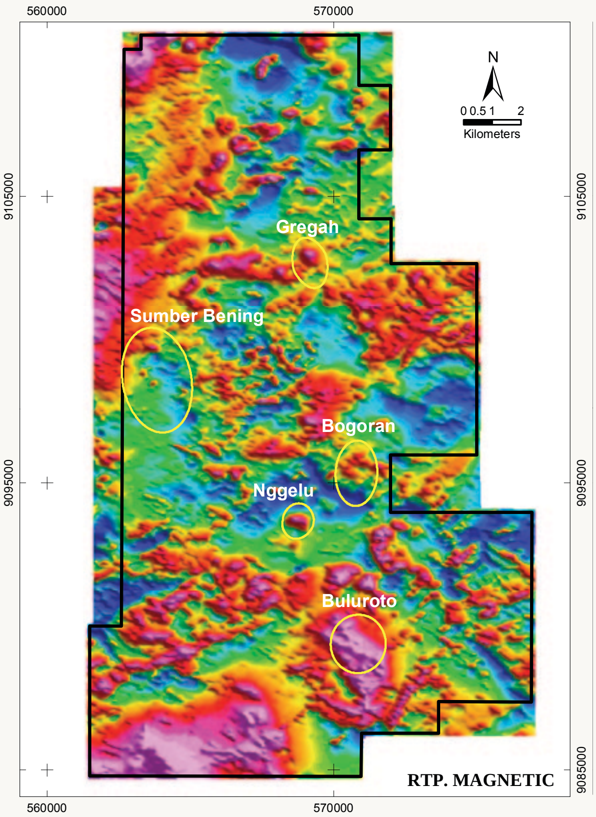
The planned program is dependent on obtaining a forestry use permit ("Ijin Pinjam Pakai") for areas within production forest. This process was in progress during the year and the permit was issued by the Minister of Forestry on 28 February 2013. The permit is valid until 1 November 2013.

Airborne Magnetics & Radiometrics Survey

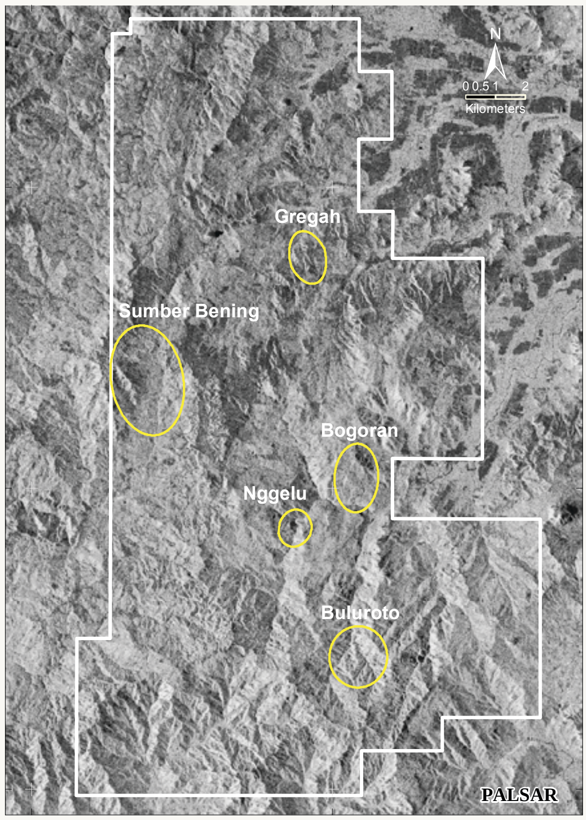
The acquisition of high-resolution airborne magnetics and radiometrics data over the entire IUP tenement area in the second half of the year was a major step forward in the exploration of Trenggalek. The survey was flown using an MD500E helicopter with a stinger-mounted system at a nominal ground clearance of 50 m. Flight lines were spaced at 100-m oriented north-south and tie-lines were spaced at 1,000 m oriented east-west. A total of 3,675 line-kms was flown. Data acquisition and processing were contracted to GPX Surveys P/L of Perth.

AIRBORNE MAGNETICS & RADIOMETRICS SURVEY OVER TRANGGALEK

The processed magnetics and radiometrics data is being used to generate porphyry copper-gold and epithermal gold targets by delineating regional and local structures, porphyry intrusions, other volcanic features, and hydrothermal alteration lithocaps. Preliminary interpretation has highlighted a number of targets; including Sumber Bening, Bogoran, Gregah, Nggelu and Buluroto (see below). A more detailed interpretation will be available in early 2013 to guide further planning and on-going exploration.



TRENGGALEK IUP MAGNETICS



PALSAR IMAGES

The geological setting of Trenggalek is believed to be similar to that hosting the Tumpangputu porphyry copper-gold deposit in the Tujuh Bukit district of East Java. This giant copper-gold deposit (6.8 Mt Cu, 25 Moz Au) was discovered beneath a gold-silver bearing high-sulphidation epithermal lithocap and is apparently associated with distinctive magnetic and radiometric features. The airborne geophysical data acquired at Trenggalek presents a new opportunity to explore for buried porphyry targets in the project area and will play a fundamental role in the planning and execution of exploration programs here in 2013.

Ground Work

Limited ground work during the year was conducted on two prospects with deeper porphyry potential:

Sumber Bening, lies on prominent north-northwest-trending structures that cut across a 4 km diameter-circular feature on the western side of the IUP. It contains an extensive area (+5 km x 2 km) of silica-clay-pyrite alteration with localised pods of vughy silica alteration centred on volcaniclastic rocks and quartz-feldspar porphyry plugs.

Initial grab samples of altered rock boulders and outcrops taken in 2011 returned assays of up to 0.14 ppm gold and anomalous porphyry-pathfinder metals that include bismuth (up to 1,410 ppm Bi), copper (up to 277 pm Cu) and molybdenum (up to 37 ppm Mo).

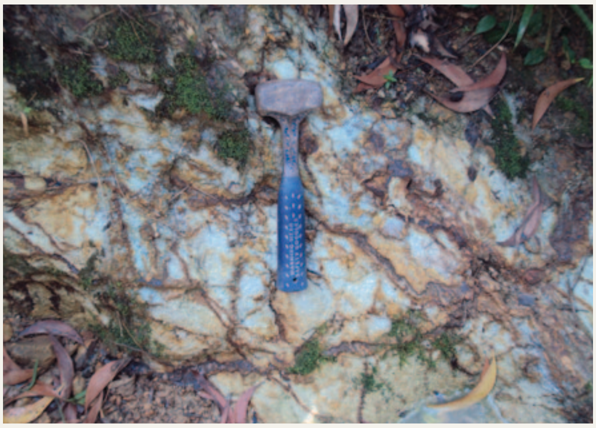
Grid soil sampling was undertaken over the entire prospect during the year. Soil samples returned anomalous peak results of **0.5 ppm gold, 207 ppm copper, 172 ppm bismuth, 40 ppm molybdenum, 248 ppm arsenic** and **53 ppm antimony**.

Detailed mapping was done and supported by a Terraspec field portable mineral analyser, which confirmed the presence of **dickite**, **pyrophyllite** and **diaspore** in the vughy silica and clay-rich alteration zones at Sumber Bening.

CREEK SURVEY & MAPPING AT SUMBER BENING

RIDGE COMPOSED OF SILICIFIED VOLCANIC ROCKS AT SUMBER BENING

CHIEF GEOLOGIST, DIDIK SETYONO, USING TERRASPEC INSTRUMENT



EXPOSURE OF MINERALISED STOCKWORK IN VOLCANIC ROCK AT BOGORAN PROSPECT

The elevated Au-Cu-Bi-Mo geochemistry and occurrence of a very large alteration lithocap containing high temperature acid clays (dickite-pyrophyllite-diaspore) in altered quartz-feldspar porphyry and associated volcaniclastic rocks, confirm the presence of a high-sulphidation epithermal system and potential for a porphyry copper-gold deposit at depth.

Bogoran, lies on the intersection of two major sets of structural lineaments. Initial grab samples taken from float and outcrops in 2011 returned from 0.1 to 2.96 g/t gold in 60 samples and a peak result of 23.3 g/t gold. These samples also returned anomalous results in other metals including up to 537 ppm molybdenum, 3,850 ppm arsenic, and 131 ppm antimony.

Grid soil sampling was undertaken over the entire prospect during the year. The results highlighted a 1,500 m by 750 m north-northwest elongated arsenic anomaly (>100 ppm As) and spotty molybdenum anomalies (>5 ppm Mo). A discontinuous gold anomaly (>0.025 ppm Au) occurs on the eastern side of the broader arsenic-molybdenum anomaly and highlights a possible mineralized structure that is over 1,200 m long and oriented north-northeast. Spot-high gold results within it range from **0.107** to **0.341 ppm Au**.

