

September 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 Anglo American exploring for large porphyry copper/gold deposits in Papua and West Papua.

The Company has Options to Farm-in to three gold properties in Eastern Australia; June and Oberon projects in New South Wales and the Mt Garnet Project in Queensland. All three projects contain drill-delineated gold resources with potential for expansion through further exploration.

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INDONESIA

Trenggalek Project, East Java

- Formal legal documentation for the Joint Venture with Anglo American was signed. Anglo American is fully funding the exploration programs that are testing the porphyry copper-gold potential of the Trenggalek Project.
- Geophysical modelling & interpretation were completed on magnetics, radiometrics and 3-Dimension IP data at **Sumber Bening** Prospect. Potential porphyry copper-gold targets beneath the high-sulphidation epithermal alteration lithocap were generated. Community socialization program is in progress ahead of drilling.
- Geophysical modelling & interpretation were completed on magnetics and radiometrics data from the **Buluroto** block area. Thirteen discrete targets were delineated and ground follow-up identified two major new alteration zones with high-sulphidation clay-alteration signatures in two of these, highlighting deeper porphyry potential.
- Scout drilling commenced on one of these targets, **Jerambah Prospect**, in early October 2013.

Strategic Alliance with Anglo American in Papua

- No work was undertaken.

AUSTRALIA

- Due diligence was completed on the **Mt Garnet Project** owned by Snowmist Pty Ltd. The decision was made to proceed with an Option to Farm-in to this gold project located in the highly prospective Hodgkinson Province of North-eastern Queensland. This project contains an Indicated Gold Resource of about 69,000 ounces in the *Triple Crown* gold breccia deposit.
- New exploration licence granted on the **June Project** in NSW.
- Work has commenced with the aim of generating new targets on the **June** and **Oberon Projects** in NSW.

CORPORATE

- Mr John Carlile retired as Managing Director & CEO on 30 September 2013 but will continue as a Non-Executive Director on the ARX Board. He was replaced by Dr Jeffrey Malaihollo as Managing Director & CEO of ARX commencing 1 October 2013.

INDONESIA

ARX is exploring for gold and base metal deposits along Indonesia's highly prospective magmatic arcs and associated geological terranes. The primary exploration targets are porphyry-related copper-gold 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. Formal legal documentation in support of the Joint Venture between ARX and Anglo American was signed on 22 August 2013. Exploration activities at Trenggalek are currently managed by ARX but fully funded by Anglo American.

An extension to the *Pinjam-Pakai* ("Borrow Use") Forestry Permit for the Trenggalek IUP was granted by the Indonesian Ministry of Forestry and is valid until the 3 November 2015. This allows the company to conduct exploration work on several targets in production forestry areas within the tenement.

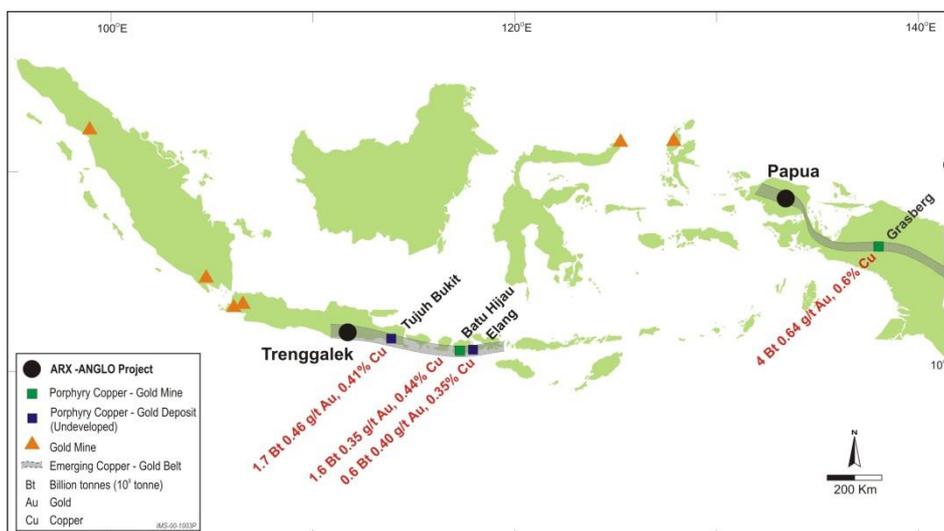
Targets

The focus of early exploration work by ARX on the tenement was on gold. Several shallow intermediate-sulphidation epithermal quartz vein systems associated with hydrothermal breccias and silica cappings in volcanic rocks and limestones were identified and had limited drill testing.

