

CHAIRMAN'S ADDRESS TO ANNUAL GENERAL MEETING

Thank you for attending today's AGM for Arc Exploration Limited. I will be brief but there are some issues I wish to raise so I will come right to the point.

The junior explorer sector within Australia, ARX included, remains as depressed as ever. Many companies are either in Administration or close to it. This is despite their having good projects or prospective ground—projects or ground that in other better times would be funded without difficulty. But as we stand here today, funding is just not available.

Looking at ARX we have good points and challenges. On the plus side we have our asset at Trenggalek in Indonesia. We have been successful in getting large companies to fund the real costs of exploration there, costs that we ourselves could never fund. That is the situation at present. We have no debt and indeed we have no liabilities that we have not provided for. And we have cash in the bank.

Our management team and board have moved from being paid in cash to receiving compensation in shares and then at 50% of their entitlements. This is an altruistic position but it is not sustainable. Costs have been cut to the bone and cannot be cut further. And we still have outgoings to meet in the form of listing fees, registry costs and audit requirements. That is just a fact of public company life.

To keep going the company requires funding, first to meet its statutory obligations and then in an ideal world, to develop its assets. The sources of funding are well defined: existing shareholders or new equity providers. Debt is obviously not an option and the reality is that existing shareholders have not supported the company in recent times as is their right.

So this leaves us needing to source equity elsewhere. We have had approaches from third parties seeking to inject new projects into ARX and at the same time raise fresh capital. As always with such approaches, the devil is in the detail and these have not to date proceeded. But given capital is key to the future of ARX we are totally focussed on moving towards a position where new capital is sourced and the company can move from its present holding pattern to one where exploration continues at a more significant level. When any such proposal moves from a discussion to one that is both in the interests of ARX and is able to be consummated, then shareholders, as ever will be the first to know.

To finish on a positive note though, exploration continues at Trenggalek funded by our Indonesian partner. They see in it what we do: an area with potential for a major copper and gold discovery. We will of course be assisting them wherever practical to do so as they take matters forward.

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