ASX ANNOUNCEMENT **1 September 2016**

UPDATE ON EXPLORATION AT TRENGGALEK, INDONESIA

Highlights:

- *New gold results received from drilling on the Sentul epithermal gold veins.*
- *Best result of 1.25 m at 4.1 g/t Au from 86.5 m down-hole and 1.1 m at 2.46 g/t Au from 113 m down-hole both in STDH10 on the Sentul West vein.*
- *Porphyry style mineralisation exposed at surface in Singgahan*
- *Induced Polarisation and Ground Magnetic surveys commenced at Singgahan to define drill targets*
- *Danusa has agreed to continue with Stage 2 Exploration with a budget of US$ 1 million to be spent by May 2017.*

Arc Exploration Limited (ASX Code: ARX) announces this update on exploration work on the Trenggalek Project located in East Java, Indonesia (Figure 1).

Sentul and Buluroto Prospects

A new phase of diamond drilling commenced at Trenggalek in early February 2016. This program was designed to test for mineralised extensions within the large Sentul and Buluroto epithermal gold veins, which were previously identified with scout diamond drilling by ARX in 2010/11.

Gold results for the first sixteen holes in this latest drilling program were reported in earlier announcements (*See* ASX announcement of 18th April 2016 and 16th June 2016). The results for the last three holes STDH10 to STDH12 at Sentul are summarised below (*See* Table 1 and Figures 2 & 3 for drill-hole locations).

The most significant gold intercepts from the latest results are:

- 1.25 m at 4.1 g/t Au from 86.5 m down-hole in STDH10 on Sentul West vein
- 1.1 m at 2.46 g/t Au from 113 m down-hole in STDH10 on Sentul West vein
- 1 m at 1.03 g/t Au from 217 m down-hole in STDH12 on Sentul West vein

Drilling in these two prospects has now ceased while further review and interpretation of the results in conjunction which historic data is undertaken.

Singgahan Prospect

Scout diamond drilling on the Singgahan Prospect located in the southeast corner of the Trenggalek Exploration IUP tenement (Figure 1) was conducted in 2014 (*see* ARX announcement of 12th May 2014 and 21st July 2014). The four inclined diamond holes (1,541m) drilled at Singgahan completed a fence of holes across part of an extensive copper-gold-molybdenum soil anomaly and coincident magnetic-high anomaly. The source of the soil geochemical anomaly is interpreted to be a weakly mineralised intrusion breccia cropping out at surface. The source of the magnetic high is a small mineralised diorite intrusion that appears to be rootless as modelled by a 3D magnetics inversion analysis. The high-magnetic signature of the diorite is attributed to abundant secondary magnetite occurring as disseminations in porphyry-style quartz-anhydrite veins and potassic-propylitic alteration. Porphyry-style mineralisation was intersected in these holes which returned multiple low grade copper-gold-molybdenum intercepts.

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A petrological investigation completed on selected core samples taken from these holes has confirmed the occurrence of porphyry-style veining and alteration, with copper and molybdenum minerals.

Recent mapping in the area has identified porphyry style mineralisation at the surface. A combined Induced Polarisation Survey and Ground Magnetic survey consisting of 19.9 km on 13 lines has commenced. These results combined with existing aeromagnetic data and detailed geological mapping will be used to define drill targets at Singgahan for the next phase of exploration to be undertaken at Trenggalek by Danusa.

About Trenggalek

The Trenggalek Exploration IUP tenement covers about 300 square kilometres and is located in the same arc segment that hosts the giant Tumpangpitu porphyry gold-copper deposit in the Southern Mountains of East Java. The tenement has potential for similar porphyry gold-copper deposits and epithermal gold veins. The project lies within a district having excellent infrastructure to support exploration and mining, including a network of sealed to graded roads, proximity to the southern coastline and to Surabaya, a major industrial centre.

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Competent Person Statement
The information in this announcement that relates to Exploration Results is based on information compiled by Dr Jeffrey Malaihollo, who is a Fellow of the Australian Institute of Mining and Metallurgy and Fellow of the Geological Society of London. Dr Malaihollo 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.' Dr Malaihollo is a director 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.