An exciting new phase of porphyry copper-gold exploration commenced in late-2011 following the discovery of a high-sulphidation epithermal alteration system at Sumber Bening. Other similar alteration systems have since been identified in the project area and these could be linked to porphyry gold-copper targets at depth.

Potential for major porphyry copper-gold deposits in the region is 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 Joint Venture with Anglo American announced in 2012 provides an opportunity to test the porphyry potential of the Trenggalek tenement.



Giant Porphyry Cu-Au Deposits & ARX Projects in Indonesia

Work Completed

Sumber Bening Prospect

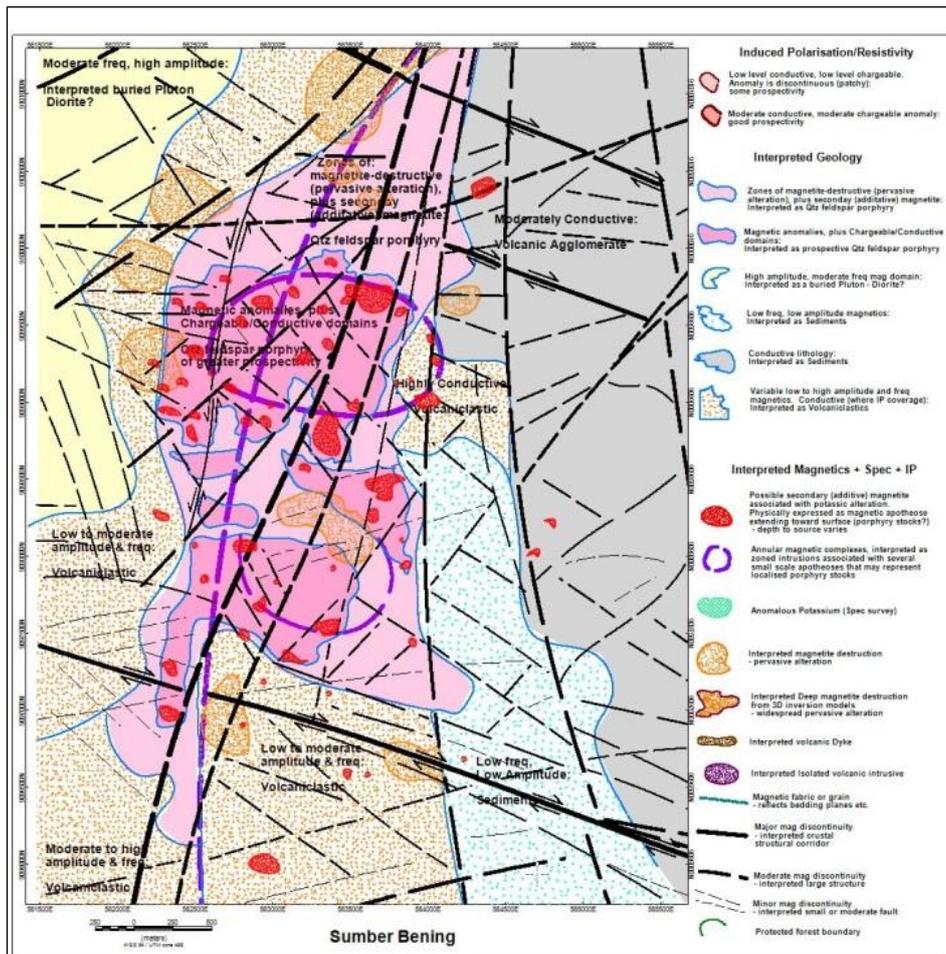
This prospect lies on prominent north-northwest-trending structures that cut across a 4km diameter-circular feature on the western side of the IUP. It contains an extensive area (+3 km x 2 km) of silica-pyrophyllite-dickite-pyrite alteration with localised vuggy silica alteration centred on volcanoclastic rocks and quartz-feldspar porphyry intrusions. Earlier reported rock chip sampling has returned up to up to 0.14 g/t gold and anomalous porphyry-pathfinder metals that include bismuth (up to 1410 ppm Bi), copper (up to 277 ppm Cu) and molybdenum (up to 37 ppm Mo).