Eight shallow trenches were cut in parts of the gold-soil anomaly lying outside of the production forestry area. Continuous-chip samples taken along these trenches produced some significant gold-molybdenum intercepts in quartz-limonite stockworked andesite or andesitic sandstone, including:

CTS093: **5.5 m at 1.08 g/t Au & 12 ppm Mo**

CTS097: **6 m at 1.17 g/t Au & 20 ppm Mo**

CTS098: **7 m at 2.7 g/t Au & 74 ppm Mo**

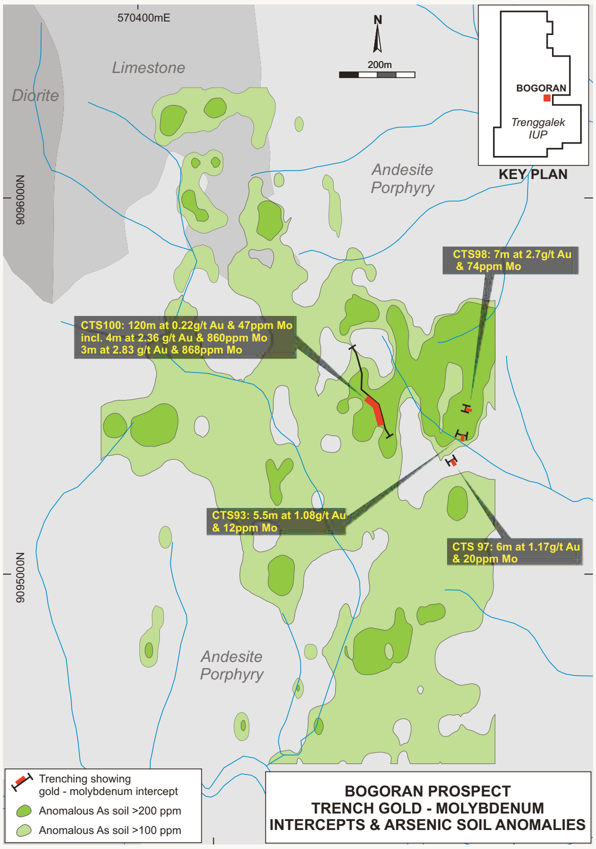
CTS100: **120 m at 0.22 g/t Au & 47 ppm Mo**;

including

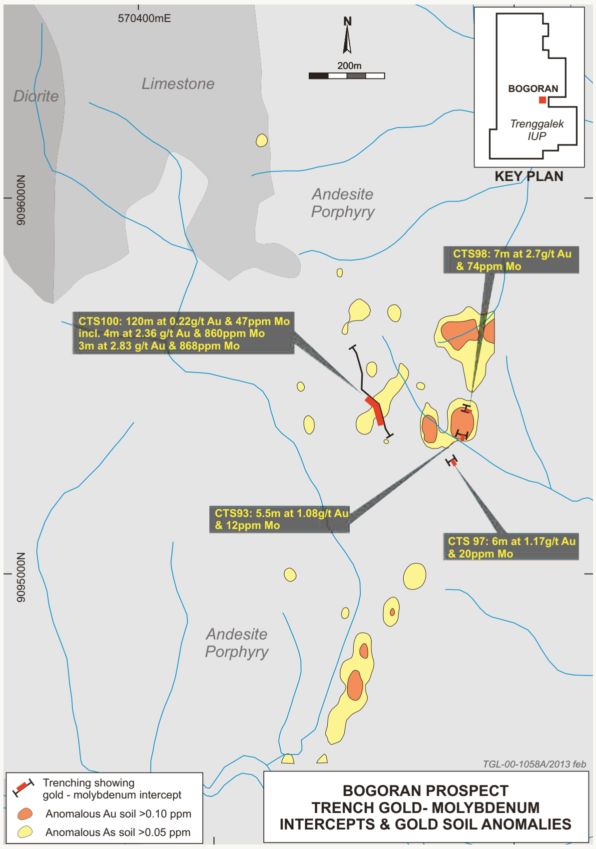
4 m at 2.36 g/t Au & 860 ppm Mo &

3 m at 2.83 g/t Au & 868 ppm Mo

The results highlight some encouraging gold intercepts and the molybdenum results are the highest returned at Trenggalek. Molybdenum values are reported to be high (>100's ppm) in the epithermal alteration lithocap lying above the buried porphyry copper-gold system discovered at Tujuh Bukit. The strong molybdenum anomalies returned from mineralized stockworks found at Bogoran might therefore indicate a porphyry copper-gold system at depth.



BOGORAN – ARSENIC & GOLD SOIL GEOCHEMISTRY



GOLD-MOLYBDENUM BENCH INTERCEPTS

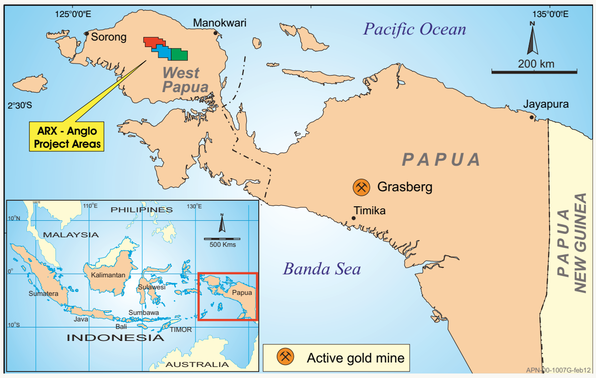
Strategic Alliance with Anglo American in Papua (ARX – 20%)

The Company holds a 20% interest in a Strategic Alliance with Anglo American and Indonesian parties to explore for copper-gold deposits in Papua and West Papua provinces.

Anglo American is responsible for managing and funding all exploration activities in Papua.

The Alliance currently operates three Exploration IUP tenements held by the Indonesian parties pursuant to the Strategic Alliance. These cover nearly 3,000 km^2 at the centre of the Bird's Head peninsula in West Papua Province. The IUP's cover prospective ground in the same region that is host to Grasberg – Indonesia's largest known porphyry copper-gold deposit.

An airborne magnetics and radiometrics survey that had been planned for the latter part of 2012 over the three IUP's was postponed and no ground work is planned until the necessary forestry use permits ("Ijin Pinjam Pakai") are obtained from the Ministry of Forestry.



STRATEGIC ALLIANCE PROJECT AREAS IN WEST PAPUA

Generative

ARX commenced a review of new project and corporate opportunities in both Indonesia and Australia. A number of site visits were conducted during the year to potential projects located in Indonesia and Eastern Australia.

ARX Project Tenement Status

Tenement	IUP Type	Area (ha)	Expiring	ARX interest
Trenggalek	Exploration	29,969 ha	1 November 2013	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

The information in this report that relates to Exploration Results is based on information compiled by Mr Brad Wake, who is a member of the Australian Institute of Geoscientists. Mr Wake has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Wake is a full time employee of Arc Exploration Limited and consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Corporate Governance

for year ended 31 December 2012

Corporate Governance

As a listed company with the Australian Securities Exchange (ASX), the company must report on its main corporate governance practices by reference to the principles and recommendations of the ASX Corporate Governance council.

This report is prepared with reference to the 2nd Edition of the Corporate Governance Principles and Recommendations 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. Mr John Carlile was appointed as Managing Director on 14 January 2008.

Recommendation 1.2

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

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

Formal evaluation of senior executives has not been undertaken. The senior executive team is small and works closely with the Board as required allowing Board members to continuously and directly monitor the performance of individual senior executives and to provide input directly where appropriate.

Recommendation 1.3

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

The Company has provided this information.

Recommendation 2.1

A majority of the Board should be independent Directors.

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

Recommendation 2.2

The 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 two of the Directors being permanently based in Indonesia. Given the size of the Board and the nature and extent of the Company's operations the Directors work closely together and provide feedback in respect of Board performance to the Chairman on an ongoing basis.

Recommendation 2.6

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

The Company has provided this information.

Recommendation 3.1

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

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

The Company has established a Director's Code of Conduct. In addition the Company maintains a Code of Ethics which extends to govern the conduct of Directors and the Executive of the Group in both Australia and Indonesia.

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

Recommendation 3.2

Companies should establish a policy concerning 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.

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) nineteen people in Indonesia of which two are women.

The Company's Financial Controller is a woman.

The Company has a Board of four 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 a new Mining Law and regulations have recently been introduced.

Recommendation 7.3

The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration required in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting 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 $50,000 per annum (plus statutory superannuation). No retirement benefits are payable to Non-Executive Directors.

