

**ARC EXPLORATION LIMITED**

ACN 002 678 640

Notice of General Meeting and Explanatory Statement

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR ATTENTION**

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

**To be held on Thursday 9 April 2009**

**at: 2.00pm**

**at: Suite 1502, Level 15, Keycorp Tower B,  
799 Pacific Highway, Chatswood NSW**

# ARC EXPLORATION LIMITED

ACN 002 678 640

## Notice of general meeting

NOTICE is given that a General Meeting of the Company will be held at Suite 1502, Level 15, Keycorp Tower B, 799 Pacific Highway, Chatswood NSW at 2.00 pm on Thursday 9 April 2009.

## Business

### 1. **Approval of Disposal of Cibaliung Gold Project**

That for the purposes of Listing Rule 11.2 of the Listing Rules of the Australian Securities Exchange and for all other purposes, and subject to the passing of Resolutions 2 and 3, the Company dispose of its entire interest in the Cibaliung Gold Project, by the sale of all its shares in PT Cibaliung Sumberdaya to PT Aneka Tambang Tbk in consideration of the sum of US\$1.00, and on the terms and conditions summarised in the Explanatory Statement accompanying this Notice of Meeting.

### 2. **Approval of Redemption of Convertible Notes issued to Macquarie Bank Limited**

That for the purposes of the Listing Rules of the Australian Securities Exchange and for all other purposes, and subject to the passing of Resolutions 1 and 3, the Company redeem the 1,172,632 Convertible Notes held by Macquarie Bank Limited on the terms and conditions set out in the Explanatory Statement, and that the issue of 10,000,000 Options as described in the Explanatory Statement as part of the consideration for the redemption of the Convertible Notes, be approved for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Securities Exchange, and for all other purposes.

### 3. **Approval of Redemption of Convertible Notes issued to HSBC Custody Nominees (Australia) Limited**

That for the purposes of the Listing Rules of the Australian Securities Exchange and for all other purposes, and subject to the passing of Resolutions 1 and 2, the Company redeem the 911,678 Convertible Notes held by HSBC Custody Nominees (Australia) Limited on the terms and conditions set out in the Explanatory Statement, and that the issue of 7,775,000 Options as described in the Explanatory Statement as part of the consideration for the redemption of the Convertible Notes, be approved for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Securities Exchange, and for all other purposes.

## Voting Exclusion Statement

The Company will disregard any votes passed on Resolutions 1, 2 and 3:

1. by a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the Resolution is passed, and an associate of any such person;
2. by Macquarie Bank Limited, and an associate of Macquarie Bank Limited; and

3. by HSBC Custody Nominees (Australia) Limited, and an associate of HSBC Custody Nominees (Australia) Limited,

however the Company need not disregard a vote if:

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

Dated at Sydney, on the 3<sup>rd</sup> day of March 2009

A handwritten signature in black ink, appearing to read "Andrew Cooke". The signature is written in a cursive style with a long, sweeping underline.

**By order of the Board**  
**Andrew J. Cooke**  
**Company Secretary**

## Proxies

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

The use of the common seal of the company, in addition to those required signatures, is optional.

- If the person signing the Proxy Form is doing so under a power of attorney, or is an officer of a company outside those referred to above but authorised to sign the Proxy Form, the power of attorney or other authorisation (or a certified copy of it), as well as the Proxy Form, must be received by the Company by the time and at the place specified below.
- A Proxy Form accompanies this notice. To be effective, Proxy Forms (duly completed and signed) must be received by the Company:
  - (i) by facsimile on +61 8 8236 2305; or
  - (ii) at the Company’s Share Registry: Computershare Investor Services  
GPO Box 242 Melbourne  
Victoria 3001 Australia

no later than 48 hours before the time for the holding of the meeting.

## Shareholders who are entitled to vote

In accordance with the *Corporations Act* 2001 (Cth), the directors have determined that a person’s entitlement to vote at the meeting will be the entitlement of that person set out in the register of members as at 7.00 pm on Tuesday 7 April 2009.

# ARC EXPLORATION LIMITED

ACN 002 678 640

## EXPLANATORY STATEMENT

### Important Notice

This Explanatory Statement contains an explanation of, and information about, each of the resolutions to be considered at the General Meeting. It is given to Arc Exploration Limited's Shareholders to help them determine how to vote on the matters set out in the accompanying Notice of Meeting.

