

December 2012 Quarter Activities Report

ABOUT ARC EXPLORATION LIMITED

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

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 has a strategic alliance with Anglo American and is exploring for large porphyry copper/gold deposits in Papua and West Papua.

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INDONESIA

Trenggalek Project, East Java

- Interpretation of aeromagnetic survey results has highlighted a number of potential porphyry copper-gold targets.
- Results of soil sampling and mineralogical analysis of alteration at Sumber Bening confirm a high-sulphidation epithermal lithocap and indicate potential for mineralised porphyry copper-gold intrusions at depth.
- ARX and Anglo American entered into a Joint Venture on the Trenggalek Project.

Strategic Alliance with Anglo American in Papua

- No field work was undertaken.

NEW PROJECT GENERATION

- A number of project reviews and site visits were conducted in Indonesia and eastern Australia.

INDONESIA

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



Trenggalek Project, East Java

ARX has a joint venture with PT. Sumber Mineral Nusantara ("SMN") which holds the Trenggalek Exploration IUP licence that covers an area of approximately 300 Km² in the Southern Mountains of East Java.

Gold mineralisation occurs at surface in low and intermediate sulphidation epithermal quartz vein systems associated with hydrothermal breccias and silica cappings in volcanic rocks and limestones.

The area is also prospective for major copper-gold deposits at depth as highlighted by the discovery of the major Tumpangpitu porphyry copper-gold system at Tujuh Bukit some 200 Kms to the east of Trenggalek that is hosted in a similar package of rocks.

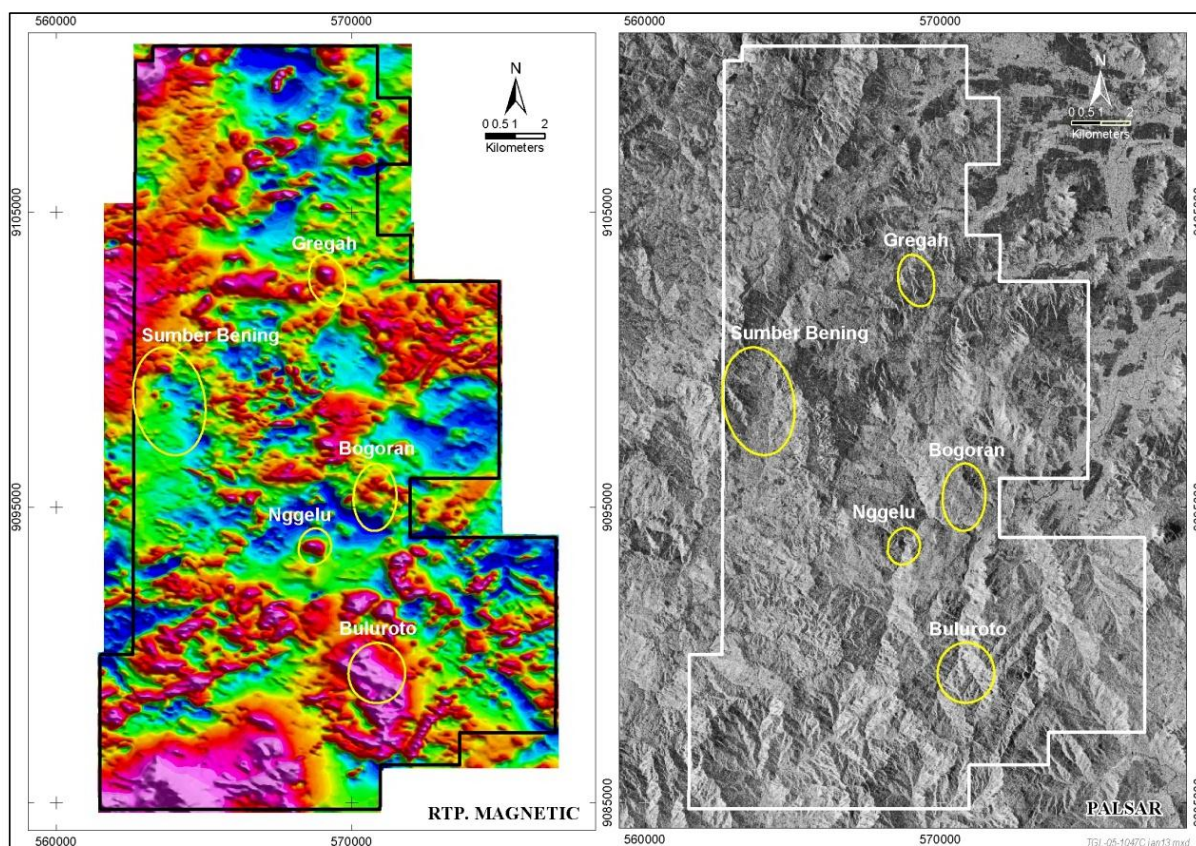
Previous quarter

On 8 August 2012, ARX announced an agreement with Anglo American to undertake high resolution aeromagnetic and radiometric surveys over the Trenggalek IUP tenement. The primary objective of the surveys was to test for indications of large porphyry copper-gold systems at depth. The survey was completed and data processed by the end of the September quarter 2012.