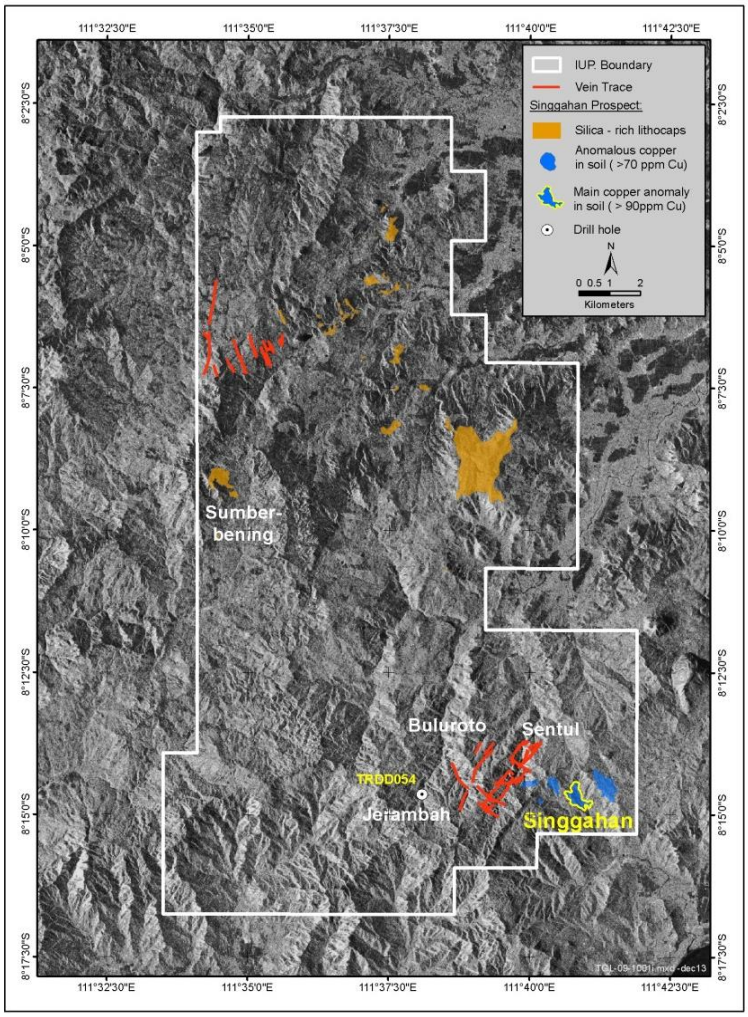

Figure 1: Trenggalek Exploration IUP

Table 1. TRENGGALEK PROJECT - Drill-hole Details

Hole ID	Vein	Collar Coords mE	mN	mRL	Dip deg	Azimuth Deg	Depth m
Sentul Prospect							
STDH01	Sentul East	572,838	9,089,160	576	-50	135	172.9
STDH02	Sentul East	572,821	9,089,000	644	-50	315	138.4
STDH03	Sentul East	572,768	9,088,884	616	-55	315	172.9
STDH04	Sentul East	572,680	9,088,779	624	-55	315	213.1
STDH05	Sentul West	572204	9088917	692	-55	135	126.0
STDH06	Sentul East	575924	9088656	616	-60	300	144.5
STDH07	Link vein	572349	9088620	645	-55	180	162.0
STDH08	Sentul West	572230	9088977	687	-55	135	150.2
STDH09	Link vein	572349	9088620	645	-55	000	120.3
STDH10	Sentul West	572289	9089032	675	-50	135	184.15
STDH11	Link vein	572220	9088570	687	-55	020	151.8
STDH12	Sentul West	572132	9088562	754	-55	270	272.4
Buluroto Prospect							
BRDH01	NE Vein	571,818	9,089,722	681	-50	90	43.4
BRDH02	NE Vein	571,910	9,089,780	654	-50	305	127.6
BRDH03	NE Vein	572,009	9,090,127	564	-50	150	168.0
BRDH04	NE Vein	572,081	9,090,233	506	-50	150	172.6
BRDH05	NE Vein	572,314	9,090,331	379	-50	90	120.6
BRDH06	NE Vein	572,297	9,090,184	426	-50	305	104.1

