



Ladies and Gentlemen,

In the Chairman's review contained in the recent annual report prepared a couple of months ago, I stated that the last 12 months had been a somewhat challenging and frustrating year as progress on finalising the definitive feasibility study ("DFS") had been slower than anticipated due to the following factors:

- Disruptions to field activities resulting from damage to our exploration camp by illegal miners
- The need to undertake additional metallurgical testwork, and
- Infill drilling at the Sambung deposit.

The illegal mining activity has currently "settled down" and to a large degree has been curtailed. We have been receiving support from the appropriate authorities and together with our own security workforce the situation is currently being managed.

The longer term solution lies in ensuring the local communities are fully supportive of the Company's activities and receive enduring benefits and much work is currently being directed to achieving this end result.

The additional metallurgical testwork to be completed over the next few months is considered necessary to ensure that the DFS results will meet the rigorous standards of independent review and that the process plant design and gold recoveries are fully optimised and the variable metallurgical characteristics of the ore body are appropriately understood. The extensive ore samples required for this work have been collected at site and are being dispatched to an Australian based laboratory.

The infill drilling at Sambung (which is now complete) was required to upgrade the inferred resources to the indicated category for the purpose of establishing ore reserves for the DFS.

Despite these delays the end result will provide the Company with a very sound technical document required for finalising project approvals and arranging the necessary funding and associated independent expert report.

Preliminary work in relation to various construction/project approvals required in Indonesia have commenced which includes the Environmental and Social Permit, locally known as the AMDAL Permit, and the Government of Indonesia Project Feasibility Report. Our goal is to achieve full permitting to allow construction activities to commence prior to the end of 2013.

Elsewhere within our highly prospective Contract of Work ("COW") exploration activities are continuing with the current focus being the commencement of drilling at our epithermal gold Prospect at Hutabargot which is located about 10 kilometres along the mineralised trend from the

Sihayo/Sambung Deposits. Detailed assessments of exploration work completed to date have confirmed that this prospect is part of a large epithermal system and does have the potential to host exceptional grade ore shoots.

Although significant potential exists to identify additional gold resources over the next few years along this mineralised trend our primary focus is clearly on advancing the existing Sihayo/Sambung Project to a producing mine as soon as practicable.

On the corporate front, Stuart Gula, who is in the audience today, was appointed Chief Operating Officer and commenced October 1st 2012. Stuart is a mining engineer with 25 years experience including mining feasibility studies and the successful construction and operation of two gold projects in China and Africa.

Unfortunately, our CEO Paul Willis has tendered his resignation for personnel reasons effective April 2013. Paul has indicated his desire to continue to provide consulting services to the Company to ensure his knowledge base and Indonesian relationships are maintained for the benefit of Sihayo. Paul joined the Company about 3 years ago and was instrumental in refocusing and energising the Company's activities. We thank Paul for his considerable contribution, dedication and ongoing support to the Company.

It is anticipated that a replacement CEO will be appointed before the end of the year.

Despite some setbacks in the last year the prospects for your Company are excellent with a potential gold project at Sihayo/Sambung which exhibits significant upside potential and highly prospective prospects elsewhere in our COW which are being methodically advanced.

Our major shareholders continue to remain very supportive and patient and we thank them and all our shareholders and believe that they will be substantially rewarded in the years ahead.

On behalf of the board we also extend our thanks to our small team of dedicated employees and contractors for their significant efforts during the year.



Peter Bilbe
Chairman