

June 2013 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 the Anglo American Group and is exploring for large porphyry copper/gold deposits in Papua and West Papua.

Arc Exploration Limited
ABN 48 002 678 640
Level 8, 65 York Street
Sydney NSW 2000

T + 61 2 8076 6004
F + 61 2 8215 1600
Email: info@arx.net.au

www.arcexploration.com.au

INDONESIA

Trenggalek Project, East Java

- Detailed geological mapping and a ground geophysical survey were conducted at the **Sumber Bening** Prospect, where a shallow high-sulphidation epithermal alteration lithocap overlies a potential porphyry copper-gold target.
- Exploration is funded by Anglo-American.

Strategic Alliance with Anglo American in Papua

- No field work was undertaken.

NEW PROJECT GENERATION

- Term sheet signed for an option to farm in to a new gold project in Far North Queensland.
- Due diligence completed at Junee and Oberon and election made to proceed with an Option to Farm-in to these two gold-copper projects, located in the highly prospective Lachlan Orogen of New South Wales.

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 (95% ARX)

ARX has 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.

In December 2012, ARX announced that Anglo American had elected to enter into an agreement with ARX and SMN to farm into the Trenggalek Project. Details of this agreement were presented in the December 2012 quarterly report. Exploration activities at Trenggalek are currently managed by ARX but fully funded by Anglo American.

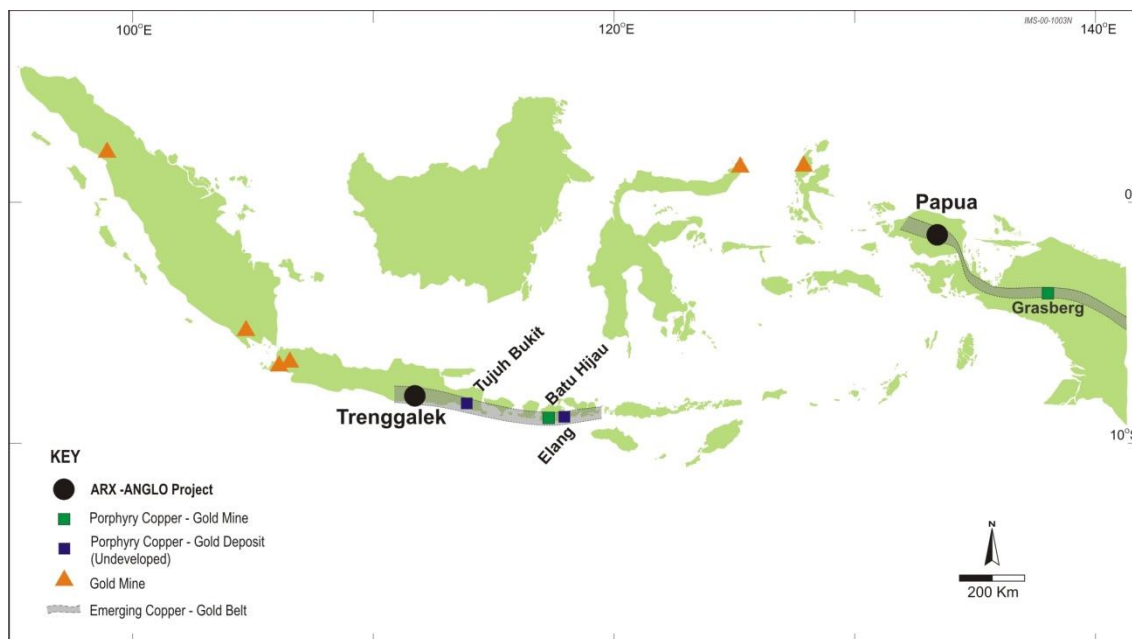
Targets

The focus of early exploration work by ARX on the tenement was on gold in intermediate sulphidation epithermal quartz vein systems associated with hydrothermal breccias and silica cappings in volcanic rocks and limestones.

Recent work identified a large high-sulphidation epithermal alteration system at Sumber Bening and this was confirmed by TerraSpec analysis of altered outcrops. Other possible high-sulphidation systems have since been identified in the project area. These could be linked to porphyry gold-copper targets at depth.