Shareholders should read this Explanatory Statement in full, because individual Sections may not give a comprehensive review of the proposals contemplated in this Explanatory Statement. This Explanatory Statement forms part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

Words or expressions used in the Notice of Meeting and in this Explanatory Statement are defined in the Glossary.

If you are in doubt about what to do in relation to the proposal, you should consult your financial or other professional adviser.

## Business

### Resolution 1 – Approval of disposal of interest in Cibaliung Gold Project

#### Background and reasons for the Resolution

On 9 February 2009 the Company entered into a binding Heads of Agreement with Antam for the sale of CSD, which holds the Company's entire interest (including liabilities) in the Cibaliung Gold Project in Indonesia, in consideration of the payment of US\$1.00.

The Company has experienced significant difficulties in developing the Cibaliung Gold Project including cost escalations and delays.

The progressive deterioration in the value of the Cibaliung Gold Project to the Company has been apparent since at least the issue of the Company's Annual Report for the year ending 31 December 2007 to shareholders in April 2008.

At that time the Company stated inter alia:

“The Company has... engaged Gryphon Partners to assist in identifying a farm-in partner to affect the major portion of the remaining development expenditure through to positive cash flow for which the farm-in partner will earn a direct equity interest in the Cibaliung Project...”

The ability of the Company and the Group to continue as a going concern is fully dependent on the above fund raising and farm-in activities being successfully completed in a sufficiently timely manner as well as the continued support of the Group's financier.”

In the Company's Half Year Report for the period ending 30 June 2008 issued in September 2008 the Director's reported:

“Civil structural and mechanical insulation work was undertaken during the half year however this work was halted in June in order to conserve cash resources.

The processing plant is now on limited care and maintenance while planning for recommencement of construction is undertaken. Work will commence when the Company has put in place funding to complete the Cibaliung Project. Other infrastructure works have also been scaled back to conserve financial resources in the short term...

During the half year the Company dedicated significant efforts towards identifying potential farm-in partners to fund the major portion of the remaining project development expenditure through to positive cash flow. A Heads of Agreement was executed with a potential farm-in investor East Asian Minerals Corporation but ultimately the transaction did not proceed."

On 9 February 2009 the Company announced:

"ARX was unable to secure a farm-in partner or funding for Cibaliung and accordingly in cooperation of ANZ Bank a sale process was initiated in the latter part of 2008."

The terms of the transaction are summarised under the heading "Transaction Summary" below.

While the Company's interest in the Cibaliung Gold Project is to be disposed of for the nominal sum of US\$1.00, significantly the sale will relieve the Company of its obligation to continue to fund Cibaliung and to service, and ultimately repay, the current US\$65.4m debt to ANZ. It will also see the other assets of the Company which have been charged to the ANZ released from that charge. In addition, in conjunction with this Transaction, the Company is relieved of its obligation to pay an underwriting fee of A\$536,852.50 to ANZ relating to a Rights Issue undertaken in March 2008.

Your Directors unanimously recommend that shareholders vote in favour of the Resolutions and shareholders are referred to the section below, headed "Director's Recommendations" for reasons.

Shareholders should note that each of the three Resolutions contained in the Notice of Meeting is interdependent with each other Resolution. That means that for the Transaction to proceed, all three Resolutions must be passed by shareholders.

Listing Rule 11.2 requires that a company must get shareholder approval if it proposes to make a significant change to the nature or scale of its activities which involves the Company disposing of its main undertaking. Accordingly the Company is seeking shareholder approval to the disposal of its entire interest in the Cibaliung Gold Project for the purposes of Listing Rule 11.2 and for all other purposes.

### **Transaction Summary**

The Cibaliung Gold Project is owned and operated by CSD which is a 95% owned subsidiary of the Company. The remaining 5% interest in CSD is owned by Antam.

Antam is an Indonesian limited liability state corporation that is vertically integrated to undertake all stages of the mining process from exploration, mining, smelting and refining through to marketing. Antam's main products are ferronickel, nickel, ore, gold, silver and bauxite. Antam is 35% held by the public, the majority of which is by foreign institutions. Antam is listed on the Indonesian and Australian stock exchanges.