Table 2. TRENGGALEK PROJECT – Latest Gold Intercepts

Hole ID	Vein	From (m)	To (m)	Interval (m)	Au g/t	Recovery
Sentul Prospect						
STDH10	Sentul West	86.5	87.75	1.25	4.1	>95%
		98	101.85	3.85	0.3	>95%
		108	116	8.0	0.49	>95%
	including	*113*	*114.1*	*1.1*	*2.46*	>95%
		125.25	132	6.75	0.26	>95%
						>95%
STDH11	Link Vein	49.7	50.3	0.6	0.24	>95%
		125.7	129.4	3.7	0.19	>95%
						>95%
STDH12	Sentul West	107	109.4	2.4	0.35	>95%
		196.4	199.15	2.75	0.76	>95%
		217	218	1	1.03	>95%
		236	242	6	0.236	>95%
		253.3	261	7.7	0.376	>95%

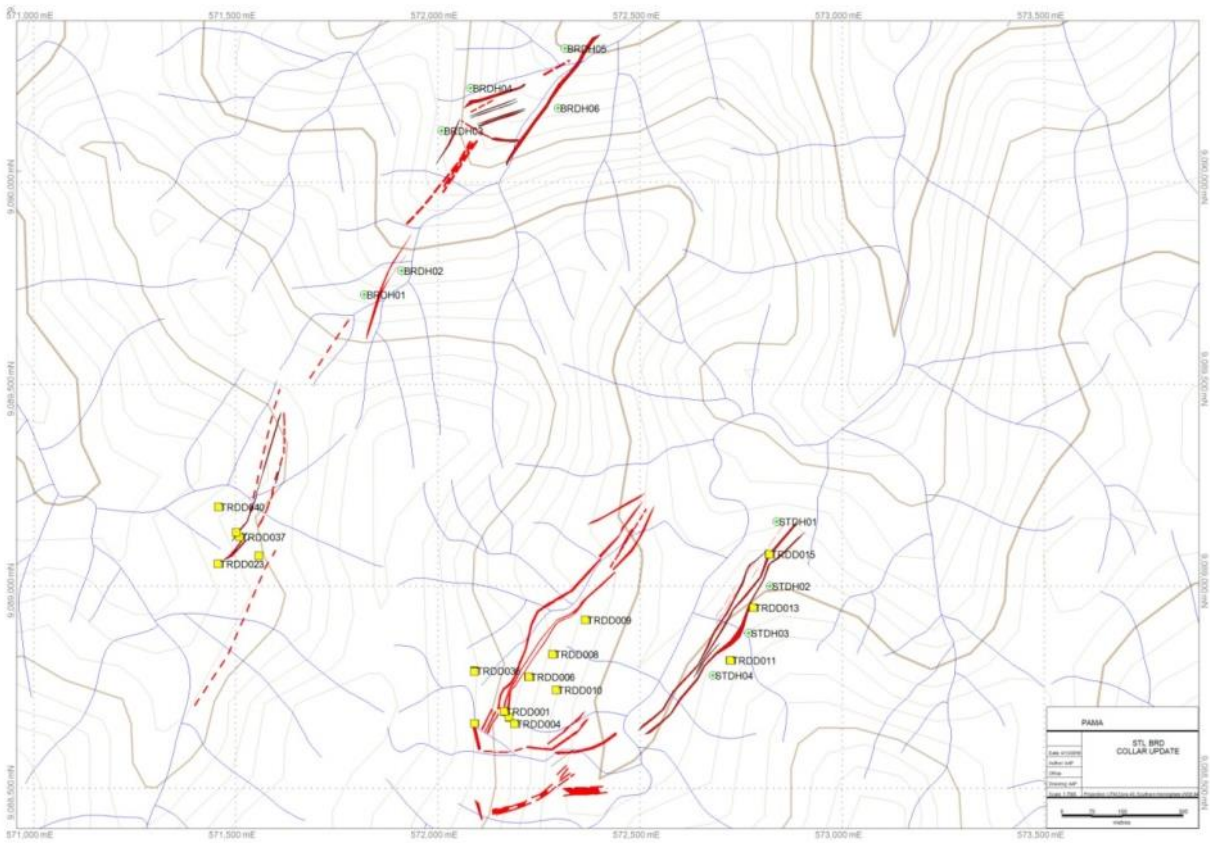

Figure 2: Buluroto & Sentul Prospects – Drillhole Location Plan
(Note: The TRDD hole ID's are previous ARX holes drilled in 2010/11)