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

The Group has employed a number of executives both in Australia and in Indonesia who are key to achieving the Company's objectives. The Board determines the remuneration policies applicable to the limited number of employees in Australia. The remuneration of employees in Indonesia is determined by the President Director of the Company's operating subsidiaries in conjunction with the Managing Director taking into account each employees experience, the nature of responsibilities, and both market and country conditions. Officers and employees in both Australia and Indonesia are entitled to participate in the Company's Employee and Contractor Options Plan.

Recommendation 8.4

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

The Company has provided this information.

ARC EXPLORATION
ANNUAL REPORT 2012

Arc Exploration Limited
ABN 48 002 678 640

Consolidated Financial Report
For the year ended 31 December 2012

Contents

Directors' Report

for year ended 31 December 2012

Annual Consolidated Financial Report

For the year ended 31 December 2012

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 2012.

Directors

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

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

Principal Activities

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

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

Review of Operations

Exploration

Arc Exploration Limited ("**ARX**") is exploring for gold and copper deposits along Indonesia's highly prospective magmatic arcs and related terranes. The primary exploration targets are high-grade epithermal veins, porphyry copper-gold and associated deposits.

Trenggalek Project, East Java (ARX – 95%)

ARX operates a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara, which holds the Trenggalek Exploration IUP tenement, located in the Southern Mountains of East Java. The IUP tenement area covers about 300 km^2. The Southern Mountains of East Java comprise an older segment of the Sunda-Banda magmatic arc. It lies along the same belt of rocks that hosts three giant porphyry copper-gold deposits (Tujuh Bukit, East Java; Batu Hijau and Elang, Sumbawa).

Exploration developments during the year included the acquisition of airborne geophysical data, joint venturing of the project to Anglo American, and the completion of limited ground work whilst waiting on the renewal of the forestry use permit ("**Ijin Pinjam Pakai**") from the Indonesian Ministry of Forestry.

Anglo American entered into a Joint Venture with the Company and its Indonesian partner on the Trenggalek Project in December 2012. This decision followed a period of due diligence in which Anglo American completed surface evaluations and fully funded the airborne magnetics and radiometrics survey described above. Their initial results are highly encouraging and support the potential for porphyry copper-gold deposits in the project area.

The Joint Venture is a major step forward and provides for increased exploration activity that is fully funded by Anglo American in an area that has emerging potential for porphyry copper-gold beneath extensive epithermal alteration systems identified on the project to date. With funding now in place to support a significant and ongoing work program, the Company has begun the process of applying for an extension of the term of the exploration IUP, which expires in November 2013.

The key terms of the Joint Venture are:

– Anglo American has the right to earn a 51% interest in the Trenggalek Project by sole funding US$10 million before 1 October 2016 of which not less than US$2.5 million shall be spent before 30 June 2014 and a minimum spend of US$1.6 million is required to be spent before 30 November 2013 before Anglo American can withdraw from the project.
– After spending US$ 10 million Anglo American can move from 51% to 75% by sole funding additional expenditure of a further US$10 million.
– On reaching 75% Anglo American will free-carry ARX for its remaining 20% through completion of a Pre-Feasibility Study.

The planned work program for 2013 is dependent on obtaining a forestry use permit ("**Ijin Pinjam Pakai**") for areas within production forest. While the process is at an advanced stage, issue of the permit by the Minister of Forestry is still awaited.

The acquisition of high-resolution airborne magnetics and radiometrics data over the entire IUP tenement area in the second half of the year was a major step forward in the exploration of Trenggalek. The airborne geophysical data acquired at Trenggalek presents a new opportunity to explore for buried porphyry targets in the project area and will play a fundamental role in the planning and execution of exploration programs here in 2013.

Limited ground work was conducted on two prospects with deeper porphyry potential during the year.

Strategic Alliance with Anglo American in Papua (ARX – 20%)

The Company holds a 20% interest in a Strategic Alliance with Anglo American and Indonesian parties to explore for copper-gold deposits in Papua and West Papua provinces. Anglo American is responsible for managing and funding all exploration activities in Papua.

The Alliance currently operates three Exploration IUP tenements held by the Indonesian parties pursuant to the Strategic Alliance. These cover nearly 3,000 km^2 at the centre of the Bird's Head peninsula in West Papua Province which cover prospective ground in the region which also hosts Grasberg – Indonesia's largest porphyry copper-gold deposit.

An airborne magnetics and radiometrics survey that had been planned for the latter part of 2012 over the three IUP's was postponed and no ground work is planned until the necessary forestry use permits ("**Ijin Pinjam Pakai**") are obtained from the Ministry of Forestry.

Generative

ARX commenced a review of new project and corporate opportunities in both Indonesia and Australia. A number of site visits were conducted during the year to potential projects located in Indonesia and Eastern Australia.

Consolidated Results

The net result of operations for the year was a loss of $1,198,304 (2011: loss of $3,245,959).

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

Work in much of the Trenggalek project area in Indonesia is dependent on obtaining a forestry use permit ("**Ijin Pinjam Pakai**") for areas within production forest. This permit was issued by the Minister of Forestry on 28 February 2013 and is valid until 2 November 2013. The granting of this permit will enable work to be undertaken at Trenggalek pursuant to the joint venture arrangements with Anglo American Group.

The Company is also continuing its examination of new opportunities outside of Indonesia to spread its project and country risk profile. Whilst negotiations have not been finalised with any party the Company is hoping to become involved in a new project during the course of the current year as a result of these activities.

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

Likely Developments and Expected Results of Operations

Likely developments in the operations of the Group include ongoing exploration at Trenggalek in joint venture with Anglo American Group and the possibility of exploration activity outside of Indonesia.

Dividends

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

Statement of Interests of Directors

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

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

Indemnities and Insurance of Directors, Officers and Auditors

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

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

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

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

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

Details of Directors (as at the Date of this Report)

Mr John C. Carlile – Mr Carlile is a geologist with a BSc. (Hons) degree in Geology from the University of Reading and a MSc. (DIC) in Mineral Exploration from the Royal School of Mines, University of London. Mr Carlile is a Fellow of The Aus.I.M.M. and Geo.Soc.Lond. He has over 25 years experience in the mining industry, primarily in gold exploration, and has previously held senior positions in the Asian region with major mining companies including BHP and Newcrest Mining Limited.

Mr Carlile was appointed as a Director of the Company on 3 March, 1998 and was the Managing Director and Chief Executive Officer of the Company until 17 November 2002. From 18 November 2002 until 13 January 2008 Mr Carlile was a Non-Executive Director. On 14 January 2008 Mr Carlile was appointed Managing Director and Chief Executive Officer of the Company. Mr Carlile was formerly a Director of Castlemaine Goldfields Limited and formerly Chairman of PEARL Energy Limited, a Singapore company focused on oil and gas exploration and production in South-East Asia.

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

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

Mr George S. Tahija – Mr Tahija is the 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 M. Willcocks – Mr Willcocks is a former senior partner with 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 Other Listed Companies

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

Director	Company	Period of Directorship
Bruce Watson	Orion Petroleum Limited	Director from April 2011 to June 2011
George Tahija	Nil	–
John Carlile	Nil	–
Robert Willcocks	CBH Resources Limited	Director from December 2000 to September 2010
	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

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. However for part of the year ending 31 December 2012 the non-executive directors agreed to reduce their fees by up to 50% in order to preserve the cash resources of the Company. The level of remuneration is based on an approximate time cost basis. The Board consider that this policy was appropriate given that it has typically been difficult to raise new equity funds for small exploration companies. Total remuneration for all non-executive directors was last voted on by shareholders at the 2005 Annual General Meeting and is not to exceed $250,000 per annum. No additional fees are paid for duties carried out in relation to the Audit Committee. Compulsory superannuation contributions of 9% are paid in relation to the directors fees 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

	2012 $	2011 $	2010 $	2009 $	2008 $
Profit (loss) attributable to owners of the company	(1,198,304)	(3,245,959)	(2,686,180)	14,324,739	(30,828,196)
Dividends paid	–	–	–	–	–
Change in share price	(0.01)	(0.02)	–	0.01	0.01
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.

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.

The only performance linked compensation in prior periods related to share options issued to Renato Bobis (refer to modifications of terms of share options on page 22). These conditions were later amended by the Board of Directors on 1 March 2011 and there are no longer any performance linked compensation at 31 December 2012.

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 2012.

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

ii. Options issued pursuant to shareholder approval

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

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

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

Service agreements – audited

Remuneration and other terms of employment for executive directors and senior executives are formalised in service agreements. Each of these agreements provide for participation, when eligible, in the Arc Exploration Limited Employee & Contractors Option Plan ("**ECOP**"). 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 3 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 agreements with fixed remuneration rates based on both market rates and the Group's ongoing financial capacity.