Modelling and interpretation of airborne magnetics & radiometrics and ground 3DIP geophysical data collected over this prospect in the preceding 18 months was completed by a geophysical consultant.

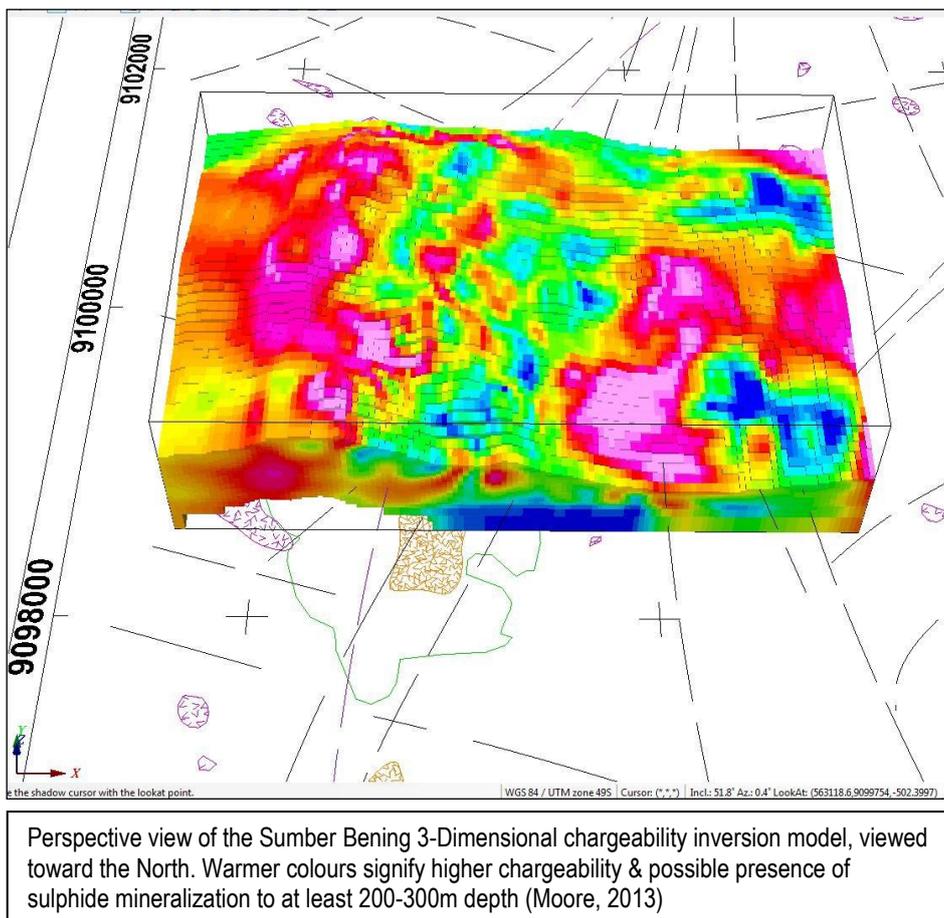
His work concluded that good potential exists for a porphyry copper-gold system beneath the high-sulphidation alteration lithocap at Sumber Bening.

The geophysical data at Sumber Bening support the presence of widespread pervasive alteration centred on quartz-feldspar porphyry intrusions at surface. Geophysical signatures suggest that the near-surface high-sulphidation alteration lithocap extends at depth and may grade into zones of secondary (replacement) magnetite-rich potassic alteration and structures associated with porphyry emplacement and copper-gold mineralization.

Drilling at Sumber Bening is planned upon completion of socialization of the work program to the local community. This work is still in progress.



Integrated interpretation of geology, structure & alteration from 3-Dimensional IP & magnetics inversion modeling at Sumber Bening. Light/dark pink colours signify mag-destructive HS-alteration centred on QFP intrusions & red blobs indicate possible Cu-Au targets in secondary mag-potassic alteration at varying depths (Moore, 2013)



Target Generation

Multiple targets regarded as having potential for buried porphyry copper-gold systems were derived from an initial 2D interpretation done on the 2012 airborne magnetics and radiometrics survey, and reported in the March 2013 Quarterly Report.

