

September 2014 Quarter Activities Report

ABOUT ARC EXPLORATION LIMITED

Arc Exploration Limited (**ASX Code: ARX**) is an Australian listed gold company focused on exploration in Indonesia and Australia.

The Company has a joint venture interest with PT Sumber Mineral Nusantara on the Trenggalek Project in East Java. This project lies on the Sunda-Banda magmatic arc and is prospective for high-grade epithermal gold-silver veins and porphyry copper-gold systems.

The Company also has interests in Australia. It exercised its Options to Farm-in to two gold properties in New South Wales, Junee and Oberon and holds an Option to Farm-in to another gold property in the Mount Garnet district of Far North Queensland.

All three projects in Australia contain drill-delineated gold resources with potential for expansion through further exploration.

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INDONESIA

Trenggalek Project, East Java

- Scout drilling with Anglo American over the past year has confirmed the presence of porphyry-style veining associated with large alteration systems centred on intrusion-breccia complexes at two prospects, Jerambah and Singgahan.
- Anglo American notified ARX that it has withdrawn from the project due to global reorganisation of its exploration priorities.
- ARX retains 95% of the project and will continue with exploration.
- Multiple prospects remain to be tested, including a large high-sulphidation system identified at Sumber Bening that may overlie a mineralised porphyry system at depth.
- Further mapping and modelling for additional drill target generation continued during the quarter.

Strategic Alliance with Anglo American in Papua

- Anglo advised that it would not be proceeding with exploration on the three IUPs held in West Papua.
- ARX will not exercise its right to maintain the tenements and so these will be relinquished.

AUSTRALIA

Junee Project, NSW

- Geophysical modelling and a targeting analysis were completed on historic geophysical data collected over the Dobroyde gold deposit.
- The results support potential for extension to the gold deposit and potential for a mineralise porphyry system at depth.
- Drilling targets have been identified and ground validation is in progress.

Oberon Project, NSW

- No activity to report.

Mount Garnet Project, Queensland

- No activity to report.

CORPORATE

- The Company raised \$692,500 by placing 138,500,000 shares at 0.5 cents to Treasure Key Investments Ltd who now holds 13.02% of the Company.
- Mr Max Ramajaya, an Indonesian business man, joined the Board as a Non-Executive Director.

INDONESIA

ARX is exploring for gold and base metal deposits along Indonesia's highly prospective magmatic arcs and associated geological terranes (Figure 1). The primary exploration targets are porphyry-related copper-gold and high-grade epithermal gold-silver veins.



Figure 1. ARX project & major porphyry Cu-Au deposits in Indonesia

Trenggalek Project, East Java (95% ARX)

ARX has a 95% interest through a joint venture with PT. Sumber Mineral Nusantara ("SMN"), an Indonesian company which holds the Trenggalek Exploration IUP tenement that covers an area of approximately 300 km² in the Southern Mountains of East Java.

Anglo American entered into an agreement with ARX and SMN to farm-in to the Trenggalek Project in late 2012 and explore for porphyry copper-gold targets. Potential for major porphyry copper-gold deposits in the region was highlighted by the discovery of the Tumpangpitu deposit in the Tujuh Bukit district, located some 200 km to the east of Trenggalek. Tumpangpitu is in the same belt of rocks hosting the giant Batu Hijau and Elang copper-gold deposits on Sumbawa within the Sunda-Banda magmatic arc. Trenggalek contains a similar package of rocks to those hosting these three major porphyry deposits.

The partnership with Anglo American has provided the first opportunity to test the porphyry potential of the Trenggalek tenement. A detailed aeromagnetic study, surface evaluations and reconnaissance drilling (5 holes for a total of 2,564m) have been undertaken at Trenggalek pursuant to this farm-in agreement over the past 2 years. Anglo American has spent approximately US\$3.5 million on the project.

The initial phase of scout drilling was completed earlier this year. This program partly tested targets that were identified at Jerambah and Singgahan prospects, located in the southeast corner of the IUP. The results of the drilling confirmed the presence of porphyry systems at both prospects.