On 9 February 2009 the Company entered into a binding Heads of Agreement with Antam, ANZ Bank and CSD under which it was agreed in summary that:

- The Company would convert the whole of the intercompany loan owing by CSD to the Company into shares in CSD and ANZ Bank would convert part of the loan owing to it into shares in CSD. These transactions were commenced following the execution of the Heads of Agreement and will be completed (subject to Indonesian regulatory approvals) simultaneously with the transfer of shares to Antam .
- ARX acknowledged that the conversion of the CSD debt owing to ANZ Bank did not affect the Company's liability under the guarantee (and therefore the first fixed and floating charge) in favour of ANZ Bank.
- Subject to certain conditions, each of the Company and ANZ Bank agreed to dispose of their shareholdings in CSD to Antam. In the case of the Company the consideration for the transfer of the shares is US\$1.00.
- Subject to certain conditions ANZ Bank agree to transfer to Antam the remaining balance of the loan owing to ANZ Bank by CSD.
- ANZ Bank agreed to release the Company from its liabilities to ANZ Bank pursuant to the guarantee given by the Company in favour of ANZ Bank and the first fixed and floating charge over all of the Company's assets given to secure that guarantee (as described in further detail below), on completion of the Transaction, subject to the terms of the Convertible Notes being renegotiated to ANZ Bank's satisfaction. The Convertible Notes have been renegotiated to ANZ Bank's satisfaction and shareholder approval to the redemption of the Convertible Notes on those terms is sought pursuant to Resolutions 2 and 3. It is for this reason that each of the Resolutions is interdependent with the others in that the Transaction may not proceed without the redemption of the Notes in accordance with Resolutions 2 and 3.
- Pending completion of the Transaction Antam has agreed to provide certain loans and management services to CSD.
- The Company is required to make seller's representations that the shares in CSD to be sold to Antam are beneficially owned and are or will at completion of the Transaction be unencumbered and that the information it discloses with regards to off balance sheet commitments and contingent liabilities is materially correct (but excluding all other representations and warranties).
- Completion of the Transaction is subject amongst other things to ARX shareholder approval, completion of definitive documentation and certain Indonesian regulatory approvals.

### **Effect on ARX Group**

The most significant effect on ARX resulting from the sale of the Cibaliung Gold Project will be that ARX is relieved of a contingent liability in the sum of approximately US\$65,389,927. This contingent liability arises by virtue of the Company having provided a guarantee to ANZ Bank with respect to all monies that may be or become owing by CSD to ANZ Bank howsoever arising. The sum of approximately US\$65,389,927 represents the sum of monies advanced, capitalised interest and other fees and expenses charged by ANZ for the purposes of the development and maintenance of the Cibaliung Gold Project as well as for general working capital purposes and costs associated with closing out the gold hedge book. In addition the Group (including the Company pursuant to its guarantee) will have no ongoing liability with respect to future interest on the ANZ loan.

In addition the Company has granted a first fixed and floating charge over all of its assets and undertaking in favour of ANZ Bank to secure all of its liabilities to ANZ Bank including pursuant to the guarantee. This means that if ANZ Bank were to demand repayment of its

loan it would become entitled to make demand under the guarantee and exercise its rights under the first fixed and floating charge. In that case the Company would become hopelessly insolvent. On completion of the Transaction and the redemption of the Convertible Notes both the guarantee and the first fixed and floating charge will be discharged and released and the Company will have no further liability to ANZ Bank in respect of CSD and the Cibaliung Gold Project. The Directors are not aware of any other liabilities to the ANZ Bank.

Finally the pro forma balance sheet of the ARX Group set out below illustrates the affect of the Transaction on the ARX Group together with the redemption of the Convertible Notes.

With the sale of CSD, the subsidiary is deconsolidated from the ARX Group's balance sheet and upon deconsolidation produces the result that the total net assets improve from negative A\$23 million to negative A\$1 million as the ARX Group is no longer carrying the negative net asset impact of CSD in the Group balance sheet.