Director	Remuneration
John Carlile	$15,333 per month
Executives	
Cahyono Halim	$12,333 per month
Andrew Cooke	$7,500 per month (based on a 2 day week)
Brad Wake	$18,500 per month

b. Details of remuneration (audited)

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

Name of Executive	Title	Period of Responsibility
John Carlile	Managing Director	Full year
Cahyono Halim	Chief Financial Officer	Full year
Andrew Cooke	Company Secretary	Full year
Brad Wake	Exploration Manager	Full year

Remuneration details of Non-Executive Directors

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

(a) Mr Tahija has waived his entitlement to directors' fees, and no amounts were paid to Mr Tahija for the provision of his services during current or previous year.
(b) Mr Willcocks elected from 1 April 2010 to be paid through Dunraven Holdings Pty Ltd
(c) The value of options granted was calculated at grant date using a Black-Scholes option-pricing model.
This model requires assumptions to be made regarding inputs such as volatility which are disclosed in Note 19(a). The actual "value" to the option holders will depend on the share price at exercise date and cannot be known with certainty until this point.

2011	Directors Fees $	Superannuation $	Options[c] $	Total $
Bruce Watson	45,000	4,050	31,539	80,589
George Tahija[a]	–	–	21,025	21,025
Robert Willcocks[b]	30,000	–	21,026	51,026
Total	75,000	4,050	73,590	152,640

(a) Mr Tahija has waived his entitlement to directors' fees, and no amounts were paid to Mr Tahija for the provision of his services during current or previous year.
(b) Mr Willcocks elected up until 31 March 2010 to have his entitlement to fees paid as a superannuation contribution. From 1 April 2010 he elected to be paid through Dunraven Holdings Pty Ltd.
(c) The value of options granted during the year was calculated at grant date using a Black-Scholes option-pricing model.
This model requires assumptions to be made regarding inputs such as volatility which are disclosed in Note 19(a). The actual "value" to the option holders will depend on the share price at exercise date and cannot be known with certainty until this point.

Other Key Management Personnel of the Group and Specified Remunerated Executives

	Short-term benefits		Post-employment benefits		Share Based Payments		
Name	Cash Salary and Fees $	Non-monetary Benefits $	Super-annuation $	Termination Benefits $	Options[(a)] $	Total $	Proportion of remuneration performance related %
2012							
Executive 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	
2011							
Executive Director							
John Carlile	277,999	40,382	10,104	–	94,607	423,092	–
Executives							
Cahyono Halim	228,598	6,703	8,094	–	63,073	306,468	–
Andrew Cooke	177,600	–	–	–	63,073	240,673	–
Brad Wake	223,371	23,405	–	–	63,075	309,851	–
Renato Bobis (Resigned 31.08.11)[(b)]	133,173	13,172	–	–	32,355	178,700	–
Total	1,040,741	83,662	18,198	–	316,183	1,458,784	

(a) The fair value of options was calculated at grant date using a Black-Scholes option-pricing model. Key assumptions are disclosed in Note 19(a).

(b) Share options granted to Renato Bobis in 2010 had an element which was performance related however these conditions were amended on 1 March 2011 and no longer subject to any performance hurdles (refer to modification of terms of share options on page 22).

Options

Following shareholder approval at the Annual General Meeting held 27 May 2011 the Company issued 23,290,000 options to Directors and Employees at an exercise price of 4.2 cents per share with an expiry date of 27 May 2016. 50% of the options have a fair value of 1.8 cents and shall vest on 31 December 2011 and the remaining 50% shall vest on 31 December 2012 which have a fair value of 1.93 cents. Fair value was calculated at grant date using a Black-Sholes option-pricing model.

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

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

	Number of options granted during the year		Number of options vested during the year	
Name	2012	2011	2012	2011
Directors				
John Carlile	–	6,165,000	3,082,500	8,075,649
Bruce Watson	–	2,055,000	1,027,500	2,691,883
Robert Willcocks	–	1,370,000	685,000	1,794,589
George Tahija	–	1,370,000	685,000	1,794,589
Executives				
Andrew Cooke	–	4,110,000	2,055,000	5,383,766
Brad Wake	–	4,110,000	2,055,000	5,383,766
Cahyono Halim	–	4,110,000	2,055,000	5,383,766
Renato Bobis (Resigned 31.08.11) (a)	–	–	–	3,000,000
Total	–	23,290,000	11,645,000	33,508,008

(a) Modification of terms of share options

The original terms of the share options granted to Renato Bobis on the 11 May 2010 was as follows:

- Exercise price: 4.6 cents
- Expiry date for all options granted: 31 March 2013
- Vesting conditions:
  - 1,000,000 to vest upon acquisition of 1st new project identified for the company as a result of the holders generative work (Tranche 1)
  - 1,000,000 to vest upon acquisition of 2nd new project identified for the company as a result of the holders generative work (Tranche 2)
  - 1,000,000 to vest upon completion of initial 12 month employment (employed as Chief Exploration Geologist effective 1 April 2010) (Tranche 3)
  - Special conditions: Options which have vested shall not lapse in the event that Renato Bobis does not remain as a continuing employee during the term of the option

On 1 March 2011 the Board of Directors amended the vesting terms such that the 1st and 2nd tranches of 1,000,000 option each vest upon the completion of Renato Bobis' initial term of engagement being 1 April 2011. All other items remain unchanged. The market price of Arc Exploration Limited on the date of the alteration was 3 cents.

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
2012							
Directors							
John Carlile	16,151,298	–	–	–	–	–	16,151,298
Bruce Watson	5,383,766	–	–	–	–	–	5,383,766
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
2011							
Directors							
John Carlile	9,986,298	6,165,000	–	–	–	–	16,151,298
Bruce Watson	3,328,766	2,055,000	–	–	–	–	5,383,766
Robert Willcocks	2,219,177	1,370,000	–	–	–	–	3,589,177
George Tahija	2,219,177	1,370,000	–	–	–	–	3,589,177
Executives							
Andrew Cooke	6,657,532	4,110,000	–	–	–	–	10,767,532
Cahyono Halim	6,657,532	4,110,000	–	–	–	–	10,767,532
Brad Wake	6,657,532	4,110,000	–	–	–	–	10,767,532
Anthony Nadalin	2,219,177	–	–	–	–	(2,219,177)	–
Renato Bobis	3,000,000	–	–	–	–	(3,000,000)	–
Total	42,945,191	23,290,000	–	–	–	(5,219,177)	61,016,014

* Ceased to be KMP

	A	B	C	D
	Remuneration consisting of options %	Granted during year $	Exercised during year $	Lapsed during year $
2012				
Directors				
John Carlile	12%	–	–	–
Bruce Watson	28%	–	–	–
Robert Willcocks	29%	–	–	–
George Tahija	100%	–	–	–
Executives				
Andrew Cooke	20%	–	–	–
Cahyono Halim	13%	–	–	–
Brad Wake	9%	–	–	–
2011				
Directors				
John Carlile	22%	114,975	–	–
Bruce Watson	39%	38,326	–	–
Robert Willcocks	41%	25,551	–	–
George Tahija	100%	25,551	–	–
Executives				
Andrew Cooke	26%	76,652	–	–
Cahyono Halim	21%	76,652	–	–
Brad Wake	20%	76,652	–	–
Renato Bobis	18%	–	–	–

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.

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
31 March 2013	4.6 cents	3,000,000
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 59 and forms part of this Directors' Report.

Non-Audit Services

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

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

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

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

	$
Tax compliance and consultancy services	12,900
Total non-audit services	12,900

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, 2012 and the number of meetings attended by each Director:

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

* Not a member of the relevant committee
** Including meetings by circular resolution

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

Dated this 27th day of March 2013.