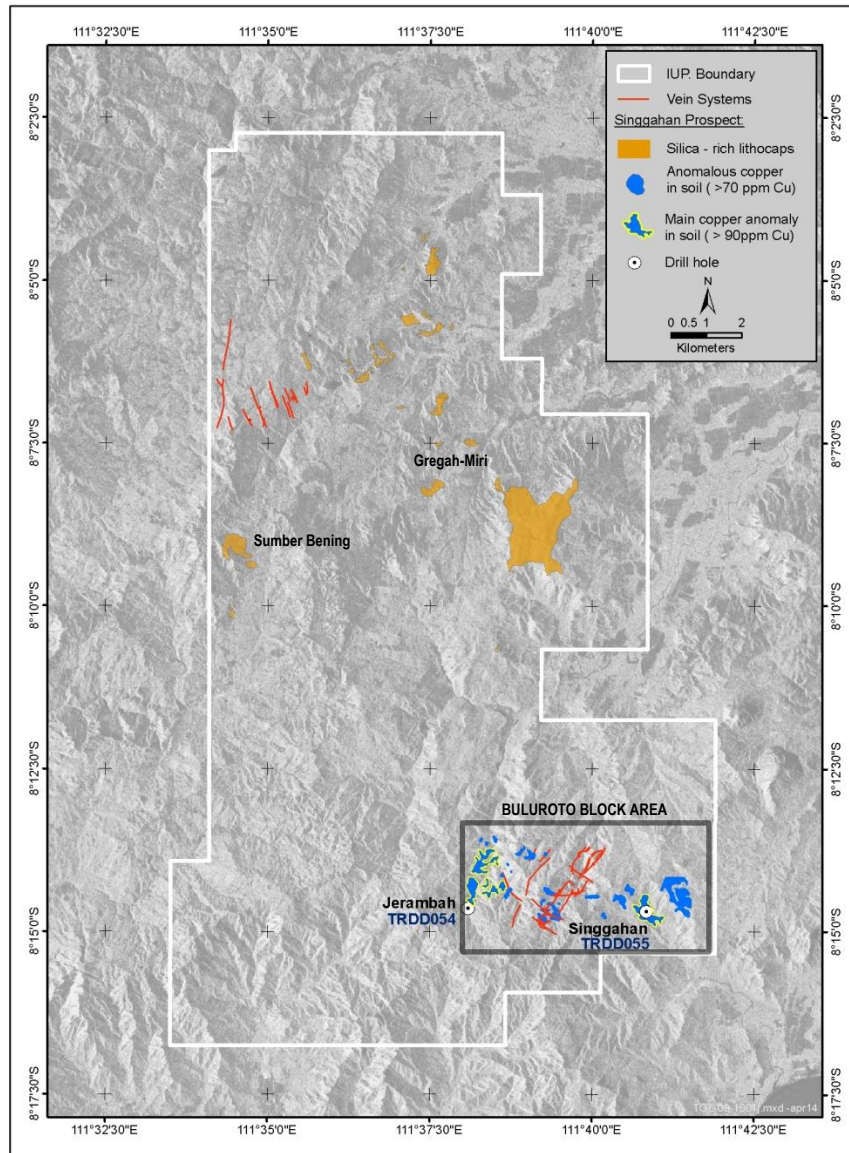
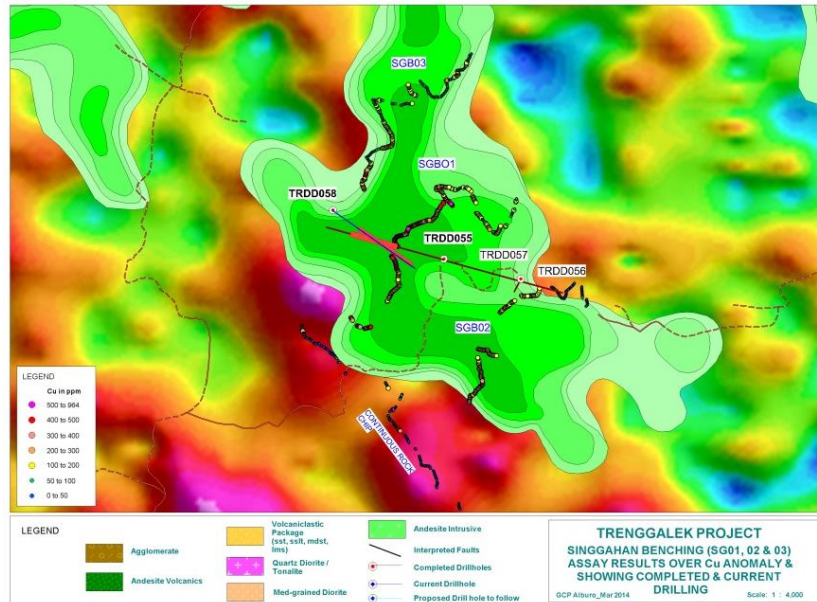


Figure 2. Trenggalek Exploration IUP showing porphyry targets

A single hole (TRDD054) completed at Jerambah late last year highlighted encouraging alteration features in multiphase hydrothermal and diatreme-intrusion breccias cutting calcareous volcanoclastic rocks. It is interpreted that the hole pierced the margin of a porphyry system located on the edge of a magnetic high response (see ARX Quarterly Report for March 2014).