The potential of the region for major porphyry copper-gold deposits is highlighted by the discovery of Tumpangpitu copper-gold deposit by Intrepid Mines Limited at Tujuh Bukit, located some 200 km to the east of Trenggalek. Tumpangpitu is in the same belt of rocks hosting the giant Batu Hijau and Elang porphyry 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.

Trenggalek is prospective for porphyry deposits and the joint venture with Anglo American provides an opportunity to test this potential.



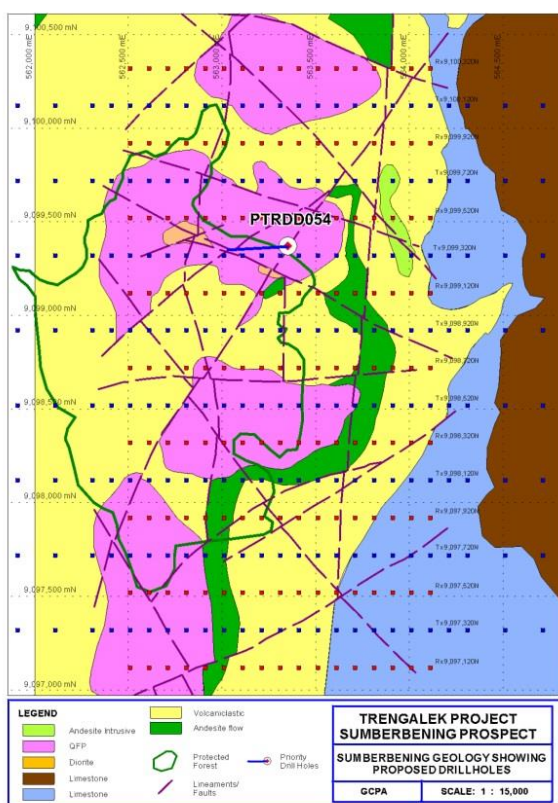
ARX Projects in Indonesia

Field Work Activity

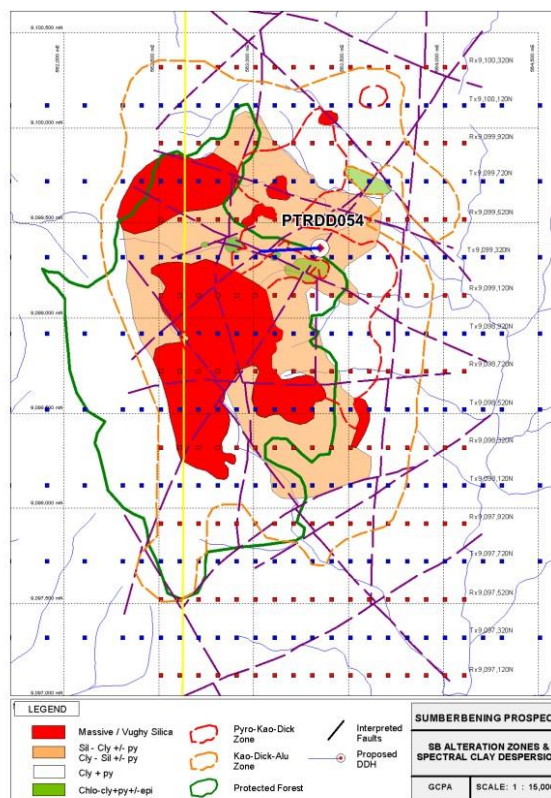
Field work during the quarter was focussed on **Sumber Bening Prospect** and included detailed mapping, gridding and a Three-dimensional Induced Polarisation-Resistivity (“3DIP-R”) survey.

Altered rocks exposed at Sumber Bening are interpreted to be part of a high sulphidation advanced argillic lithocap that potentially overlies a deeper porphyry copper-gold target. The lithocap comprises massive to vughy silica ledges in rocks exposed on ridges and spurs surrounded by more recessive clay-rich alteration assemblages that contain kaolinite, dickite, pyrophyllite, alunite, illite and disseminated pyrite. The alteration lithocap is centred on several quartz-feldspar porphyry (QFP) intrusions into volcanoclastic rocks, andesite flows and limestone. Weakly altered andesite porphyry and diorite also intrude the alteration lithocap and a younger volcanic conglomerate disconformably overlies the altered rock package on the eastern side of the prospect.