John C. Carlile
Managing Director

Bruce J. Watson
Non-Executive Chairman

Consolidated Statement of Comprehensive Income

for year ended 31 December 2012

	Notes	2012 $	2011 $
Continuing operations			
Other income	6a(i)	1,048,133	67,679
Employee expenses	6b	(1,330,712)	(1,415,385)
Depreciation expenses		(28,814)	(47,076)
Other expenses		(954,680)	(775,048)
Exploration expenses written-off		–	(1,255,068)
Foreign exchange gain/(loss)		(108,931)	(99,814)
Profit/(loss) before financing costs		**(1,375,004)**	**(3,524,712)**
Interest income	6a(ii)	194,350	375,076
Finance expenses	6c	(17,650)	(96,323)
Profit/(loss) before income tax		**(1,198,304)**	**(3,245,959)**
Income tax (expense)/benefit		–	–
Profit/(loss) from continuing operations		**(1,198,304)**	**(3,245,959)**
Profit/(loss) from discontinued operations		–	–
Profit/(loss) for the year		**(1,198,304)**	**(3,245,959)**
Other comprehensive income			
Foreign currency translation differences for foreign operations		96,327	(33,668)
Income tax on other comprehensive income	8a	–	–
Other comprehensive income for the period, net of tax		**96,327**	**(33,668)**
Total comprehensive income for the period		**(1,101,977)**	**(3,279,627)**
Profit/(loss) attributable to:			
Equity holders of the Company		(1,198,304)	(3,245,959)
Non controlling interest		–	–
Profit/(loss) for the period		(1,198,304)	(3,245,959)
Total comprehensive income attributable to:			
Equity holders of the Company		(1,101,977)	(3,279,627)
Non controlling interests		–	–
Profit/(loss) for the period		**(1,101,977)**	**(3,279,627)**
Earnings per share			
Basic earnings/(loss) per share (cents per share)		(0.13)	(0.41)
Diluted earnings/(loss) per share (cents per share)		(0.13)	(0.41)
Continuing operations			
Basic earnings/(loss) per share (cents per share)		(0.13)	(0.41)
Diluted earnings/(loss) per share (cents per share)		(0.13)	(0.41)

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

Consolidated Statement of Financial Position

as at 31 December 2012

	Notes	2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	9	3,771,887	5,851,354
Receivables	10	309,651	38,078
Other	12	96,896	148,024
TOTAL CURRENT ASSETS		**4,178,434**	**6,037,456**
NON-CURRENT ASSETS			
Receivables	11	182,554	196,600
Plant and equipment	13	37,431	62,916
Exploration and evaluation expenditure	14	4,958,792	4,631,180
TOTAL NON-CURRENT ASSETS		**5,178,777**	**4,890,696**
TOTAL ASSETS		**9,357,211**	**10,928,152**
CURRENT LIABILITIES			
Trade and other payables	15	165,898	179,705
Interest bearing liabilities	18	–	1,274,668
Other	17	34,861	34,887
TOTAL CURRENT LIABILITIES		**200,759**	**1,489,260**
NON-CURRENT LIABILITIES			
Provisions	16	154,700	99,074
TOTAL NON-CURRENT LIABILITIES		**154,700**	**99,074**
TOTAL LIABILITIES		**355,459**	**1,588,334**
NET ASSETS		**9,001,752**	**9,339,818**
EQUITY			
Contributed equity	19	148,387,790	147,765,528
Reserves		1,594,547	1,356,571
Accumulated losses		(140,980,585)	(139,782,281)
Total equity attributable to equity holders of the Company		9,001,752	9,339,818
TOTAL EQUITY		**9,001,752**	**9,339,818**

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 2012

	Share Capital $	Translation Reserve $	Share–Based Payment Reserve $	Accumulated Losses $	Total $	Non–controlling interests $	Total Equity $
Balance at 1 January 2012	**147,765,528**	**595,647**	**760,924**	**(139,782,281)**	**9,339,818**	**–**	**9,339,818**
Total comprehensive income for period							
Profit/(loss)	–	–	–	(1,198,304)	(1,198,304)	–	(1,198,304)
Other comprehensive income							
Foreign currency translation differences	–	96,327	–	–	96,327	–	96,327
Total other comprehensive income	–	96,327	–	–	96,327	–	96,327
Total other comprehensive income for the year	–	96,327	–	(1,198,304)	(1,101,977)	–	(1,101,977)
Transactions with equity holders in their capacity as equity holders							
Share options expense	–	–	141,649	–	141,649	–	141,649
Contribution of equity, net of transaction costs	622,262	–	–	–	622,262		622,262
Total transactions with equity holders	622,262	–	141,649	–	763,911	–	763,911
Total equity at the end of period	**148,387,790**	**691,974**	**902,573**	**(140,980,585)**	**9,001,752**	**–**	**9,001,752**
Balance at 1 January 2010	**140,292,319**	**629,315**	**371,151**	**(136,536,322)**	**4,756,463**	**–**	**4,756,463**
Total comprehensive income for period							
Profit/(loss)	–	–	–	(3,245,959)	(3,245,959)	–	(3,245,959)
Other comprehensive income							
Foreign currency translation differences	–	(33,668)	–	–	(33,668)	–	(33,668)
Total other comprehensive income	–	(33,668)	–	–	(33,668)	–	(33,668)
Total other comprehensive income for the year	–	(33,668)	–	(3,245,959)	(3,279,627)	–	(3,279,627)
Transactions with equity holders in their capacity as equity holders							
Employee share options expense	–	–	389,773	–	389,773	–	389,773
Contribution of equity, net of transaction costs	7,473,209	–	–	–	7,473,209	–	7,473,209
Total transactions with equity holders	7,473,209	–	389,773	–	7,862,982	–	7,862,982
Total equity at the end of period	**147,765,528**	**595,647**	**760,924**	**(139,782,281)**	**9,339,818**	**–**	**9,339,818**

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 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Consulting fees		749,715	67,679
Payments to suppliers and employees		(2,027,302)	(1,820,066)
Interest received		206,077	370,846
Finance costs		(17,676)	(90,412)
Net cash used in operating activities	**27b**	**(1,089,186)**	**(1,471,953)**
Cash flows from investing activities			
Payments for office furniture, equipment and vehicles		(4,710)	(62,408)
Proceeds on sale of plant and equipment		13,667	8,092
Exploration and evaluation expenditures		(373,974)	(2,327,974)
Net cash used in investing activities		**(365,017)**	**(2,382,290)**
Cash flows from financing activities			
Repayment of loan		(651,186)	(635,894)
Net proceeds from the issue of share capital		-	6,416,633
Net cash (used in)/from financing activities		**(651,186)**	**5,780,739**
Net increase/(decrease) in cash and cash equivalents		**(2,105,389)**	**1,926,496**
Cash and cash equivalents at beginning of the period		5,851,354	4,037,462
Effects of exchange rate changes on balances of cash held in foreign currencies		25,922	(112,604)
Cash and cash equivalents at the end of the period		**3,771,887**	**5,851,354**

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

1. Reporting Entity

Arc Exploration Limited ("**Arc**" or the "**Company**") is a publicly listed company that is incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2012 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 14
19-31 Pitt Street
Sydney NSW 2000

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

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

2. Summary of Significant Accounting Policies

a. Basis of Preparation

Statement of Compliance

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

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

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

The financial statements were approved by the Board of Directors on 27 March 2013.

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.

2. Summary of Significant Accounting Policies (continued)

Basis of Consolidation

Controlled entities

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

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

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

Foreign Currencies

Functional and presentation currency

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

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

Transactions and balances

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

Group Entities

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

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

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

Derivative Financial Instruments

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market is determined using recognised valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine fair value for financial instruments.

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

Acquisition of Assets

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

Plant and Equipment

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

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

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

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

Depreciation

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

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

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

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

Exploration and Evaluation Expenditure

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

2. Summary of Significant Accounting Policies (continued)

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.

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 comprehensive income.

Trade and other Payables

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

Comparative Information

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

Impairment of Assets

The carrying 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.

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

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.

2. Summary of Significant Accounting Policies (continued)

Employee Benefits

Wages, salaries, and annual leave

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

Long Service Leave

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

Post employment benefits

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

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss. The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

Provisions

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

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

Contributed Equity

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

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.

The finance expense included in the profit and loss are in relation to unsecured loans (refer note 18).

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.

2. Summary of Significant Accounting Policies (continued)

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

Segment Reporting

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

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

The Group is involved solely in exploration activities in Indonesia and has a single operating segment, exploration activities, that its CEO 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 July 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial Group.

3. Financial Risk Management

Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

Credit risk

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

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

Other receivables

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

Guarantees

As at 31 December 2012 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 2011 and 2012, 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 2012 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 2012 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 ($3,977,675) 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 taken the following into consideration:

- The Group is in a strong financial position with $3,771,887 in cash as at 31 December 2012;
- The Group's cash burn rate has been maintained at a relatively low level due to reduced expenditure at Trenggalek as a result of the Anglo American Group proceeding with a joint venture whereby they will fund project expenditure at Trenggalek to earn a direct equity interest in that project.

Based on a cash flow forecast for the period 1 January 2013 to 31 March 2014, the Group has sufficient funds to continue its planned activities in Indonesia and also to meet corporate operating costs in both Australia and Indonesia during this period. In addition, whilst not reflected in the current budgets or forecasts, management have the ability to reduce expenditure in certain areas (if required by unforeseen events) to further preserve the Group's cash.