Four holes (TRDD055-58) were drilled at Singgahan earlier this year. These comprise a single fence of holes that tested part of an extensive copper-gold-molybdenum soil anomaly and coincident magnetic-high anomaly. The holes intersected porphyry-style quartz-magnetite-sulphide-anhydrite veining and alteration in diorite and associated intrusion breccias cutting calcareous volcanoclastic rocks. Multiple low grade copper-gold-molybdenum intercepts were returned, including 70 m at 0.037% copper, 0.05 g/t gold & 4 ppm molybdenum (TRDD058).

The very bottom of the eastern-most hole (TRDD057) yielded the strongest copper-gold intercept of 12m at 0.067% copper & 0.10 g/t gold within altered volcanoclastic rocks cut by porphyry-style quartz-sulphide veining beneath a quartz diorite/tonalite intrusion and breccia complex. The mineralisation is open and there is potential for increasing copper-gold-molybdenum grades at depth and surrounding this hole. Quartz diorite/tonalite intrusive phases are associated with higher grade mineralisation in the Tumpangpitu and Batu Hijau porphyry copper-gold deposits.



SINGGAHAN PROSPECT – DRILL CORE ROCK PHOTOS & PHOTOMICROGRAPHS (Petrology by Anthony Coote of Applied Petrological Services “ASPAR”)