Low-level gold and multi-element (copper-molybdenum-bismuth-arsenic-antimony) geochemical anomalies have been previously reported in rock and soil at Sumber Bening. These are associated with vughy silica zones, silicified crackle-mosaic and matrix-supported fluidised breccias, and quartz-limonite stockworks cutting the altered QFP and surrounding country rocks. Strong variations occur in the distribution, volume and grain-size of quartz-eyes & altered feldspars within the QFP and associated breccias. The intrusions were emplaced at the intersection of WNW to NW-trending and ENE to NE-trending fault structures.



*Sumber Geology – Interpretative Geology
Showing 3DIP-R grid & first planned hole – PTRDD054*



*Sumber Bening – Interpretative Alteration Zoning
Showing 3DIP-R grid & first planned hole – PTRDD054*

A ground IP-Resistivity survey completed at Sumber Bening during the quarter was done by GPX Surveys of Perth (“GPX”) using a GDD 5000W/2400V IP Transmitter (Tx) and two GDD16 IP Receivers (Rx). The 3DIP-R data was acquired on eight spreads using an offset pole-dipole configuration/array on 100m stations and a line separation of 200-m. A total of 43.2 line-kms was surveyed and covered an area of about 10 sq-kms.



Transmitter station



Receiver station



Electrode construction



Line crossing above the main road

Modelling of the 3DIP-R data is being done by geophysical consultant, Chris Moore of Moore Geophysics. The results of this work will be available early next quarter and will be used to refine the positions of scout drill holes that are proposed to test this prospect. Drilling is planned to start after a community socialisation program in the next quarter.

The expiry date on the Trenggalek Exploration IUP was amended by the Regent of Trenggalek from November 2013 to November 2016.

Exploration expenditure at Trenggalek for the quarter totalled US\$ 504,128 and this was wholly funded by Anglo American.

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 same region that hosts Grasberg - Indonesia's largest porphyry copper-gold deposit.

No ground work is planned until the necessary permissions are obtained to work within the forestry areas.

NEW PROJECT GENERATION

Queensland

On 30 May 2013 the Company announced that it had signed an Option to Farm-in Term Sheet on a further gold project in the Mount Garnet district of Far North Queensland.

The project currently comprises three small mining leases that are 100% held by Snowmist Pty Ltd ("Snowmist") and located in the highly prospective Hodgkinson Province. The project area is underlain by metasedimentary rocks and limestone intruded by Carboniferous granites and related volcanic rocks of the highly mineralised Kennedy Igneous Association.

Information supplied by Snowmist indicates that one of the ML's contains a modest-sized, low-grade gold-silver deposit, **Triple Crown**. The deposit is a gold-silver-bearing quartz-sulphide stockwork and hydrothermal crackle breccia hosted in the outer shatter edge of a magmatic-hydrothermal breccia pipe that cuts granite porphyry, limestone and metasedimentary rocks. The gold mineralisation forms an annular pattern on the margin of the breccia pipe at surface. Similar but much larger gold deposits occur in the region, including Red Dome/Mungana (+3 Moz) and Kidston (+4 Moz).

Triple Crown and the potential of the surrounding project area will be assessed during the due diligence process. The project is located near existing mine operations and development infrastructure.

The key commercial terms are:

- Subject to a 90 day exclusive due diligence period ARX may enter a 2 year option period for a payment of \$50,000 to Snowmist and minimum expenditure of A\$150,000 during the option period;
- ARX may then earn a 51% interest by sole funding A\$500,000 within two years;
- ARX may then earn up to an 80% interest by sole funding a further A\$580,000 within a further one year.

New South Wales

On 3 July the Company announced that it had completed its due diligence and elected to proceed with an option to farm-in to earn up to 80% of two gold-copper projects in New South Wales, Junee and Oberon, which are 100% held by New South Resources Limited ("NSR") under Exploration Licenses (ELs).