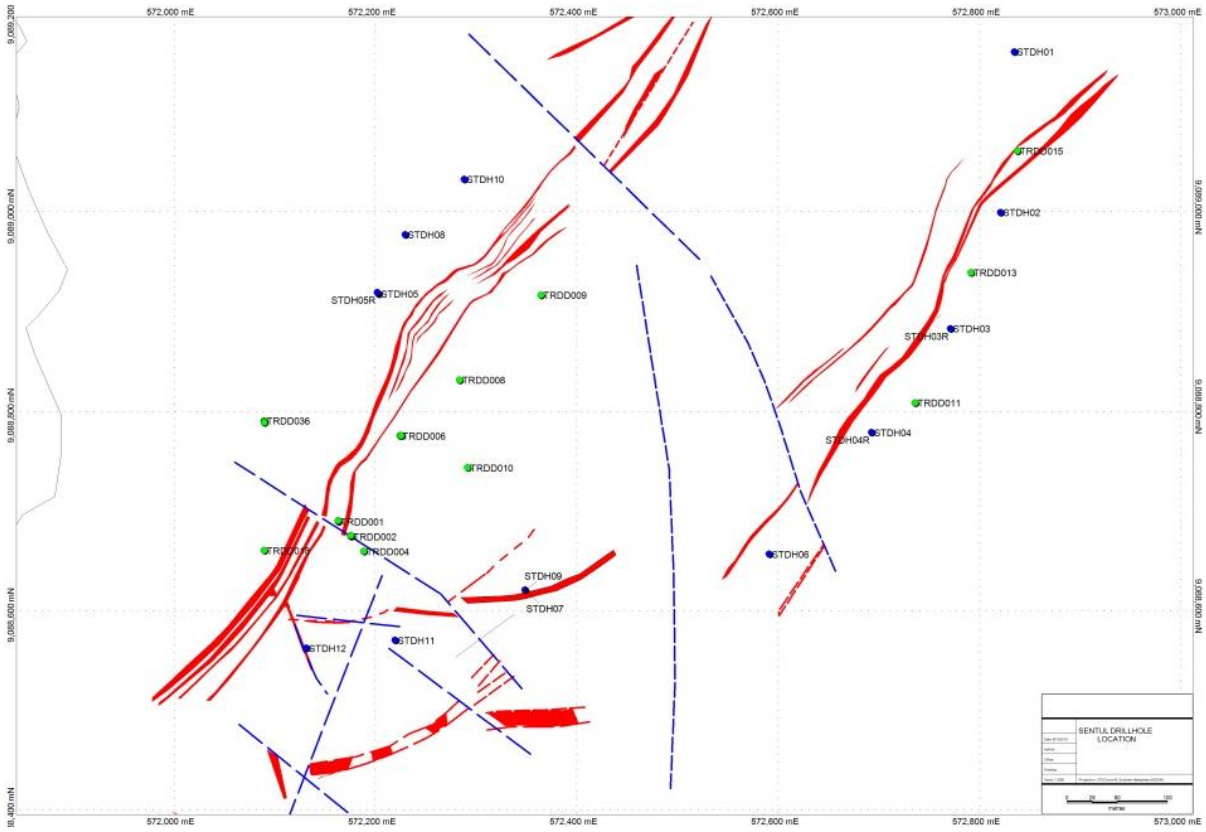

Figure 3: Sentul Prospect – Drillhole Location Plan
(Note: The TRDD hole ID's are previous ARX holes drilled in 2010/11)