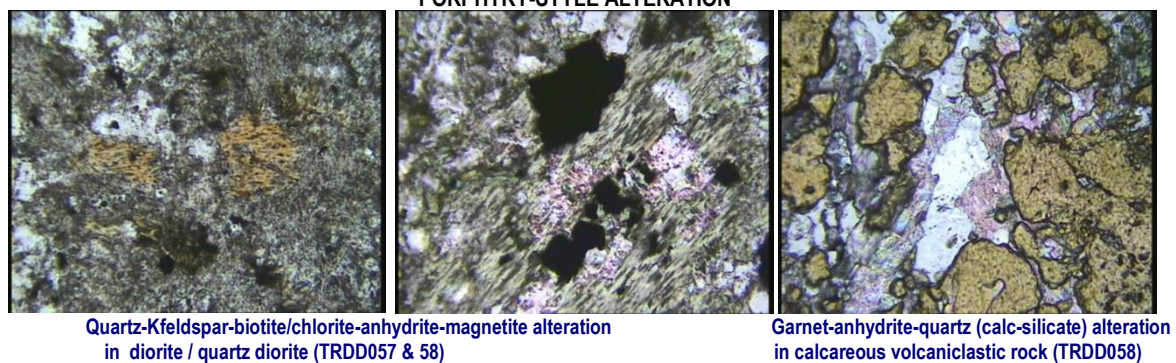
PORPHYRY-STYLE MINERALISATION



PORPHYRY-STYLE VEINING



PORPHYRY-STYLE ALTERATION



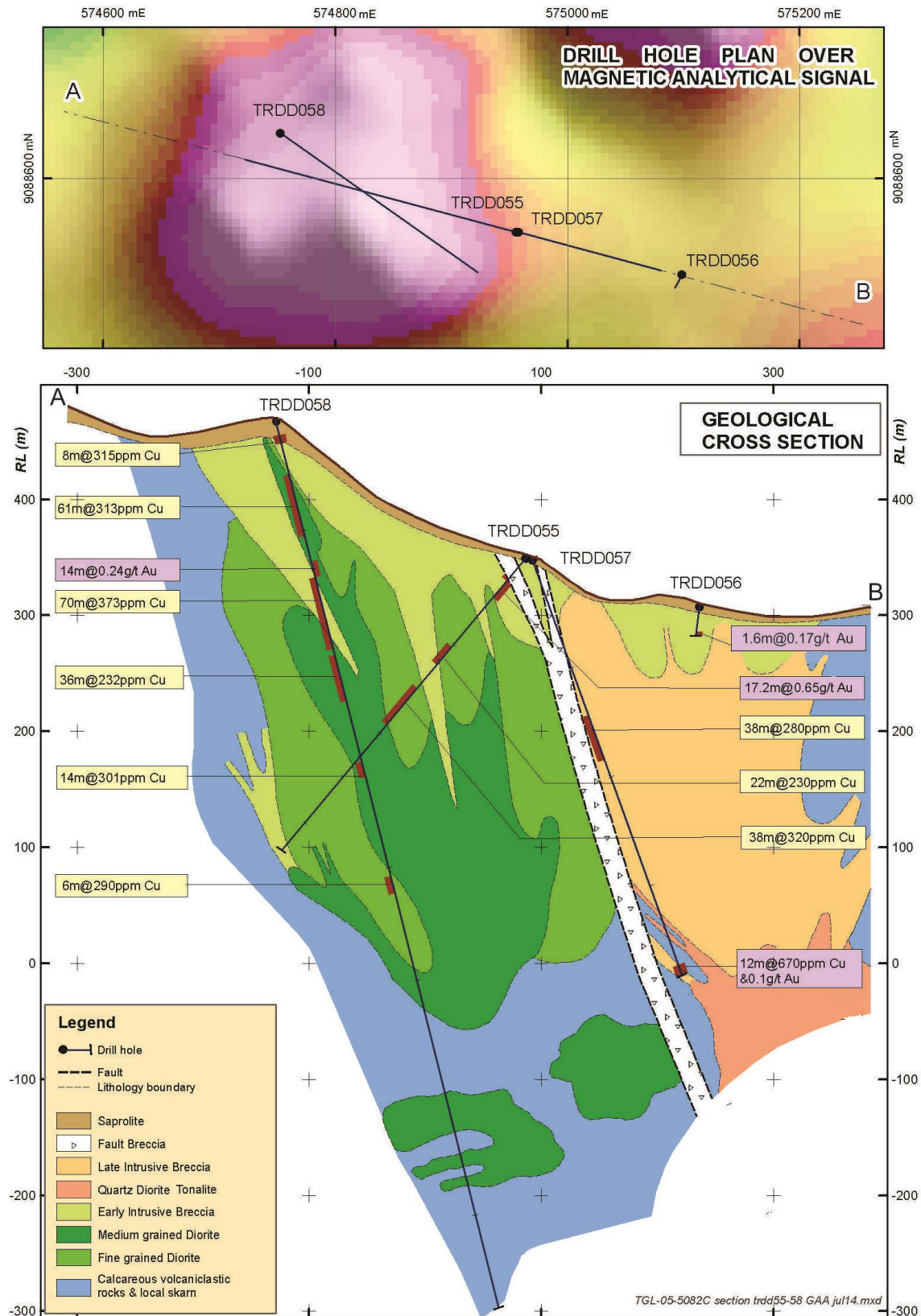


Figure 4. Singgahan Prospect – Interpretative Cross Section Showing Drill-hole Traces & Significant Copper & Gold Intercepts

During the quarter Anglo American informally advised ARX and SMN of its intention to withdraw from the project due to a global reorganisation of their exploration priorities (see ASX announcement of 9th September 2014). Formal notification from Anglo American was received on 7 October 2014. ARX retains a 95% interest in the Trenggalek project.

The Company firmly believes that the Trenggalek Project has significant porphyry potential and is substantially underexplored. Multiple targets remain to be tested within the tenement area, including the large high-sulphidation alteration system identified at Sumber Bening on the western side of the IUP. This alteration system,

and others like it within the tenement area, may overlie significantly mineralised porphyry system at depth. ARX is now conducting field mapping and modelling to generate additional drill targets.

Exploration expenditure at Trenggalek for the quarter totalled US\$177,554. This was wholly funded by Anglo American.

Strategic Alliance with Anglo American in Papua

The Company's Strategic Alliance with Anglo American and Indonesian parties to explore for copper-gold deposits in Papua expired in May 2014 (see ASX announcement of 21st May 2014).

During the quarter Anglo American formally advised ARX of its intention to cease exploration on the three Exploration IUP tenements held in West Papua Province (see ASX announcement of 9th September 2014).

ARX resolved not to exercise its right to maintain these tenements and notified Anglo American accordingly (see ASX announcement of 10th October 2014). This decision took into account the forestry conservation classification affecting much of the area which restricts access to the tenements and the costs associated with maintaining these tenements.