<b>ARC EXPLORATION LIMITED</b>		
<b>CONSOLIDATED UNAUDITED BALANCE SHEET</b>		
<b>AS AT 31 DECEMBER 2008</b>		
(Converted USD to AUD at end of Dec 08 rate of \$0.6928)		
	<b>INCLUDING CSD A\$000's</b>	<b>EXCLUDING CSD A\$000's</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash assets	3,517	1,876
Receivables	20	20
Other	637	329
<b>TOTAL CURRENT ASSETS</b>	<b>4,174</b>	<b>2,225</b>
<b>NON-CURRENT ASSETS</b>		
Receivables	102	102
Plant and equipment	787	239
Exploration, evaluation and expenditure	1,058	1,058
Project development expenditure	76,963	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>78,910</b>	<b>1,399</b>
<b>TOTAL ASSETS</b>	<b>83,084</b>	<b>3,624</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	3,033	273
Provisions	15	15
Interest bearing liabilities	94,385	-
Other	33	33
<b>TOTAL CURRENT LIABILITIES</b>	<b>97,466</b>	<b>321</b>
<b>NON-CURRENT LIABILITIES</b>		
Payables	1,341	-

Interest-bearing liabilities	5,877	3,793
Provisions	1,047	649
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>8,265</b>	<b>4,442</b>
<b>NON-CURRENT LIABILITIES</b>		
<b>TOTAL LIABILITIES</b>	<b>105,731</b>	<b>4,763</b>
<b>NET ASSETS</b>	<b>(22,647)</b>	<b>(1,139)</b>
<b>EQUITY</b>		
Contributed equity	132,059	132,059
Reserves	(6,393)	593
Retained profits (accumulated losses)	(148,313)	(133,791)
Arc Exploration Limited interest	(22,647)	(1,139)
Minority interests	-	-
<b>TOTAL EQUITY</b>	<b>(22,647)</b>	<b>(1,139)</b>

**Note 1: Appropriateness of classification of liabilities between current and non-current to be reviewed**

Note that the balance sheet outlined above is unaudited and based on management accounts as at 31 December 2008. It should not necessarily be taken as an accurate representation of the Company's financial position as at that date. It should only be considered by shareholders as illustrating the affect on the consolidated balance sheet of the Company of the sale of CSD, relief from the obligation to pay an underwriting fee to ANZ and the redemption of the Convertible Notes on terms that have been agreed with the Convertible Noteholders and ANZ.

**Directors' Intentions with respect to ARX**

Upon completion of the Transaction, the Company's financial position will be improved as outlined above under the heading "Effect on ARX Group".

In addition the Company will be left with the following key projects:

- **Trenggalek Project**

The Company has a 95% interest in the Trenggalek Gold Project through a joint venture with PT Sumber Nusantara Mineral (5%).

The Trenggalek project is located in the East Java section of the highly prospective Sunda-Banda magmatic arc. The original two-year exploration period for this KP expired late in 2007 and was renewed for further two-years with its area expanded to 30,044 ha.

The Company commenced detailed reconnaissance work on this project in mid-2006. This work confirmed the presence of three significantly mineralized vein systems, Sentul, Buluroto and Kojan, previously found by Antam. Veins within each of these known systems have collective strike lengths of over 2 km and thicknesses varying less than 1 to 10 m at surface. Limited previous drilling on these veins returned variable results including a best intercept of 2.6 m at 10.2 g/t Au and 155 g/t Ag at Buluroto. Preliminary trenching by the Company on a newly defined segment of the Sentul vein in 2006 returned 3 m at 7.6 g/t Au from continuous-chip sampling, including a grab sample assaying 149 g/t Au. Grab sampling of vein material from old trench spoil found along

Kojan vein returned up to 28 g/t Au and 1,000 g/t Ag. These results highlight potential for high-grade ore-shoots within the known vein systems.

A forestry access permit was received in late 2007 allowing the Company to undertake detailed follow-up exploration during 2008. This permit is valid for all forestry production areas on the tenement.

Detailed prospecting completed by ARX during 2007, in the northern half of the tenement, identified a new large area of colluvium and altered volcanic rocks over about 10 km<sup>2</sup>. The sources remain to be identified but the float further demonstrates potential for discovering new vein systems and high-grade ore-shoots in the project area.

Results at Trenggalek are highly encouraging and at this stage appear to indicate potential for the discovery of a new gold district on Java.

- **Bima Project – East Sumbawa**

The Company has a 95% interest in a General Survey KP in East Sumbawa covers of 24,980 ha. The Bima KP lies on a segment of the highly prospective Sunda-Banda magmatic arc, which is host to the giant Batu Hijau porphyry copper-gold deposit, located in West Sumbawa. The KP is held by P.T. Sumber Mineral Nusantara with whom ARX also has a joint venture relationship on the Pekalongan and Trenggalek projects on Java. Preliminary geochemical assaying of orientation drainage and soil samples has commenced on the Bima Project.