JORC Code, 2012 Edition – Table 3 Report template

Section 1 Sampling Techniques and Data

Criteria	JORC Code explanation	Commentary
Sampling techniques	• *Nature and quality of sampling (eg cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as down hole gamma sondes, or handheld XRF instruments, etc). These examples should not be taken as limiting the broad meaning of sampling.* • *Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.* • *Aspects of the determination of mineralisation that are Material to the Public Report.* • *In cases where 'industry standard' work has been done this would be relatively simple (eg 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (eg submarine nodules) may warrant disclosure of detailed information.*	• The results relating to this announcement are from half-core samples taken from the following holes that were drilled on the Sentul Vein System (STDH10 to STDH12 inclusive). • The core is securely boxed and sealed in standard trays and transported to the company's secure core shed facility at Trenggalek for logging, splitting & sampling. • The core was marked up for sampling after logging by the project geologists and split for sampling using a petrol-driven diamond-blade core saw. • Half-core samples were split and sampled from HQ-NQ core. Samples were generally taken over <1-2m intervals within predicted mineralised veins and at 2-4m intervals within alteration zones. • Individual sample weight varies from about 2-4kg depending on the core size. Samples were collected and each labelled with a unique number in individual calico bags. • Sampling was supervised by project geologists & geotechnicians under the supervision of a project manager. • Samples were dispatched by a road courier service in secured polybags to the internationally certified commercial laboratory, PT Intertek Utama Services in Jakarta.
Drilling techniques	• *Drill type (eg core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc) and details (eg core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc).*	• Diamond core drilling done by Indonesian contractor PT Sumagud Sapta Sinar using two man-portable drill rigs to do triple-tube HQ and NQ coring.
Drill sample recovery	• *Method of recording and assessing core and chip sample recoveries and results assessed.* • *Measures taken to maximise sample recovery and ensure representative nature of the samples.* • *Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.*	• Core recovery was measured directly off the triple tube splits after each drill run; core recovery from the holes reported in this announcement is greater than 95%. • Core recovery was also measured over sample runs at the core shed and recorded against each assay result.
Logging	• *Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies.* • *Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography.* • *The total length and percentage of the relevant intersections logged.*	• The entire drill core was previously logged by project geologists both qualitatively and quantitatively and recorded on drill logs and as summarised computer logs. • Logging recorded rock types, alteration, mineralisation, physical rock properties & geotechnical characteristics. • There is a complete photographic record of the drill core.

Criteria	JORC Code explanation	Commentary
Sub-sampling techniques and sample preparation	• *If core, whether cut or sawn and whether quarter, half or all core taken.* • *If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry.* • *For all sample types, the nature, quality and appropriateness of the sample preparation technique.* • *Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.* • *Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling.* • *Whether sample sizes are appropriate to the grain size of the material being sampled.*	• Half-core samples were taken by splitting with a petrol-driven diamond-blade core saw at the company's storage shed in Trenggalek. • The samples were packed and dispatched by road in secured boxes for delivery to the Intertek in Jakarta. • At the laboratory, each sample was sorted, weighed (wet), oven dried at 105^{0}C for 12-hours and weighed (dry). • The entire sample was jaw crushed to 5mm size rock fragments and completely pulverised to a nominal 95% passing 75 micron or 200 mesh particle size. Gravel wash and air spray applied between each sample to avoid cross-contamination. • Each sample was assayed for, **Gold** by FA51: 50g Fire Assay/Lead Collection with AAS Finish (0.005 ppm gold DL), and **46 multielement package** by 4A/OM10 Four-acid mixed digest and ICP-OES & MS volumetric finish. • The sampling methodology, sample size & preparation protocols are considered to meet the industry standard.
Quality of assay data and laboratory tests	• *The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.* • *For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.* • *Nature of quality control procedures adopted (eg standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (ie lack of bias) and precision have been established.*	• The sample preparation & assaying techniques used are considered appropriate to the sample medium reported; assaying was done on a sub-split of the original sample material • Intertek inserts and reports the results of its commercial gold standards (1:10/20), blanks, duplicate and replicate samples for Quality Control and reports these results accordingly. • The Company also inserts its own sample duplicates and commercially purchased gold & base metal standards on every 25th sample for Quality Control. • Results fall within acceptable levels of accuracy and precision.
Verification of sampling and assaying	• *The verification of significant intersections by either independent or alternative company personnel.* • *The use of twinned holes.* • *Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.* • *Discuss any adjustment to assay data.*	• No external check assaying has been done on the results reported herewith. • The company adopts its own internal data verification, data entry & data storage protocols. Primary data was documented on standardised paper-log templates and then this data was entered into Excel spreadsheets and validate prior to import into other software for analysis. • There was no adjustment of the original assay data reported by Intertek.
Location of data points	• *Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.* • *Specification of the grid system used.* • *Quality and adequacy of topographic control.*	• Drill-hole collars were surveyed using a Garmin "GPSMAP" 60 CSx instrument giving $\pm$ 3 m accuracy. • Down-hole surveying (magnetic aziumuth, hole dip, magnetic susceptibility & temperature) was measured by the drilling contractor in conjunction with Danusa and ARX personnel using a Camteq Proshot downhole survey camera at initial 10m depth and then at 25 m intervals down the entire hole, the last reading at the end of the hole. • The drill hole collar coordinates are reported on the WGS 84 / UTM Zone 49S grid datum. • Magnetic azimuth is converted to UTM azimuth (+1.25 degrees) for plotting.