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 2012 on the basis that the ability to utilise these temporary differences and tax losses can not yet be regarded as probable.

6. Revenue and Expenses

	2012 $	2011 $
(a) (i) Other income		
Consulting fees	1,034,477	67,679
Gain on sale of PPE	13,656	–
	1,048,133	**67,679**
(ii) Finance income		
Interest income	194,350	375,076
(b) Employee expenses		
Wages and salaries	1,129,406	971,472
Superannuation & post employment benefits	60,453	54,140
Share based payments expense	140,853	389,773
	1,330,712	**1,415,385**
(c) Finance expenses		
Interest paid or payable:		
– Related party	17,650	96,146
– Other persons	–	177
	17,650	**96,323**

7. Earnings/(Loss) Per Share

	2012 $	2011 $
Profit/(loss) from continuing operations used in calculating basic and diluted earnings per share	(1,198,304)	(3,245,959)
Profit/(loss) from discontinued operations	–	–
Net profit/(loss) used in calculating basic and diluted earnings per share	(1,198,304)	(3,245,959)
Weighted average number of shares outstanding during the year used in calculating basic earnings per share dilutive earnings/(loss) per share	891,531,336	796,488,182

Weighted average number of ordinary shares

	2012 $	2011 $
Issued ordinary shares at 1 January	825,024,776	595,754,788
Effect of share option exercised	1	172,749,463
Shares issued to repay loan	66,506,559	27,983,931
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive earnings/(loss) per share	891,531,336	796,488,182
Basic earnings/(loss) per share (cents per share)	(0.13)	(0.41)
Diluted earnings/(loss) per share (cents per share)	(0.13)	(0.41)
Continuing operations		
Basic earnings/(loss) per share (cents per share)	(0.13)	(0.41)
Diluted earnings/(loss) per share (cents per share)	(0.13)	(0.41)

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 2012 and 2011.

Listed and Unlisted Options

There are no listed options at 31 December 2012.

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 2012 and 2011. These options could potentially dilute earnings per share in the future.

8. Income Tax

a. Income tax expense

Numerical reconciliation of income tax expense to prima facie tax payable:

	2012 $	2011 $
Profit/(loss) before income tax benefit	(1,198,304)	(3,245,959)
Income tax expense/(benefit) at the statutory rate of 30% (2011: 30%)	(359,491)	(973,788)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible/assessable foreign translation (gain)/loss	28,898	(10,100)
Share issue costs	–	(133,751)
Non deductible share based payments expense	42,495	116,932
	(288,098)	(1,000,707)
Less tax losses not recognised and carried forward	288,098	1,000,707
Income tax expense/(benefit)	–	–

8. Income Tax (continued)

b. Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2012 $	2011 $
Exploration and evaluation expenditure	1,487,638	1,389,354
Tax losses recognised	(1,487,638)	(1,389,354)
Net deferred tax liability/(asset)	–	–

c. Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2012 $	2011 $
Provisions	38,675	24,769
Tax losses PT Indonusa Mining Services (IMS)	920,422	900,295
Tax losses Arc Exploration Limited (Arc)	5,550,267	6,700,222
Capital tax losses Arc	15,046,770	15,046,770
Total	21,556,134	22,672,056

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

	2012 $	2011 $
Cash at bank and on hand	371,887	851,354
Short term deposits	3,400,000	5,000,000
	3,771,887	5,851,354

10. Current Receivables

	2012 $	2011 $
Trade Receivables	284,762	–
Other debtors	2,940	3,206
Goods and services tax (GST) and other consumption taxes recoverable	8,828	10,024
Interest receivable	13,121	24,848
	309,651	38,078

11. Non-Current Receivables

	2012 $	2011 $
Other debtors	182,554	196,600
	182,554	196,600

12. Other Current Assets

	2012 $	2011 $
Prepayments	42,035	93,138
Security deposits	20,000	20,000
Monies held in trust	34,861	34,886
	96,896	148,024

13. Plant and Equipment

a. Office furniture and equipment

	2012 $	2011 $
Gross carrying amount		
Opening balance	332,039	311,494
Additions	4,710	20,332
Disposals and transfers	–	–
Net foreign exchange differences	(7,289)	213
Closing balance	329,460	332,039
Accumulated depreciation		
Opening balance	(292,667)	(264,300)
Depreciation expense	(18,526)	(28,185)
Depreciation reversed on disposals	–	–
Net foreign exchange differences	6,426	(182)
Closing balance	(304,767)	(292,667)
Net office furniture and equipment	24,693	39,372

b. Motor vehicles

	2012 $	2011 $
Gross carrying amount		
Opening balance	104,775	73,240
Additions	–	42,078
Disposals and transfers	(21,367)	(10,594)
Net foreign exchange differences	(2,557)	51
Closing balance	80,851	104,775
Accumulated depreciation		
Opening balance	(81,231)	(72,884)
Depreciation expense	(10,288)	(18,891)
Disposals and transfers	21,367	10,594
Net foreign exchange differences	2,039	(50)
Closing balance	(68,113)	(81,231)
Net motor vehicles	12,738	23,544
Carrying amounts		
Total plant and equipment – at 1 January	62,916	47,550
Total plant and equipment – at 31 December	37,431	62,916

14. Exploration and Evaluation Expenditure

	2012 $	2011 $
Opening balance	4,631,180	3,558,274
Additions	327,612	2,327,974
Exploration costs written-off[(a)]	–	(1,255,068)
	4,958,792	4,631,180

(a) The Regent of Bima suspended the Bima Exploration Licence (IUP) in December 2011 following an anti-mining demonstration. On 28 January 2012 the Group's Indonesian partner PT Sumber Mineral Nusantara (PT SMN) received formal advice from the Regent of Bima stating that PT SMN's Bima IUP was suspended and subsequently revoked, citing civil disturbances and security issues in the Bima area. The Group remained in full compliance with all legal and regulatory licence requirements at the times the IUP was suspended and subsequently revoked.

The Group's exploration activities are conducted via contractual arrangements with certain Indonesian companies and individuals under which each party contributes assets and/or expertise. These agreements create relationships similar in nature to a joint venture operation or joint venture asset as defined in AASB 131 *Interests in Joint Ventures*, however do not give the parties joint control over the contributed assets or operations. Subject to the agreements, the parties have rights and obligations in proportion to agreed "ownership" levels and, as at 31 December 2012, the Group's ownership level was 95% (2011: 95%). The Group has capitalised its share of the exploration expenditure in accordance with the accounting policy set out in Note 2, and its share of any capital commitments and contingent liabilities are included in the amounts disclosed in Notes 29 and 32.

The Group assessed the situation and reviewed alternatives open to it. The Board decision was to fully impair the carrying value of the Bima project as at 31 December 2011.

15. Trade and Other Payables

	2012 $	2011 $
Trade payables and accrued expenses	112,267	142,408
Other consumption taxes payable	53,631	37,297
	165,898	179,705

16. Provisions

	2012 $	2011 $
Current liabilities		
Employee leave entitlements	–	–
	–	–
Non-current liabilities		
Post employment benefits	154,700	99,074
	154,700	99,074
Current and non-current provisions	154,700	99,074

17. Other Current Liabilities

	2012 $	2011 $
Amounts payable to other persons	34,861	34,887
	34,861	34,887

18. Interest Bearing Liabilities

	2012 $	2011 $
Current Liabilities		
Unsecured loans – related parties	–	149,961
Unsecured loans	–	1,124,707
	–	1,274,668

As at 31 December 2012 the unsecured loans balance has been fully repaid (50%) in cash and (50%) in shares.

19. Contributed Equity

	31/12/2012 Number	31/12/2011 Number	31/12/2012 $	31/12/2011 $
At 31 December	916,533,798	825,024,776	148,387,790	147,765,528
Fully paid ordinary shares				
At the beginning of the year	825,024,776	595,754,788	147,765,528	140,292,319
Exercise of ARXOA Options 190,632,875 @ $0.036 per share	–	190,632,875	–	6,862,782
Issue of 38,637,113 shares @ $0.0275 per share to repay loan	–	38,637,113	–	1,056,264
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			–	(445,837)
	916,533,798	825,024,776	148,387,790	147,765,528

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:

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

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.

Option Series	Opening balance 1 January	No. of options Issued	Relinquished	Lapsed	No. of options outstanding 31 December
2011					
Options issued to Directors and Employees exercisable at $0.042	42,945,191	23,290,000	–	–	66,235,191
	42,945,191	23,290,000	–	–	66,235,191

Options was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility.