Anglo American has been responsible for managing and funding all exploration activities in West Papua and is responsible for all costs associated with the relinquishment of these tenements.

AUSTRALIA

ARX holds agreements with New South Resources Pty Ltd ("NSR") to farm-in to their Junee and Oberon projects located in New South Wales (see ASX announcements of 3rd July 2013 and 30th June 2014). These two projects occur within the Lachlan Orogen, a complex geological province endowed with world-class gold and gold-copper deposits.

ARX also holds an option to farm-in to a gold property owned by Snowmist Pty Ltd ("Snowmist") located in the Mount Garnet mining district of Far North Queensland (Figure 5). This option period extends until August 2015.

The company conducted further evaluation of the Junee Project during the quarter. No work was conducted at Oberon and Mount Garnet during the quarter.

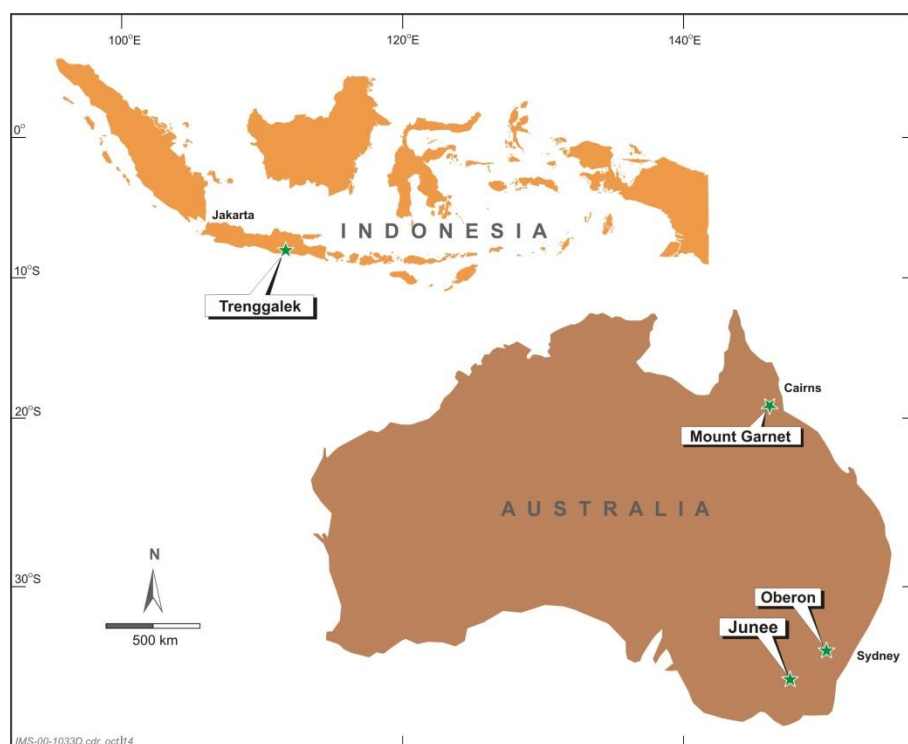


Figure 5. Indonesian & Australian Projects

Junee Project, NSW (100% NSR)

The **Junee Project** is located close to existing mine operations and development infrastructure and near the major regional centre of Wagga Wagga. It comprises four Exploration Licences (EL's 6516, 6658, 6768 & 8152). The total area of this tenement package is about 87 square-kilometres.

The tenements straddle the major regional Gilmore Fault Zone and cover rocks of the Junee-Narromine Volcanic Belt, part of the highly prospective Ordovician-Early Silurian Macquarie Volcanic Arc in the Lachlan Orogen. Large porphyry-related gold and gold-copper deposits (E.g. Northparkes, Gidginbung and Cowal) occur along this fertile volcanic belt and their distribution is believed to be spatially related to the Gilmore Fault Zone and its associated fault splays.

EL 6516 contains the 77,000-ounce *Dobroyde* gold deposit (see ASX announcements of 3rd and 10th July 2013) on which historic drilling has produced some spectacular high-grade gold intercepts within a low-grade mineralisation envelope, including 22m at 37.3 g/t gold, 16m at 10.5 g/t gold and 6m at 18.2 g/t gold (see ASX announcements of 9th October 2013).