One of these targets, a 5 km x 6 km block area surrounding the Buluroto Prospect in the southeast corner of the Trenggalek IUP, was assessed by 3D magnetics-inversion modelling by Chris Moore of Moore Geophysics (Melbourne).

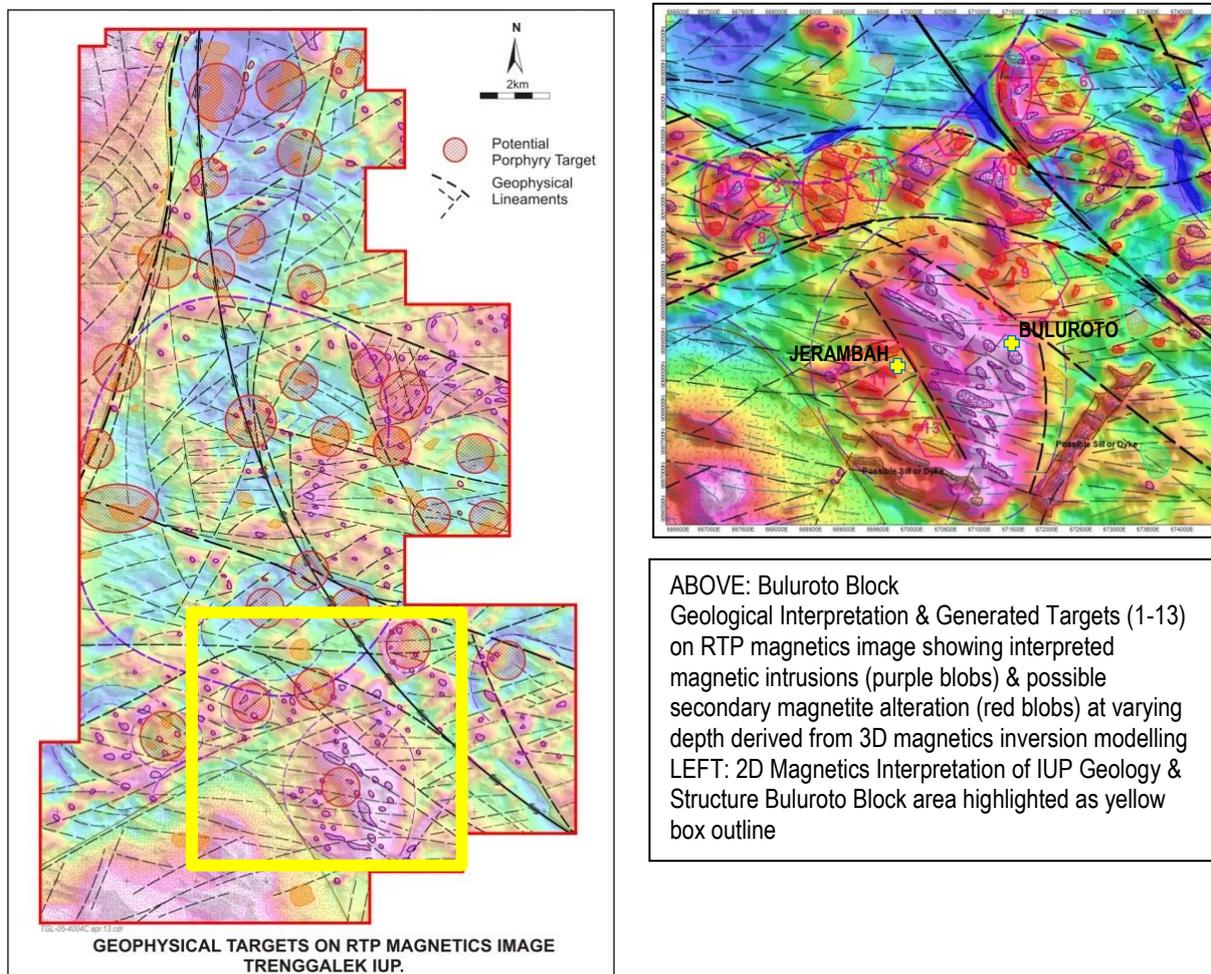
Buluroto contains an intermediate-sulphidation epithermal gold vein-breccia target that was tested by shallow scout drilling in 2010 and returned a gold-copper-molybdenum intercept of 24.5m at 0.51 g/t Au, 0.21% Cu & 16 ppm Mo from 138.5m down-hole from chalcopyrite-bearing breccia in TRDD025. This intercept was one of the first indications of the deeper porphyry potential at Trenggalek.