19. Contributed Equity (continued)

Options issued to directors and employees during 2011 have all vested. The inputs used in the measurement of the fair values at grant date of the equity-settles share-based payment options can be summarised as follows:

2011	Tranche 1	Tranche 2
Grant date	27 May 2011	27 May 2011
Fair value at grant date	1.8 cents	1.93 cents
Share price at grant date	2.8 cents	2.8 cents
Exercise price	4.2 cents	4.2 cents
Expected volatility	120%	120%
Expiry date	27 May 2016	27 May 2016
Expected dividends	nil	nil
Risk-free interest rate	5.05%	5.05%

Employees and Contractors Option Plan ("ECOP")

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

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

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

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

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

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

b. Listed Options

The number of listed options over unissued ordinary shares as at 31 December 2012 is nil (2011: 7,940,728).

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

	2012	2011
Number of listed options ARXO		
Balance as at 1 January	7,940,728	7,940,728
Exercise of options	(1)	–
Options expired	(7,940,727)	–
Balance as at 31 December	–	7,940,728
Number of listed options ARXOA		
Balance as at 1 January	–	198,879,682
Exercise of options	–	(190,632,875)
Options expired	–	(8,246,807)
Balance as at 31 December	–	–

c. Unlisted Options

The number of unlisted options over unissued ordinary shares as at 31 December 2012 is 3,500,000 (2011:19,275,000).

3,500,000 unlisted options were issued as part consideration for marketing and corporate advisory services.

The inputs used in the measurement of the fair values at grant date of unlisted options can be summarised as follows:

	2012
Grant date	23 March 2012
Fair value at grant date	0.0227 cents
Share price at grant date	0.7 cents
Exercise price	7.5 cents
Expected volatility	120%
Expiry date	23 March 2013
Expected dividends	nil
Risk-free interest rate	3.50%

No unlisted options have been exercised during the year.

20. Reserves

	2012 $	2011 $
Foreign currency translation reserve		
Balance at the beginning of financial year	595,647	629,315
Translation of foreign operations during the year	96,327	(33,668)
Balance at end of the financial year	691,974	595,647
Share-based payments reserve		
Balance at the beginning of financial year	760,924	371,151
Options expense	141,649	389,773
Options relinquished- unvested	–	–
Options relinquished- vested	–	–
Balance at end of the financial year	902,573	760,924
Total Reserves	1,594,547	1,356,571

Foreign currency translation reserve

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

Share-based payments reserve

The share-based payments reserve relates to the cumulative expense for share options granted to directors, employees and contractors. Upon the exercise of the options, the balance of the options reserve relating to those options is transferred to contributed equity. Where unvested options lapse or are relinquished during the year the amounts in relation to these options, previously credited to the options reserve, are transferred to profit and loss. Where vested options lapse or are relinquished during the year the amounts in relation to these options, previously credited to the options reserve, are transferred to the accumulated loss account.

21. Accumulated Losses

	2012 $	2011 $
Balance at the beginning of the financial year	(139,782,281)	(136,536,322)
Transfer of options reserve amount for relinquished vested options	–	–
Net profit/(loss) attributable to Arc Exploration Limited	(1,198,304)	(3,245,959)
Balance at the end of the financial year	(140,980,585)	(139,782,281)

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

John Carlile – Managing Director

Non-Executive Directors

Bruce Watson – Chairman
George Tahija – Director
Robert Willcocks – Director

Other Key Management Personnel

Cahyono Halim – Chief Financial Officer
Andrew Cooke – Company Secretary
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.

b. Remuneration

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

	2012 $	2011 $
Short term employee benefits	810,182	1,053,058
Post employment benefits	14,980	22,248
Share-based payments	140,853	357,418
	966,015	1,432,724

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

2012	Balance at 1 January	Granted as remuneration	Options lapsed	Total at 31 December	Vested during the year	Vested and exercisable at 31 December
Directors						
J Carlile	16,151,298	–	–	16,151,298	3,082,500	16,151,298
B Watson	5,383,766	–	–	5,383,766	1,027,500	5,383,766
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
2011						
Directors						
J Carlile	9,986,298	6,165,000	–	16,151,298	8,075,649	13,068,798
B Watson	3,328,766	2,055,000	–	5,383,766	2,691,883	4,356,266
R Willcocks	2,219,177	1,370,000	–	3,589,177	1,794,589	2,904,177
G Tahija	2,219,177	1,370,000	–	3,589,177	1,794,589	2,904,177
Other Key Management Personnel						
A Cooke	6,657,532	4,110,000	–	10,767,532	5,383,766	8,712,532
C Halim	6,657,532	4,110,000	–	10,767,532	5,383,766	8,712,532
B Wake	6,657,532	4,110,000	–	10,767,532	5,383,766	8,712,532

No options held by key management personnel are vested but not excercisable as at 31 December 2012 or 2011.

c. Listed Options in the Company

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

i. Listed options ARXO

2012	Balance as at 1 January	Expired	Balance as at 31 December
Directors			
B Watson	18,000	(18,000)	–
G Tahija	324,675	(324,675)	–
J Carlile	73,511	(73,511)	–
Other Key Management Personnel			
A Cooke	3,200	(3,200)	–
2011			
Directors			
B Watson	18,000	–	18,000
G Tahija	324,675	–	324,675
J Carlile	73,511	–	73,511
Other Key Management Personnel			
A Cooke	3,200	–	3,200

22. Key Management Personnel Disclosures (continued)

ii. Listed options ARXOA

2012	Balance as at 1 January	Purchases	Sales	Lapsed	Balance as at 31 December
Directors					
B Watson	–	–	–	–	–
G Tahija	–	–	–	–	–
J Carlile	–	–	–	–	–
R Willcocks	–	–	–	–	–
Other Key Management Personnel		–	–	–	
A Cooke	–	–	–	–	–
2011					
Directors					
B Watson	4,095,278	–	(4,095,278)	–	–
G Tahija	–	–	–	–	–
J Carlile	5,477,850	–	(4,231,445)	(1,246,405)	–
R Willcocks	1,375,000	–	(1,375,000)	–	–
Other Key Management Personnel					
A Cooke	256,605	–	(100,000)	(156,605)	–

d. Shares

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

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
2011						
Directors						
B Watson	9,254,629	4,155,278	(60,000)	–	–	13,349,907
G Tahija	10,597,472	–	–	–	–	10,597,472
J Carlile	12,768,555	6,911,038	–	–	–	19,679,593
R Willcocks	2,750,000	1,375,000	–	–	–	4,125,000
Other Key Management Personnel						
A Cooke	1,063,584	100,000	–	–	–	1,163,584

e. Remuneration Practices

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

23. Operating Segments

The results and financial position of the Company's single operating segment, exploration activities in Indonesia, are prepared for the CEO on a 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 have been made. 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 revenue recognised for the year ended 31 December 2012 was $1,034,477 (31 December 2011: $67,679).

Geographical areas

The Company's revenue generating activities are located solely in Indonesia.

Major customers

Revenues from one customer of the Group' represents approximately $849,117 (2011: $47,500) of the Group's total revenues for the year ended 31 December 2012.

24. Investments in Controlled Entities

			Equity Holdings	
Name of controlled entity	Country of Incorporation	Class of Shares	2012 %	2011 %
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:

- John Carlile, Managing Director
- Bruce Watson, Non-Executive Chairman
- George Tahija, Non-Executive Director
- Robert Willcocks, Non-Executive Director

b. Transactions with Directors and Director Related Entities

	2012 $	2011 $
Mr Carlile received interest payments or had interest payments capitalised on a loan provided to the Company.	2,076	10,413
Loan of US $152,300 owed by the Company to Mr Carlilie at 31 December 2011 was fully repaid during 2012	–	149,961

26. Financial Instruments

a. Credit risk

	2012 $	2011 $
Cash and cash equivalents	3,771,887	5,851,354

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).

	2012 $	2011 $
Trade and other receivables	492,205	234,678

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.

2012	Carrying amount $	Contractual cash flows $	Within 6 months $	Within 6-12 months $	1 to 2 years $	2 to 5 years $
Unsecured loans	–	–	–	–	–	–
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	–	–	–
2011						
Unsecured loans	1,274,668	1,292,275	1,292,275	–	–	–
Trade and other payables	179,705	179,705	179,705	–	–	–
Other current liabilities	34,887	34,887	34,887	–	–	–
	1,489,260	1,506,867	1,506,867	–	–	–

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:

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)
Unsecured loans	–	–	–	–
	68,230	158,068	–	226,298
2011				
Cash and cash equivalents	49,611	17,318	–	66,929
Receivables	–	196,600	–	196,600
Trade and other payables	–	(81,415)	–	(81,415)
Unsecured loans	–	–	(1,274,668)	(1,274,668)
	49,611	132,503	(1,274,668)	(1,092,554)

The following significant exchange rates applied during the year:

AUD	Average rate 2012	Average rate 2011	Reporting date spot rate 2012	Reporting date spot rate 2011
USD	1.0393	1.0407	1.0384	1.0156
IDR	9,805	8,348	10,008	9,142

Sensitivity analysis

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

On the USD amounts which relate to the Group balances denominated in USD, a 5% decrease in AUD/USD exchange rate from the 2012 year-end spot rate would have decreased the unrealised foreign exchange gain for the Group by $nil as the bridging loan has been fully repaid (2011: $67,087).