Work Completed

A review of historic geophysical data collected over the Dobroyde gold deposit and surrounding area was completed during the quarter by consultant, Chris Moore of Moore Geophysics Pty Ltd (Melbourne). Three-dimensional ("3D") geophysical inversion modelling and a targeting analysis were performed on magnetic/radiometric data collected from a high-resolution airborne survey flown by Kevron Geophysics in 1996 and on IP/Resistivity data from a ground survey done by Fugro in 2007.

Results from this work are encouraging. They confirm the occurrence of extensive chargeability and resistivity anomalies within and surrounding the Dobroyde gold deposit. These are sourced from the intense silica-clay-sulphide alteration footprint that is associated with this gold system.

The geophysical anomalies support that the gold-bearing alteration system and its controlling structures are open down a moderate plunge to the northwest of Dobroyde. This target has only been partly tested by historic drilling to a shallow vertical depth of about 200m. There is potential for additional gold resources and possibly more high-grade shoots located below and to the north of the currently defined Dobroyde gold resource.

The results of the geophysical modelling and analysis also highlight magnetic responses and associated chargeability and resistivity anomalies that may indicate the presence of a buried porphyry copper-gold system to the northwest of Dobroyde.

Dobroyde is located about 50 km south of Gidginbung, another high-sulphidation epithermal gold deposit located adjacent to the Gilmore Fault Zone and in a similar package of volcanic rocks. The Gidginbung deposit was mined in the 1990's by Paragon Resources and subsequent exploration surrounding the mine has produced several porphyry copper-gold prospects beneath younger cover rocks (E.g. The Dam, Culingerai, Yiddah). No previous exploration for porphyry copper-gold has been undertaken at Dobroyde and the chances for a porphyry discovery are considered to be high.

Several targets have been identified and recommended for drill testing. Initial ground validation work on the geophysical targets is in progress. A scout drilling program is being planned to commence following the grain harvest and the end of the fire season.

ARX expenditure on the Junee Project for the quarter totalled A\$50,481.