Current quarter

During the current December quarter, work done with Anglo American focused on interpretation of the processed aeromagnetic and radiometric data. Simultaneously, field checking and follow up was conducted on priority target in non-forestry areas whilst awaiting a forestry use permit ("Pinjam Pakai") for areas within production forest. The follow up work involved mapping and sampling and alteration studies using a Terraspec analyser to identify alteration minerals indicative of possible buried porphyry copper-gold deposits.

Preliminary integration of the airborne and ground data has highlighted a number of targets that show potential for porphyry copper-gold mineralisation at depth. At present these include Sumber Bening, Gregah, Bogoran, Nggelu and Buluroto and the work is ongoing.



Sumber Bening, the initial target area, lies on prominent north-northwest-trending structures that cut across a 4km diameter-circular feature on the western side of the IUP. It contains an extensive area (+5 km x 2 km) of silica-clay-pyrite alteration with localised pods of vughy silica alteration centred on volcanoclastic rocks and quartz-feldspar-porphyrific rocks.

Final results for soil sampling completed in the last quarter were received. Elevated peak results of 0.5 ppm gold, 207 ppm copper, 40 ppm molybdenum, 172 ppm bismuth, 248 ppm arsenic and 53 ppm antimony were returned.

Initial mineralogical analysis of surface outcrops with the Terraspec has confirmed the presence of dickite, pyrophyllite and alunite in the vughy silica and clay-rich alteration zones at Sumber Bening and also in a new area to the east. These minerals commonly occur in the upper levels of porphyry copper-gold systems.

The large alteration footprint and the elevated Au-Cu-Bi-Mo-As-Sb geochemistry in soils, combined with the presence of dickite, pyrophyllite and alunite in altered quartz-feldspar-pyritic rocks, confirm the presence of a high-sulphidation epithermal system and indicate potential for mineralised porphyry copper-gold intrusions at depth at Sumber Bening. Interpretation and integration of the surface data with the results of the geophysical surveys continues.

Work was also initiated at **Gregah** over part of an aeromagnetic target and Terraspec analysis has confirmed the presence of alunite which is indicative of another high-sulphidation system.

The area of the IUP was slightly reduced by 75 ha to 29,969 ha (~300 km²) to resolve an overlap with some small mining tenements within the IUP that exploit fresh building stone, feldspar and kaolin. The removal of these areas has no impact on the Company's exploration activities.

Based on results of the above work Anglo American elected to proceed and on 4 December 2012 ARX announced it had entered into a Joint Venture with Anglo American on the Trenggalek Project. Formal legal documentation is in the process of being finalized and the key terms of the Joint Venture are:

- Anglo American has the right to earn a 51% interest in the Trenggalek Project by sole funding US \$10 million before 1 October 2016 of which not less than US\$ 2.5 million shall be spent before 30 June 2014 and a minimum spend of US\$ 1.6 million is required to be spent before 30 November 2013.
- After spending US\$ 10 million Anglo American can move from 51% to 75% by sole funding additional expenditure of a further US\$ 10 million.
- On reaching 75% Anglo American will free-carry ARX for its remaining 20% through completion of a Pre-Feasibility Study.

The Joint Venture is a major step forward for ARX at Trenggalek as it provides for increased exploration activity in an area with porphyry copper-gold potential and targets.

With funding in place to support a significant and ongoing work program, the process of applying for an extension of the term of the exploration IUP, which expires in November 2013, was commenced.

Exploration expenditure at Trenggalek for the quarter totalled A\$8,670 (excluding expenditure by Anglo American).

Planned program

The work program planned to start in the first quarter of 2013 includes high resolution IP geophysics ground surveys and more detailed mapping and sampling in selected priority areas. The objective is to define drill targets for a program of scout drilling that is planned to start early in the second quarter.

The planned program is dependent on obtaining a forestry use permit ("Pinjam Pakai") for areas within production forest. While the process is at an advanced stage, issue of the permit is still awaited.

Strategic Alliance with Anglo American in Papua

The Company holds a 20% interest in a Strategic Alliance with Anglo American and Indonesian parties to explore for copper-gold deposits in Papua and West Papua provinces.

Anglo American is responsible for managing and funding all exploration activities in Papua.

The Alliance currently operates three Exploration IUP tenements held by the Indonesian parties pursuant to the Strategic Alliance. These cover nearly 3,000 km² at the centre of the Bird's Head peninsula in West Papua Province which cover prospective ground in the region which also hosts Grasberg - Indonesia's largest porphyry copper-gold deposit.

An airborne magnetic survey that had been planned for the latter part of 2012 over the three IUP's was postponed and no ground work is planned until the necessary permissions are obtained to work within the forestry areas.

NEW PROJECT GENERATION

Review of new project and corporate opportunities continued in both Indonesia and Australia and a number of site visits were conducted in both Indonesia and eastern Australia, specifically Queensland and New South Wales.

Qualified Persons

The information in this report that relates to Exploration Results is based on information compiled by Mr John Carlile, who is a Fellow of the Australian Institute of Mining and Metallurgy, and Mr Brad Wake, who is a member of the Australian Institute of Geoscientists. Mr Carlile and Mr Wake have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr. Carlile and Mr. Wake are full time employees of Arc Exploration Limited and consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

This report is dated 22 January 2013.

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