Criteria	JORC Code explanation	Commentary
Data spacing and distribution	• *Data spacing for reporting of Exploration Results.* • *Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied.* • *Whether sample compositing has been applied.*	• The drill holes reported vary from 50 to 100m apart between sections. • There is sufficient data to establish geological continuity of the vein targets between respective drill sections. • There is insufficient data to establish a mineral resource. • Sample compositing was not applied to the results presented in this announcement.
Orientation of data in relation to geological structure	• *Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.* • *If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.*	• The drill holes are interpreted to have intersected their respective vein targets at high angle to strike and at moderate angle to the dip; achieving representative sampling across the mineralised vein structure
Sample security	• *The measures taken to ensure sample security.*	• Samples were collected at the core shed in labelled calico bags and were securely sealed in polybags and stored on site under the supervision of the project geologists and manager. • Delivery of the samples was direct to Intertek and done by a commercial courier. • No other security measures were undertaken.
Audits or reviews	• *The results of any audits or reviews of sampling techniques and data.*	• No independent audits or reviews of the sampling techniques were undertaken.

Section 2 Reporting of Exploration Results

(Criteria listed in the preceding section also apply to this section.)

Criteria	JORC Code explanation	Commentary
Mineral tenement and land tenure status	• *Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings.* • *The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.*	• Trenggalek Exploration IUP ("Izin Usaha Pertambangan") is held by PT. Sumber Mineral Nusantara ("SMN"). Total area is 29,969 ha (about 300 square-km) valid until 2 November 2018. • ARX holds a joint venture with SMN and has a 95% interest in the Trenggalek Project. • On 18 November 2015 ARX announced that it had signed formal documentation with PT Danusa Tambang Nusantara to explore the Trenggalek IUP for gold and base metals. Under the agreement, Danusa may fund expenditure of up to US$1,500,000 over 10 months for the First Stage of exploration and have the option to continue under a formalised joint venture to earn equity in the project. Danusa has agreed to continue to fund the Second Stage of Exploration of US$1m by May 2017. • Sentul & Buluroto prospects lie within the SE corner of the Trenggalek Exploration IUP. These prospects lie mainly within government forestry land having production & partly protected status. SMN holds a valid *Pinjam-Pakai* Permit to work on the forestry land and negotiates access to other land with individual landowners.
Exploration done by other parties	• *Acknowledgment and appraisal of exploration by other parties.*	• Sentul & Buluroto prospects were previously identified by PT Aneka Tambang ('Antam') under a KP licence that they held over the same area in the 1990's; Antam did very limited surface trenching and drilling on both prospects. • ARX did scout drilling on the Sentul and Buluroto prospects in 2010 and 2011; results from which have