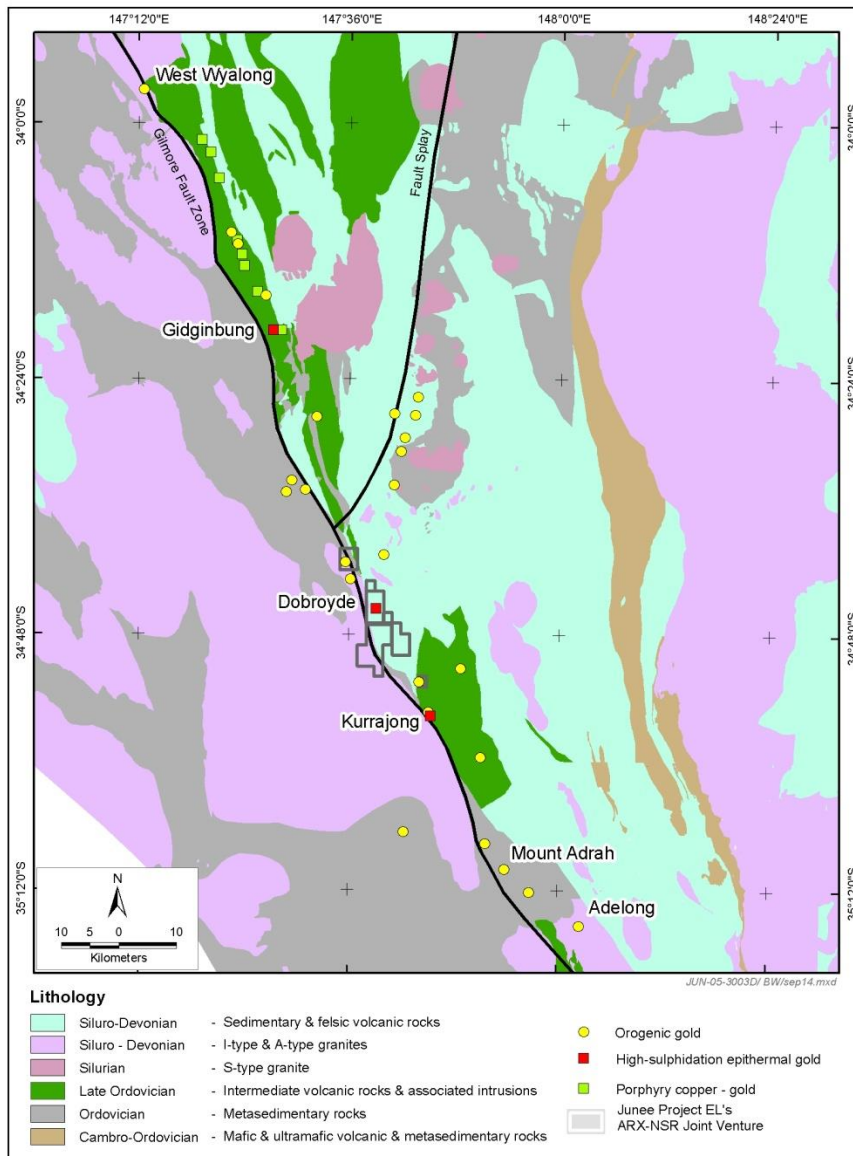
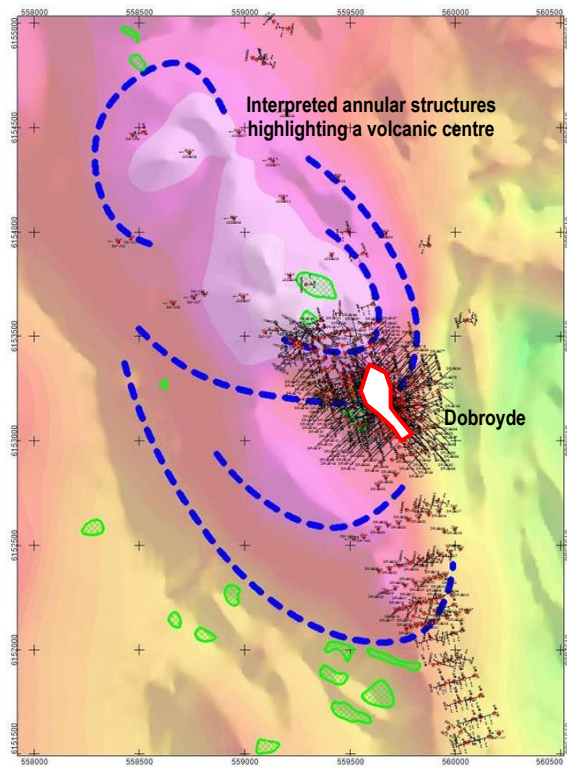
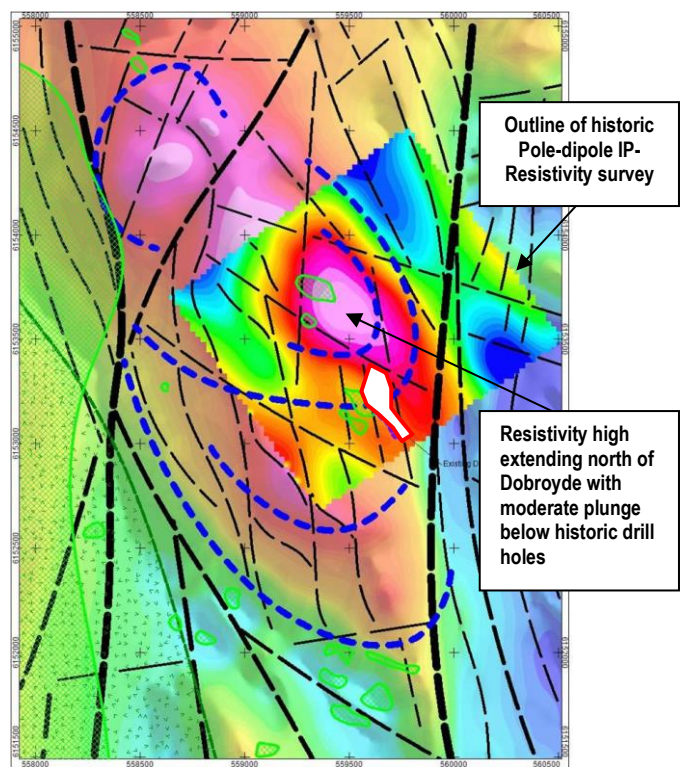


