

Dear Shareholder / Optionholder

14 January 2011

We last wrote directly to you in November 2010 and while we have been regularly informing shareholders of progress via ASX announcements we nevertheless thought it now appropriate to provide a further update direct to you.

We continue to make very significant progress on our Indonesian projects. The year ended on a high with significant gold discoveries at our Bima Project in East Sumbawa. This year we have continued to build on these successes with further positive results including significant surface trench intercepts of up to 64g/t gold which were announced to ASX on 13 January 2011.

We are also pleased to confirm that our partner, Anglo American, has resumed exploration activity in West Papua as part of our strategic alliance.

The Bima Project — excellent recent results.

So far we have identified three distinct prospects of different types at Bima and announced some extremely promising results from two of these that greatly increase our confidence that we may be in a new gold district.

At the **Baku** prospect our trenching programme has discovered extensive surface zones of gold mineralisation in quartz stockwork. We recently announced some notably high grade gold bearing veins within this zone of stockworking. The intersections were significant at up to **24.8 g/t gold over 12 metres** including one section of **64 g/t gold over 3 metres**. Results to date indicate that the area could host high-grade as well as large near surface bulk-tonnage gold resources.

At the **Kowo** prospect our first continuous-channel results were very encouraging and returned gold intersections within a large gold soil anomaly. Kowo is shaping up as a large gold-base metal target that may extend beneath the surrounding cover rocks and point to a mineralised porphyry copper-gold system at depth, similar to the giant Batu Hijau mine that occurs at the other end of the island.

At the third prospect, **Soro**, gold occurs in limestone also within a large gold soil anomaly indicating potential for a sediment hosted gold deposit, a different mineralisation style to that at Baku and Kowo. We are at the moment concentrating mainly on Baku but will also further investigate Soro, Kowo and undertake a systematic regional program throughout the tenement.

Further trenching and geophysical surveys are currently underway to determine the extent of the gold zones with scout drilling well on track to start, probably at Baku, in this first quarter of 2011.

The Trenggalek Project is progressing well

At Trenggalek, in East Java, a 5000 metre scout diamond drilling program was successfully completed in 2010 and as expected confirmed the potential for high grade gold mineralisation at a number of locations. An excellent strike rate was achieved with surface gold mineralisation being confirmed in drill holes at three of the five prospects tested.

We are currently conducting more surface sampling to identify additional drill targets and also to extend those prospects already identified through scout drilling last year. We aim to be in a position to commence further drilling at Trenggalek within the second quarter of 2011.

Our strategic alliance with Anglo American holds unique appeal

Under the terms of our strategic alliance, global mining major Anglo American is responsible for managing and funding all work on the project up to the point of a decision to mine following which Arc is then required to contribute on a pro-rata basis for its 20% interest.

This allows us to participate in exploration in Papua where Indonesia's largest copper-gold deposit Grasberg occurs. That a global company such as Anglo American has chosen to partner with Arc is, in our opinion, recognition of the skills Arc possesses.

Mineralisation has already been confirmed at the **Aisasjur** prospect by two phases of scout diamond drilling that have confirmed gold mineralisation extends to 700m from the surface and overlays porphyry copper-gold mineralization. Anglo American has recently recommenced exploration with the intention of moving towards a drilling program planned to commence in the second half of this year.

The strategic alliance with Anglo American holds unique significance and value for Arc Exploration and gives us huge exploration upside without diverting our funding and management focus away from our other projects in Indonesia.

Exciting times ahead

2011 is shaping up to be a very promising year for our Company. We have so far achieved strong and tangible results in the field. We are looking to build further on these. The next logical step is to undertake drilling campaigns at **Bima** and **Trenggalek** with the aim of moving towards resource definition.

Our company has sufficient cash resources to fund much of its planned program for the coming year. This position will be enhanced to the extent the current series of options are exercised.

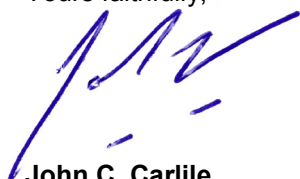
Based on results to date, if you are an Optionholder we encourage you to support our exploration by exercising your options. The exercise price for these options is **3.6 cents** (\$0.036). If you wish to exercise your options you must complete the attached Application Form and return this together with your subscription monies in the enclosed reply paid envelope so that they are received no later than close of business on Monday, **31 January 2011** by the Company's Share Registry, Computershare Investor Services Pty Limited (GPO Box 1903 Adelaide SA 5001).

While our exploration results have been strong, it is always important to remind shareholders that exploration inherently contains many uncertainties and by its very nature, nothing can be guaranteed.

Arc has a clear programme of major activity for the coming year with the focus remaining on delivering value to shareholders through exploration success.

We thank you for your continued support and we hope you have found this update useful.

Yours faithfully,



John C. Carlile
Managing Director



Bruce J Watson
Chairman

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 undertaken 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 is a full time employee of Arc Exploration Limited and has consented to the inclusion in this report of the matters based on their information in the form and context in which it appears.

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Use a **black pen**.
 Print in **CAPITAL** letters
 inside the grey areas.

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For your security keep your SRN/HIN confidential.

Option Expiry Notice

Options exercisable at A\$0.036 expiring at 5.00pm (Sydney time) on 31 January 2011

Dear Optionholder(s)

You are reminded that the Options to subscribe for Shares in the capital of Arc Exploration Limited registered in your name expire on 31 January 2011. These Options are exercisable wholly or in part by the payment of A\$0.036 for each option exercised. Payment has to be received at the address overleaf, by 5.00pm (Sydney time) on 31 January 2011. For every one option exercised, the optionholder will be allotted Shares in the capital of Arc Exploration Limited.