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.

2012	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	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	0.1%	Floating	34,861	–	–	–	34,861
Financial Liabilities							
Unsecured loans	5.0%	Fixed	–	–	–	–	–
Net Position			3,826,748	–		–	3,826,748
2011							
Financial Assets							
Cash at bank	2.5%	Floating	851,354	–	–	–	851,354
Cash at bank	5.3%	Fixed	5,000,000	–	–	–	5,000,000
Security deposits	5.0%	Fixed	20,000	–	–	–	20,000
Monies held in trust	0.1%	Floating	34,886	–	–	–	34,886
Financial Liabilities							
Unsecured loans	5.0%	Fixed	1,274,668	–	–	–	1,274,668
Net Position			7,180,908	–	–	–	7,180,908

Sensitivity analysis

At 31 December 2012, 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 $53,654 lower/higher (2011: change of 100 base points $75,211 lower/higher) as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

26. Financial Instruments (continued)

e. Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are set out below.

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

	Carrying amount 2012 $	Fair value 2012 $	Carrying amount 2011 $	Fair value 2011 $
Financial Assets				
Cash and cash equivalents	3,771,887	3,771,887	5,851,354	5,851,354
Current receivables	309,651	309,651	38,078	38,078
Non-current receivables	182,554	182,554	196,600	196,600
Other assets	96,896	96,896	148,024	148,024
Total Financial Assets	4,360,988	4,360,988	6,234,056	6,234,056
Financial Liabilities				
Trade and other payables	165,898	165,898	179,705	179,705
Unsecured loans	–	–	1,274,668	1,247,588
Other liabilities	34,861	34,861	34,887	34,887
Total Financial Liabilities	200,759	200,759	1,489,260	1,462,180

f. Derivative financial instruments

No derivative financial instruments were held by the Group either at 31 December 2012 or 31 December 2011.

g. Commodity price risk

The Group is not affected by commodity price fluctuations.

27. Cashflows

a. Reconciliation of cash and cash equivalents

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

	2012 $	2011 $
Cash at bank and in hand	371,887	851,354
Term deposits	3,400,000	5,000,000
	3,771,887	5,851,354

b. Cash flows from operating activities

	2012 $	2011 $
Profit/(loss) for the financial year	(1,198,304)	(3,245,959)
Depreciation	28,814	47,076
Gain (loss) on disposal of assets	(13,667)	(8,092)
Share based payments	141,649	389,773
Unrealised foreign exchange (gain)/loss	122,816	99,814
Non cash expenses	8,158	5,909
Exploration asset write off	–	1,255,068
(Increase)/decrease in assets:		
Current receivables	(271,573)	(20,643)
Other current assets	51,128	12,851
Increase/(decrease) in liabilities:		
Current payables	(13,833)	(59,109)
Current provisions	55,626	51,359
Non-current payables	–	–
Net cash flow from operating activities	(1,089,186)	(1,471,953)

28. Leasing Commitments

	2012 $	2011 $
Operating Lease Commitments		
Payable		
– not later than 1 year	19,967	32,392
– longer than 1 year but not later than 5 years	–	–
– more than 5 years	–	–
	19,967	32,392

29. Commitments For Capital Expenditure

	2012 $	2011 $
Capital Expenditure Commitments		
Payable		
Plant and equipment:		
– not longer than 1 year	–	–
	–	–

30. Economic Dependency

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

31. Auditors' Remuneration

	2012 $	2011 $
Audit services		
Auditors of the Company		
KPMG – Australia		
Audit and review of financial reports	63,550	60,550
KPMG – Indonesia		
Audit and review of financial reports	21,186	24,419
	84,736	84,969
Other services		
Auditors of the Company		
KPMG		
Tax compliance and consulting services	12,900	30,300
	12,900	30,300
	97,636	115,269

32. Contingent Liabilities

The Group has no contingent liabilities as at 31 December 2012 (2011: nil).

33. Events Subsequent to Reporting Date

Work in much of the Trenggalek project area in Indonesia is dependent on obtaining a forestry use permit ("**Ijin Pinjam Pakai**") for areas within production forest. This permit was issued by the Minister of Forestry on 28 February 2013 and is valid until 2 November 2013. The granting of this permit will enable work to be undertaken at Trenggalek pursuant to the joint venture arrangements with Anglo American Group.

The Company is also continuing its examination of new opportunities outside of Indonesia to spread its project and country risk profile. Whilst negotiations have not been finalised with any party the Company is hoping to become involved in a one or more new projects during the course of the current year as a result of these activities.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of his 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 2012 the parent entity of the Group was Arc Exploration Limited.

	2012 $	2011 $
Result of parent entity		
Profit/loss for the period	(1,350,734)	(3,194,271)
Other comprehensive income	–	–
Total comprehensive income for the period	(1,350,734)	(3,194,271)
Financial position of parent entity at year end		
Current assets	3,665,456	5,846,410
Total assets	8,806,802	10,674,190
Current liabilities	92,000	1,372,565
Total liabilities	92,000	1,372,565
Total equity of parent entity comprising of:		
Share capital	148,387,790	147,765,528
Reserve for own shares	902,573	760,924
Retain earnings/(losses)	(140,575,561)	(139,224,827)
Total equity	8,714,802	9,301,625

Directors' Declaration

for year ended 31 December 2012

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 2012 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); and
   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 2012.

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

Dated 27 March 2013

John C. Carlile
Managing Director

Bruce J. Watson
Non-Executive Chairman

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Arc Exploration Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2012, and consolidated statement of 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.

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of 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 2012 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 17 to 23 of the directors' report for the year ended 31 December 2012. 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 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Shane O'Connor
Partner

Sydney
27 March 2013

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Arc Exploration Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 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

Shane O'Connor
Partner

Sydney
27 March 2013

Shareholder Information

as at 28 March 2013

a)	Number of ARX shareholders	**3,776**
b)	Total shares issued	**916,533,798**
c)	Percentage of total holdings by or on behalf of the 20 largest shareholders	**55.06%**
d)	Distribution schedule of holdings	

	Ordinary Shares
1 – 1,000	1,297
1,001 – 5,000	655
5,001 – 10,000	216
10,001 – 100,000	940
100,001 and over	658
Less than marketable parcel	3,170

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

Top 20 Holders of Ordinary Fully Paid Shares

Rank	Name	Units	% of Units
1.	J P Morgan Nominees Australia Limited	96,313,449	10.51
2.	HSBC Custody Nominees (Australia) Limited	82,298,447	8.98
3.	Southo Investments Limited	56,526,752	6.17
4.	Australia and New Zealand Banking Group Limited	47,577,171	5.19
5.	Mitchell Grass Holding Singapore Pte Ltd	33,429,678	3.65
6.	Sta Holdings Pty Ltd <The Guess A/C>	29,779,357	3.25
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.	Asia Union Investments Pty Limited	14,000,000	1.53
10.	Mr Bruce James Watson	12,869,907	1.40
11.	J J N A Super Pty Ltd <Chatterton Family Super A/C>	12,574,073	1.37
12.	Spyder B International Limited	12,499,998	1.36
13.	Armco Barriers Pty Ltd	11,200,000	1.22
14.	Pt Austindo Nusantara Jaya	10,597,472	1.16
15.	Mr Hong Jun Qiu & Dr Cheng Jie Qiu <Qiu Family Super A/C>	9,426,407	1.03
16.	Dmg & Partners Securities Pte Ltd <Clients A/C>	8,174,362	0.89
17.	Lion Selection Group Limited	7,939,345	0.87
18.	Mr Simon Robert Hill	7,568,346	0.83
19.	Uob Kay Hian Private Limited <Clients A/C>	7,557,502	0.82
20.	Norvest Projects Pty Ltd	7,000,000	0.76
Totals	**Top 20 holders of FULLY PAID ORDINARY SHARES**	**504,682,007**	**55.06**

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)

John C. Carlile (Managing Director)

George S. Tahija (Non-Executive Director)

Robert M. Willcocks (Non-Executive Director)

Andrew J. Cooke (Company Secretary)

Head and Registered Office

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KPMG
Australia

Siddharta & Widjaja
Indonesia

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