- **Papua Strategic Alliance**

The Company has entered into a Strategic Alliance Agreement (“**Alliance**”) with PT Minorco Services Indonesia (“**Minorco**”) of the Anglo American Group (“**Anglo**”) to explore for large copper gold porphyry deposits in the Provinces of Papua and West Papua (formerly collectively known as Irian Jaya) in Indonesia.

Key elements of the Alliance are summarised as follows:

- Anglo will sole fund exploration expenditure and has an initial 80% interest in the project while ARX retains a 20% interest;
- The Company is carried (not free carried) through to a Decision to Mine – with 10% of all predevelopment costs to be repaid by the Company out of project proceeds (non-recourse to ARX);
- If following completion of a Feasibility Study, Anglo makes a Decision to Mines then a Joint Venture shall be formed and each of Anglo and ARX shall participate (and fund capital expenditure) according to their 80/20 project interests. The Company dilutes if it does not contribute;
- In the event that a resource of less than one million tonnes of contained copper equivalent or 1 million ounces of gold is identified, then Anglo may elect that such project shall either revert to the Company on a 80/20 basis (with the Company holding 80%) or that 100% be transferred to ARX with Anglo retaining a 2% NSR;
- The Alliance is for an initial term of 3 years and is currently in the process of being reviewed for renewal with Anglo.

Together with Anglo, the Company believes that the Provinces of Papua and West Papua are highly prospective for large copper gold porphyry deposits. The Alliance has the potential to add very significant value to the Company.

Following completion of the Transaction, your Directors intend turning their attention to the development of these other projects as well as seeking additional exploration opportunities within Indonesia.

The Company's ability to develop these other projects and to pursue other opportunities will depend on the Company's ability to raise sufficient additional capital to do so. In the current environment it is very difficult for small exploration companies to raise additional capital and therefore there can be no guarantee that the Company will be able to raise such additional capital.

### **Competent Person Statement**

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 consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

### **Directors' Recommendation**

The Directors of the Company being Mr Bruce Watson, Mr George Tahija, Mr John Carlile and Mr Robert Wilcocks unanimously recommend that shareholders vote in favour of all three Resolutions. As each Resolution is interdependent with each other Resolution all three Resolutions must be passed for the sale of the Cibaliung Gold Project to proceed.

The reasons for the Directors recommending in favour of the Resolutions are as follows:

- The Company will be relieved of a significant contingent liability in the form of a guarantee in favour of ANZ Bank and will be relieved of a first fixed and floating charge over all its assets and undertaking given in support of that guarantee.
- The Company will not be required to provide or procure any further funding for the Cibaliung Gold Project.
- The financial position of the ARX Group will improve as illustrated by the pro forma balance sheets contained in the previous section.
- Having been relieved of its contingent liability and with an improved balance sheet and having no further funding obligations with respect to the Cibaliung Gold Project the prospect of the Company raising additional capital to pursue its corporate objectives will be significantly improved.

### **Resolutions 2 and 3 – Approval of Redemption of Convertible Notes issued to Macquarie Bank Limited and HSBC Custody Nominees (Australia) Limited**

#### **Background and reasons for the Resolutions**

On 1 December 2008 the Company issued 1,172,632 Convertible Notes and 911,678 Convertible Notes to Macquarie Bank Limited and HSBC Custody Nominees (Australia) Limited respectively. The Convertible Notes were issued to refinance existing Convertible Notes held by Macquarie Bank Limited and HSBC Custody Nominees (Australia) Limited which matured on 30 November 2008.

The Convertible Notes are repayable on 29 January 2010 and interest accrues at the rate of 10% per annum, which interest is payable on the maturity of the Convertible Notes. Each Note has an issue price of \$1.00 and is convertible in accordance with the following formula:

$$OS = \frac{IP}{SIP}$$

Where:

OS is the number of ordinary shares to be issued to the note holder;

IP is the aggregate issue price paid by the noteholder in respect of those notes together with all accrued but unpaid interest (if any) and;

SIP is the share issue price of \$3.00.