The aim of the 3D magnetics inversion modelling work was to identify geophysical signatures that might indicate the presence of mineralized porphyry systems and to aid with generating drill targets. The main conclusions of the study were:

- The Buluroto block area covers a large annular magnetics response containing discrete high frequency magnetic features and interpreted zones of alteration (demagnetisation).
- A large, vertical, contiguous body, oblong in plan section, was modelled to extend from >5000m depth to within 500m of surface. This is interpreted as an intrusive sub-volcanic 'stock' within a volcanic-intrusive complex that is about of about 2.5km in diameter and is similar in size to that hosting the giant Tumpangpitu porphyry copper-gold deposit at Tujuh Bukit.
- Several intrusive apophyses extend upward from this stock to within a few hundred meters of surface. These are considered prospective for porphyry style mineralization - particularly where a physical connection between the apophysis and main intrusive indicates a possible syngenetic origin and provides a pathway for fluid transport.

- The main sub-volcanic intrusive is cut by large WNE- to NW-trending crustal structures and it is possible that intrusions and porphyry-related mineralising fluids exploited these structures.

There were thirteen discrete targets identified within the Buluroto block area for follow up ground evaluation. These targets were derived from features interpreted from the 3D magnetics-inversion analysis; including magnetic or non-magnetic structural lineaments interacting with inferred alteration zones centred on or around intrusive apophyses/plugs connected to the deeper stock-like intrusion.



Follow-up field evaluation of the 13 targets was completed. Two areas of extensive silica-clay-pyrite alteration were identified within Targets 9 and 11. The other targets contain relatively minor occurrences of alteration and veining within largely unaltered volcanic rocks.

The two large alteration zones found within Target 9 (Buluroto North) and Target 11 (Jerambah) are each centred on quartz diorite or Quartz Feldspar Porphyry (QFP) intrusions and measure at least 1.5km x 1km and 2km x 1.5km, respectively. The dominant clay minerals within these alteration zones were determined by Terraspec analyses and include dickite, pyrophyllite and illitic clays. Vughy silicification and quartz stockworks locally occur within these large alteration footprints. The silica-clay-pyrite alteration overprints an earlier patchy propylitic alteration assemblage of chlorite-epidote-magnetite in the intrusions and volcanic rocks.

Initial rock chip grab sampling of altered outcrops within the respective target areas returned up to 1.75 g/t Au and 93 ppm Cu in Target 9 (Buluroto North) and up to 562 ppm copper and 37 ppm molybdenum in Target 11 (Jerambah). Grid-based soil geochemical sampling is planned over both target areas.

The occurrence of higher temperature acid clays (dickite & pyrophyllite) suggests the possibility of high-sulphidation alteration lithocaps within both target areas. The large size of the alteration footprints and association with discrete quartz-diorite/QFP intrusions, as well as indications of gold-copper-molybdenum anomalism in rock chip, are highly encouraging and support the potential for mineralized porphyry systems at depth.

Start of Drilling

Results from the follow-up field evaluation were sufficiently encouraging to plan an initial scout drill hole on Target 11 (**Jerambah Prospect**).

Drilling commenced in the first week of October following socialization of the work program to the local community. Drilling is contracted to PT. Maxidrill Indonesia using a MXD-420 man-portable diamond drill rig with a depth capacity of up to 650 metres in PQ-HQ-NQ core sizes.

The first hole (TRDD054) at Jerambah Prospect is located about 2 km southwest of the Buluroto epithermal gold-breccia prospect. This hole tests a magnetic target delineated beneath the +2.5 km x 1 km alteration zone centred on a quartz diorite/QFP intrusion. The magnetic target is interpreted to be possibly secondary magnetite associated with potassic alteration and the top of which is predicted to be below 400 metres depth down-hole.