Options not exercised by 5.00pm (Sydney time) on 31 January 2011 will lapse.

To be completed by Optionholder

B Number of Options to be exercised

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C Amount enclosed at A\$0.036 per Option

A\$

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I/We enclose my/our payment for the amount shown above being payment of A\$0.036 per Option.

To the Directors

Arc Exploration Limited

I/We the abovenamed being the registered holder(s) of the options, hereby exercise my/our option for Shares in Arc Exploration Limited and I/we request you allot such Shares to me/us and I/we agree to be bound by the Constitution of the Company.

Payment details – Please note that funds are unable to be directly debited from your bank account

D Drawer Cheque Number BSB Number Account Number Amount of cheque

				A\$
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Make your cheque or bank draft payable to Arc Exploration Limited

Sign Here - This section must be signed for your instructions to be executed

E Individual or Optionholder 1

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Sole Director and Sole Company Secretary

Optionholder 2

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Director

Optionholder 3

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Director/Company Secretary

The directors reserve the right to make amendments to this form where appropriate. Please refer to the lodgement instructions overleaf.
 This form may not be used to effect an address change. Please contact Computershare Investor Services Pty Limited on 1300 556 161 for an appropriate form, or download a Change of Address Notification form from www.computershare.com



How to complete this form

Exercise of your Options in full or part

A Registration Name(s)

Your name and address as it appears on the Register of Arc Exploration Limited.

B Options Exercised

Enter the number of Options you wish to exercise.

C Exercise Monies

Enter the amount of exercise monies. To calculate the amount payable, multiply the number of Options exercised by the exercise price.

D Payment

Make your cheque or bank draft payable to Arc Exploration Limited in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box C. **Please note that funds are unable to be directly debited from your bank account.**

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Expiry Notice being rejected. Paperclip (do not staple) your cheque(s) to the Options Expiry Notice where indicated. Cash will not be accepted. Receipt for payment will not be forwarded.

E Signature(s)

You must sign the form as follows in the space provided:

Joint holding: where the holding is in more than one name all of the securityholders must sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. Alternatively, attach a certified copy of the Power of Attorney to this form when you return it.

Deceased Estate: all executors must sign and, if not already noted by the registry, a certified copy of Probate or Letters of Administration must accompany this form.

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.

This is an important document and requires your immediate attention. If you are in any doubt as to how to deal with it, please consult your Financial or other Professional Advisor.

Lodgement of Notice

Option Expiry Notices must be received by Computershare Investor Services Pty Limited Adelaide by no later than 5.00pm (Sydney time) on 31 January 2011. You should allow sufficient time for this to occur. Return the Option Expiry Notice with cheque(s) attached to:

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001

Neither CIS nor the Company accepts any responsibility if you lodge the Option Expiry Notice at any other address or by any other means.

Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or e-mail privacy@computershare.com.au

If you have any enquiries concerning your Option holding, please contact Computershare Investor Services Pty Limited on 1300 556 161.

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Please return the completed form in the envelope provided or to the address opposite:

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001
Australia



TERMS AND CONDITIONS ATTACHING TO OPTIONS

- (a) Each Option entitles the holder the right to subscribe for 1 Share in the capital of the Company for A\$0.036.
- (b) Each Option which has not been exercised will expire at 5.00pm (Sydney time) on 31 January 2011 ("**Option Expiry Date**"). Each Option may be exercised at any time prior to the Option Expiry Date and Options not so exercised shall automatically expire on such date.
- (c) Each Share issued as a result of the exercise of any Option will, subject to the Constitution of the Company, rank equally in all respects with the then existing Shares on issue.
- (d) No Optionholder will be entitled to attend or vote at any meeting of the members of the Company unless they are, in addition to being an Optionholder, a Shareholder of the Company.
- (e) Options are transferable.
- (f) An Option may only be exercised by the Optionholder by lodging an exercise notice with the Company. The exercise of some Options shall not affect the Optionholder's right to exercise the other Options at a later time.
- (g) The Company will, as soon as practicable after the Optionholder validly exercises any Options, and in accordance with the Corporations Act and the Listing Rules, allot the number of Shares in the Company so subscribed for by the Optionholder.
- (h) An Optionholder shall have no rights to dividends in respect of the Options and shall have no interest in the Shares the subject of the Options unless and until those Options are exercised and the Shares issued.
- (i) If the Company reorganises its capital in any way while any Options are on issue, the number of Options will be reorganised in accordance with the Listing Rules so that the Optionholder will not receive a benefit that the existing holders of Shares do not receive and in addition will be changed to the extent necessary to comply with the Listing Rules applicable to the particular reorganisation of capital at the time.
- (j) There are no participating rights or entitlements inherent in the Options to participate in any new issues of capital which may be offered or made by the Company to its Shareholders from time to time prior to the Option Expiry Date unless and until the Options are exercised.
- (k) There are no rights to change the number of underlying Shares of the Options if there is a pro-rata issue or a bonus issue to the existing Shareholders in the Company.

Definitions:

"Company"	Arc Exploration Limited ACN 002 678 640 and includes where relevant any subsidiary.
"Constitution"	The Constitution of the Company.
"Corporations Act"	<i>Corporations Act 2001</i> (Cth).
"Listing Rules"	The official listing rules of ASX.
"Optionholder"	A holder of Options.
"Option"	An option to subscribe for a Share.
"Share"	A fully paid ordinary share issued in the capital of ARX.
"Shareholder"	A holder of a Share.