The two projects occur in the Lachlan Orogen, a complex geological province endowed with world-class gold and gold-copper deposits.

The **Junee Project**, which contains the *Dobroyde* gold deposit, comprises three exploration licences covering about 70 km² along a belt of productive Ordovician volcanic rocks that host several different styles of gold mineralisation including high-sulphidation epithermal gold (Gidginbung, Peak Hill), low-sulphidation epithermal gold (Cowal) and porphyry copper-gold (Northparkes).

Dobroyde is a high-sulphidation epithermal gold deposit discovered in outcrop by Getty Oil in the early 1980's. It occurs in structurally controlled zones of siliceous alteration and cross-cutting baryte veins surrounded by clay-rich alteration zones in andesitic volcanic host rocks. Initial mineralogical and metallurgical studies indicate that the gold is largely free milling.

The **Oberon Project**, which contains the *Murphys* gold deposit, comprises one exploration licence covering about 254 km² across belts of Siluro-Devonian and Ordovician volcanic rocks. The Siluro-Devonian rocks host gold-rich VMS-related (Lewis Ponds) and orogenic gold (Hill End, Lucknow) mineralisation. Ordovician volcanic rocks in the project area are similar to those hosting the multiple gold-copper porphyry and gold-copper skarn deposits found in the nearby Cadia district. The Oberon Project area is therefore prospective for similar styles of mineralisation. Carboniferous granites intrude both of the older rock sequences within the project area and the edges of these intrusions are prospective for gold skarn deposits (Lucky Draw, Browns Creek).

Murphys is a VMS-related or orogenic gold deposit discovered by Newmont Mining in the late 1970's. It occurs in sulphidic quartz stockwork and quartz-muscovite-sulphide altered rhyodacitic volcanoclastic rocks.

The due diligence work confirmed that *Dobroyde* and *Murphys* each contain a JORC-compliant gold resource. These two deposits have been drilled to only shallow depths (<200m) and are believed to be open at depth and potentially along strike. A Statement of Resources relating to each project was prepared by Dr Ian Blayden of Geological & Management resources Pty Ltd on behalf of ARX from internal reports compiled by New South Resources NL and is summarised below.

Statement of Resources (Reported at a 0.3 g/t gold cut-off)

DEPOSIT	Indicated Resource			Inferred Resource			Contained Metal	
	Dry tonnes	Gold (g/t)	Silver (g/t)	Dry tonnes	Gold (g/t)	Silver (g/t)	Gold (oz)	Silver (oz)
Dobroyde (Junee)	2,080,000	1.15	-	-	-	-	77,000	-
Murphys (Oberon)	-	-	-	5,300,000	0.89	2.2	150,000	372,000

The resource estimates were calculated based largely on historic drilling data that was acquired by previous exploration companies in the respective project areas.

The data and methodologies used in the resource estimations were audited and verified by Dr Ian Blayden. His report was presented with a table of historic drill intercepts in a Company announcement made on 10 July 2013.



New ARX Projects in Australia

The key commercial terms of these agreements are:

- ARX has entered a 1 year Option Period on both projects for a minimum expenditure of A\$ 100,000 on Junee and A\$ 135,000 on Oberon.
- ARX may then earn a 51% interest, in one or both projects, by sole funding A\$ 500,000 within two years on each project it elects to progress.
- ARX may then earn up to an 80% interest, in one or both projects, by sole funding a further A\$ 580,000 within a further one year on each project it elects to progress.

The decision to proceed with the options on these two projects has set the platform to establish a firm foothold for the Company in a major gold and copper producing province that has excellent potential for further discoveries and growth.

ARX plans a program of geophysical and geological interpretation and targeting on both projects during the initial 12-month Option Period. Both projects have potential to be expanded through extending the existing resources as well as the discovery of new resources.

Competent Person

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 which he is 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. 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 Junee and Oberon Statement of Resources is extracted from the report entitled Junee and Oberon Projects - Statement of Resources created and released to the ASX on 10 July 2013 and 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.

This report is dated 23 July 2013.

For further information please contact:

Andrew J. Cooke

Company Secretary

T + 61 2 8076 6004

Email: andrewcooke@arx.net.au