As outlined above under the heading "Transaction Summary", the agreement of ANZ Bank to release the Company from its liabilities to ANZ Bank pursuant to the guarantee given by the Company in favour of ANZ Bank and the first fixed and floating charge over all of the Company's assets and undertaking given to secure that guarantee, is subject to the terms of the Convertible Notes being renegotiated to ANZ Bank's satisfaction.

In order to satisfy this requirement the Company has renegotiated the terms of the Convertible Notes such that they be redeemed at completion of the Transaction in consideration of:

- (a) the payment of \$0.10 in the \$1.00 on the aggregate of the issue price of and all accrued but unpaid interest on the Convertible Notes (\$208,431 with respect to the repayment of the principal. The amount to be paid with respect to interest will depend on the date for completion of the Transaction); and
- (b) the issue to Macquarie Bank Limited and HSBC Custody Nominees (Australia) Limited of 10,000,000 Options and 7,775,000 Options respectively, exercisable at any time until the third anniversary of their date of issue, at \$0.025 each. The Option terms are set out in the Attachment to this Explanatory Statement.

Listing Rule 7.1 requires the prior approval of shareholders if a Company proposes to issue in any 12 month period equity securities exceeding 15% of its ordinary securities on issue at the commencement of the 12 month period. The passing of the Resolutions 2 and 3 will permit the Company to issue shares up to 15% of its issued capital in the ensuing 12 month period, and will also permit the Company to issue shares on the exercise of the Options without obtaining further shareholder approval.

### **Directors' Recommendation**

The Directors of the Company being Mr Bruce Watson, Mr George Tahija, Mr John Carlile and Mr Robert Wilcocks unanimously recommend that shareholders vote in favour of all three Resolutions. As each Resolution is interdependent with each other Resolution all three Resolutions must be passed for the sale of the Cibaliung Gold Project to proceed.

The reasons for the Directors recommending that shareholders vote in favour of the Resolutions is set out in the section of this Explanatory Statement which addresses Resolution 1, under the heading "Directors' Recommendations".

The following additional information is provided for the purposes of Listing Rule 7.1:

**With respect to Resolution 2**

- (a) Maximum number of securities to be issued – 10,000,000 Options.
- (b) The date on which the Company will issue the Options – on completion of the Transaction, in any event not more than three months after the date of this meeting.
- (c) The price at which the Options are to be issued – as part consideration for the redemption of the Convertible Notes.
- (d) The name of the allottee of Options – Macquarie Bank Limited.
- (e) The terms of the Options – are set out in the Attachment to this Explanatory Statement.
- (f) The intended use of the funds raised – as the Options are being issued in part satisfaction of the consideration for the redemption of the Convertible Notes there are no fresh funds being raised for the issue of the Options. The funds received by ARX on any exercise of the Options will be used for general working capital purposes.
- (g) Date of allotment – the Options will be allotted on the same day as they are issued as specified in subparagraph (b) above.
- (h) The Voting Exclusion Statement – please refer to the Notice of Meeting for details of the Voting Exclusion Statement for the Resolutions.

**With respect to Resolution 3**

- (a) Maximum number of securities to be issued – 7,775,000 Options.
- (b) The date on which the Company will issue the Options – on completion of the Transaction, in any event not more than three months after the date of this meeting.
- (c) The price at which the Options are to be issued – as part consideration for the redemption of the Convertible Notes.
- (d) The name of the allottee of Options – HSBC Custody Nominees (Australia) Limited.
- (e) The terms of the Options – are set out in the Attachment to this Explanatory Statement.
- (f) The intended use of the funds raised – as the Options are being issued in part satisfaction of the consideration for the redemption of the Convertible Notes there are no fresh funds being raised for the issue of the Options. The funds received by ARX on any exercise of the Options will be used for general working capital purposes.
- (g) Date of allotment – the Options will be allotted on the same day as they are issued as specified in subparagraph (b) above.
- (h) The Voting Exclusion Statement – please refer to the Notice of Meeting for details of the Voting Exclusion Statement for the Resolutions.

## Glossary

“**Antam**” means PT Aneka Tambang Tbk. an Indonesian Corporation.

“**ANZ Bank**” means Australia and New Zealand Banking Group Limited (ACN 005 357 522).

“**ARX**” or “**Company**” means Arc Exploration Limited (ACN 002 678 640).