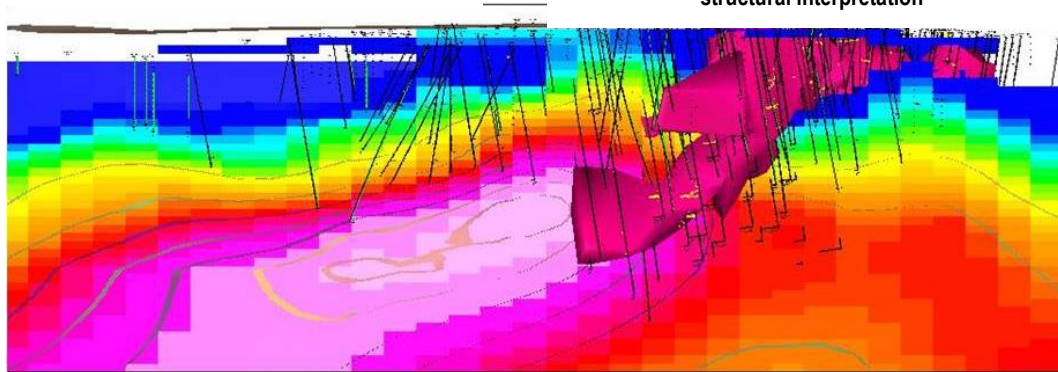
Figure 6. Junee Project – Regional Geology & Gold-Copper Occurrences



Dobroyde gold deposit outline & historic drill holes on RTP magnetics background



Dobroyde gold deposit outline & resistivity depth plan (100mRL), RTP magnetics background & structural interpretation



Resistivity inversion model - North-South Section (Looking East)
Showing Dobroyde gold resource shell and overlapping resistivity high (magenta) supporting interpretation of an open moderate plunge to the north below historic drill holes

Oberon Project, NSW (100% NSR)

The **Oberon Project** is located close to existing mine operations and development infrastructure near the major regional centre of Bathurst. It comprises one large licence EL 6525 and a smaller adjoining licence EL 8110. The total area of this tenement package is approximately 171 square-kilometres.

No work was undertaken during the quarter.

ARX expenditure on the Oberon Project for the quarter totalled A\$35,550, carried over from work completed in the previous quarter.

Mount Garnet Project, Queensland (100% Snowmist)

The **Mount Garnet Project** is located close to mine operations and development infrastructure west of the major regional centre of Cairns. It comprises three Mining Leases (ML's) covering about 150 hectares that are 100% held by Snowmist Pty Ltd ("Snowmist").

ARX also holds a minerals exploration permit, EPM 25343, comprising six sub-blocks that cover about 17 square-kilometres of prospective ground located close to the Triple Crown mining leases on which ARX holds an option to Farm-in (see ASX announcements of 21st August 2013 and 9th July 2014).

No work was undertaken during the quarter.

ARX expenditure on the Mount Garnet Project for the quarter totalled A\$4,570.

CORPORATE

During the Quarter the Company raised \$692,500 by issuing 138,500,000 shares at a subscription price of \$0.005 per share to Treasure Key Investments Limited. Following the placement the total number of shares on issue stands at 1,063,390,131 shares of which Treasure Key Investments Limited holds a 13.02% interest in the Company. The funds raised will be used to accelerate exploration in Australia, to seek new projects in Indonesia and for ongoing working capital.

Mr. Max Ramajaya, an Indonesian businessman, has been appointed as a Non-Executive Director. Mr Ramajaya is the Head of Business for Katingan Timber Group responsible for the group's operation and performance in the forestry, agro forest plantation and related downstream industries. He is a graduate of the Indonesian Business and Information Institute (IBII, now the Kwik Kian Gie School of Business).

This report is dated 27 October 2014.

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Competent Person Statement

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

The information in this report that relates to the *Dobroyde* gold resource is extracted from the report entitled Junee and Oberon Projects - Statement of Resources created and released to the ASX on 10 July 2013.

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

Table 1. Details of Tenements & ARX Interest

Project	Location	Tenement	Area (km²)	ARX Interest
Trenggalek	East Java, INDONESIA	Exploration IUP	300 km ²	95%
Papua	West Papua, INDONESIA	Exploration IUP	994 km ²	20%
		Exploration IUP	994 km ²	20%
		Exploration IUP	1000 km ²	20%
Oberon	New South Wales, AUSTRALIA	EL 6525	160 km ²	Farm-in
		EL 8110	11 km ²	Farm-n
Junee	New South Wales, AUSTRALIA	EL 6516	17 km ²	Farm-in
		EL 6658	14 km ²	Farm-in
		EL 6768	20 km ²	Farm-in
		EL 8152	36 km ²	100%
Mount Garnet	Queensland, AUSTRALIA	ML 4363	129 ha	Under Option
		ML 20018	21 ha	Under Option
		ML 4390	1 ha	Under Option
		EPM 25343	17 km ²	100%