Criteria	JORC Code explanation	Commentary
		been reported in previous ARX:ASX announcements, quarterly & annual reports. *A summary of the best drilling results is included in the next section – Geology.* • ARX held a joint venture with Anglo American for two years from late 2012 until late 2014, exploring for porphyry copper. • The partnership with Anglo American provided the first opportunity to test the porphyry potential of the Trenggalek IUP and significantly expanded the project database, providing a solid platform on which to plan future exploration.
Geology	• *Deposit type, geological setting and style of mineralisation.*	• Trenggalek is located in the Southern Mountains of East Java, which comprises an older segment of the highly prospective Sunda-Banda magmatic arc. • The Southern Mountains is composed of Oligo-Miocene and younger volcano-sedimentary rocks, limestone and intermediate-felsic igneous intrusions that are prospective for epithermal-style and porphyry-related gold-base metal deposits. • The giant Tumpangpitu porphyry copper-gold-molybdenum and associated epithermal gold-silver deposit is located about 200 km from Trenggalek at the eastern end of the Southern Mountains. Tumpangpitu is believed to be hosted in rocks that are similar to those underlying the Trenggalek project area. • **Sentul** and **Buluroto** prospects are located in the SE corner of the IUP. Both prospects contain large intermediate-sulphidation epithermal vein systems hosted in andesitic-dacitic volcaniclastic rocks with minor intercalated limestone intruded by high-level andesite-dacite plugs. • **Sentul** consists of two main parallel NE-SW trending quartz-chalcedony-sulphide veins (West and East Sentul) connected by sigmoidal en echelon veins; the veins are up to 10-15 m wide and have greater than 10 km collective strike length. • **Buluroto** contains a hydrothermal breccia pod (150-200m long, up to 20m wide) developed at the confluence of two <1-5m wide quartz-chalcedony-sulphide veins that are each 1-2 km long. • These epithermal vein systems are composed of polyphasal microcrystalline to fine-grained quartz, chalcedony, minor carbonate and disseminated sulphides (pyrite, arsenopyrite, base metal sulphides). The veins show hydrothermal breccia, banded and massive textures. Wall rock alteration is predominantly illitic clay/sericite, chlorite & pyrite with epidote becoming more prominent at deeper levels of the system. • Previous drilling by ARX on the **West Sentul** Vein totalled 2002-m in 14 holes and returned some narrow high-grade gold intercepts (>10 g/t gold) within thick vein structures, including a best intercept of 2 m at 17.2 g/t gold & 13 g/t silver within 9 m at 4.5 g/t gold & 8 g/t silver in the deepest hole TRDD-4; this vein has been drill tested to less than 175-m vertical depth. • Previous drilling by ARX on the **East Sentul** Vein totalled 475-m in 6 holes and returned a best mineralized intercept of 3 m at 5.53 g/t gold & 14 g/t silver in hole TRDD-12; this vein has been drill tested to less than 75-m vertical depth. • Previous drilling by ARX on the **Buluroto** breccia pod totalled 652-m in 5 holes and returned a best intercept of 2 m at 8.7 g/t gold & 48 g/t silver within 13.7 m at 3.2 g/t gold & 60 g/t silver in hole TRDD-32; this breccia pod has been drill tested to less than 125-m vertical depth.

Criteria	JORC Code explanation	Commentary
		• Sentul & Buluroto are located close to 'porphyry targets' identified at nearby **Jerambah** & **Singgahan** prospects that were scout drilled in partnership with Anglo American in 2014; the IUP is considered have good potential for porphyry-related gold-base metal deposits.

Drill hole Information	• *A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes:*
	  ○ *easting and northing of the drill hole collar*
	  ○ *elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar*
	  ○ *dip and azimuth of the hole*
	  ○ *down hole length and interception depth*
	  ○ *hole length.*
	• *If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case.*
		• See Tables 1 and 2.

Data aggregation methods	• *In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg cutting of high grades) and cut-off grades are usually Material and should be stated.* • *Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail.* • *The assumptions used for any reporting of metal equivalent values should be clearly stated.*	• Not relevant to the results in this announcement. Results here are reported against individual sample intervals.
Relationship between mineralisation widths and intercept lengths	• *These relationships are particularly important in the reporting of Exploration Results.* • *If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported.* • *If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (eg 'down hole length, true width not known').*	• The results reported in this announcement reflect individual samples intervals and no mineralised width is assumed or stated.
Diagrams	• *Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views.*	• Diagrams are included with this announcement.
Balanced reporting	• *Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.*	• Representative reporting of the relevant results has been provided in this announcement.
Other substantive exploration data	• *Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.*	• Encouraging results were reported in the *ARX March 2015 Qtly Rpt* from cyanide bottle-roll leach testing done on samples of weathered to fresh gold-mineralised quartz vein material from the Sentul West Vein; gold extractions averaging 81% were returned. • Suggesting that gold-bearing veins discovered at Sentul may be amenable to processing by conventional carbon-in-pulp processing methods if a significant gold resource is defined.
Further work	• *The nature and scale of planned further work (eg tests for lateral extensions or depth extensions or large-scale step-out drilling).* • *Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive.*	• Further drilling on the Sentul vein system is being considered to test for lateral and depth extensions to gold mineralisation intersected in the 2016, 2010/2011 drill campaign.