“**ARX Group**” means the Company and its subsidiaries.

“**Cibaliung Gold Project**” means the Gold Project located in the Province of Banten in Java, Indonesia which is owned and operated by CSD.

“**Convertible Notes**” means the 1,172,632 Convertible Notes and the 911,678 Convertible Notes issued to Macquarie Bank Limited and HSBC Custody Nominees (Australia) Limited respectively having a maturity date of 29 January 2010.

“**CSD**” means PT Cibaliung Sumberdaya an Indonesian Corporation that owns and operates the Cibaliung Gold Project.

“**Listing Rules**” means the Listing Rules of the Australian Securities Exchange.

“**Options**” means the Options the terms and conditions of which are set out in the Attachment to this Explanatory Statement.

“**Transaction**” means the sale of the Company’s interest in the Cibaliung Gold Project, to be effected by the sale of the whole of ARX’s shareholding in CSD.

**ATTACHMENT****OPTION TERMS**

The following terms and conditions shall apply to each Option:

- (a) Each Option entitles the holder to subscribe for one ordinary share in the capital of ARX ("**Share**").
- (b) Each Option expires on the third anniversary of its date of issue ("**Expiry Date**").
- (c) The Options are exercisable in whole or in part at any time or times between their date of issue and the Expiry Date by completing written notice of exercise addressed to ARX and delivering it together with payment for the number of Shares with respect of which the Options are exercised to the registered office of ARX.
- (d) The Options are exercisable at \$0.025 each ("**Option Price**").
- (e) The Options will not be listed on ASX.
- (f) All Shares issued upon exercise of the Options will rank pari passu in all respects with all existing Shares and are entitled to all dividends or distributions declared by the board of ARX the record date for which is on or after the date of exercise of the relevant Options.
- (g) There are no participating rights or entitlements inherent in the Options and the holders will not be entitled to participate in new issues of capital offered to shareholders in ARX prior to the Option being exercised through its ownership of the Options other than pursuant to any applicable anti-dilution provisions of these Options terms.
- (h) If ARX makes a pro rata issue (except a bonus issue) to the holders of Shares, the Option Price will be reduced in accordance with the formula contained in Rule 6.22.2 and 6.22.2A of the Listing Rules.
- (i) If ARX makes a bonus issue to the holders of Shares, the number of Shares over which each Option is exercisable will be increased in accordance with Listing Rule 6.22.3.
- (j) If ARX reorganises its capital (including by consolidation, sub-division, reduction, cancellation or return) the Options will be reorganised and these Option terms will change to the extent necessary to comply with Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (k) If at any time while the Options are on issue ARX makes a new issue at a price less than the Option Price (as adjusted as necessary under these Option terms), then the Option Price will be reduced to the Issue Price.
- (l) For so long as Shares are listed on the Australian Securities Exchange, ARX must take all necessary steps to permit the Option Price to be adjusted as contemplated by these Option terms, including, if applicable, obtaining shareholder approval and otherwise complying with the Listing Rules.

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

**Lodge your vote:**

 **Online:**  
 www.investorvote.com.au

 **By Mail:**  
 Computershare Investor Services Pty Limited  
 GPO Box 242 Melbourne  
 Victoria 3001 Australia

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

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

**Proxy Form**

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

 **For your vote to be effective it must be received by 2.00pm Tuesday 7 April 2009**

**How to Vote on Items of Business**

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

**Appointment of Proxy**

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

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

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

**A proxy need not be a securityholder of the Company.**

**Signing Instructions for Postal Forms**

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

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

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

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

**Attending the Meeting**

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

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

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

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

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



I 9999999999

I ND

## Proxy Form

Please mark  to indicate your directions

### STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

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

the Chairman of the meeting **OR**

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Arc Exploration Limited to be held at Suite 1502, Level 15, Keycorp Tower B, 799 Pacific Highway, Chatswood NSW at 2.00pm on Thursday 9 April 2009 and at any adjournment of that meeting.

### STEP 2 Items of Business

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

	For	Against	Abstain
1. Approval of Disposal of Cibaliung Gold Project	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Approval of Redemption of Convertible Notes issued to Macquarie Bank Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Approval of Redemption of Convertible Notes issued to HSBC Custody Nominees (Australia) Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date \_\_\_\_/\_\_\_\_/\_\_\_\_

ARX

999999A

Computershare