The hole is part of a larger program that will test a number of geophysical targets identified on the Trenggalek IUP.

Exploration expenditure at Trenggalek for the quarter totalled US\$364,943 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 holds three Exploration IUP tenements owned by 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 work was undertaken during the quarter.

AUSTRALIA

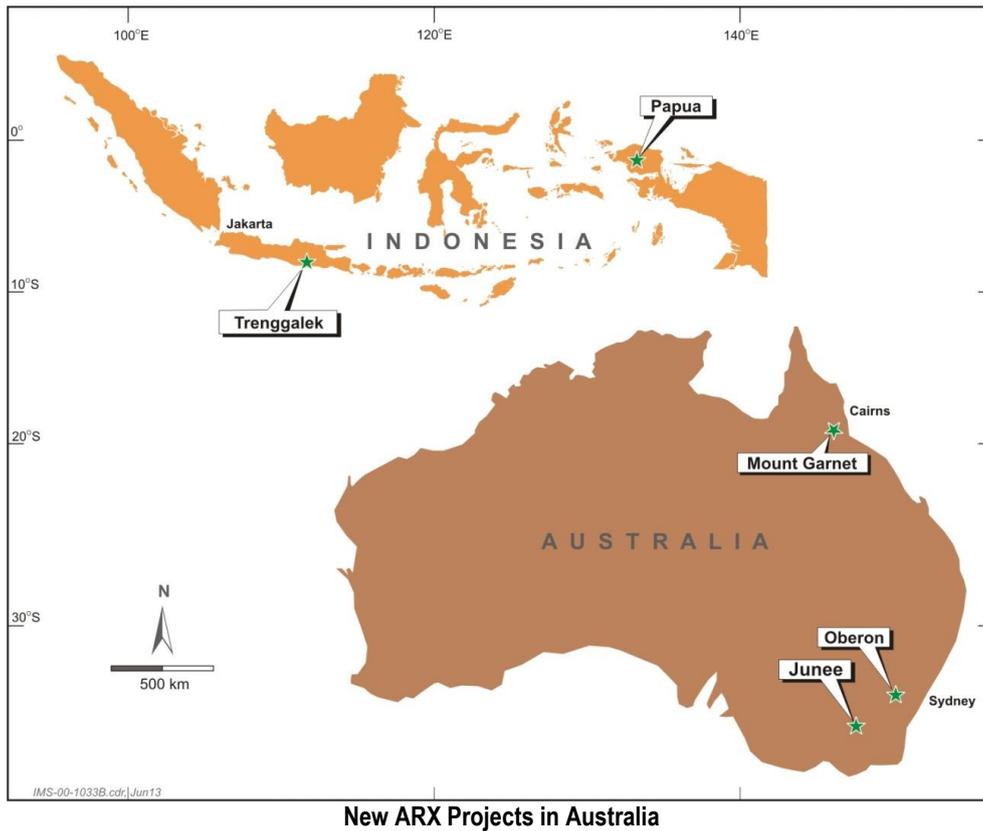
Mt Garnet Project - Queensland

The Company announced on 21 August 2013 that it had completed due diligence and elected to proceed with an option to farm-in to earn up to 80% of the Mt Garnet gold project located in the highly productive Hodgkinson Province of Northeast Queensland. The project comprises three Mining Leases (ML's) covering about 150 hectares that are 100% held by Snowmist Pty Ltd ("Snowmist").

The project occurs within the historic and currently producing Mt Garnet tin-base metal mining subdistrict of the Herberton Tinfield. It lies at the southern end of the same belt of highly productive Siluro-Devonian metasedimentary rocks intruded by Permo-Carboniferous granites that are host to the large Mungana/Red Dome gold-base metal skarn, quartz-stockwork and breccia deposits in the Chillagoe mining district located about 100 km to the northwest.

Triple Crown 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 and metasedimentary rocks. The gold mineralization 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).

The due diligence work confirmed that *Triple Crown* contains a JORC-compliant gold resource of about 69,000 ounces. The deposit has been drilled to only shallow depth (<200m) and is believed to be open at depth. There is good potential to increase the resource through further exploration beneath the existing resource and on the surrounding prospects.



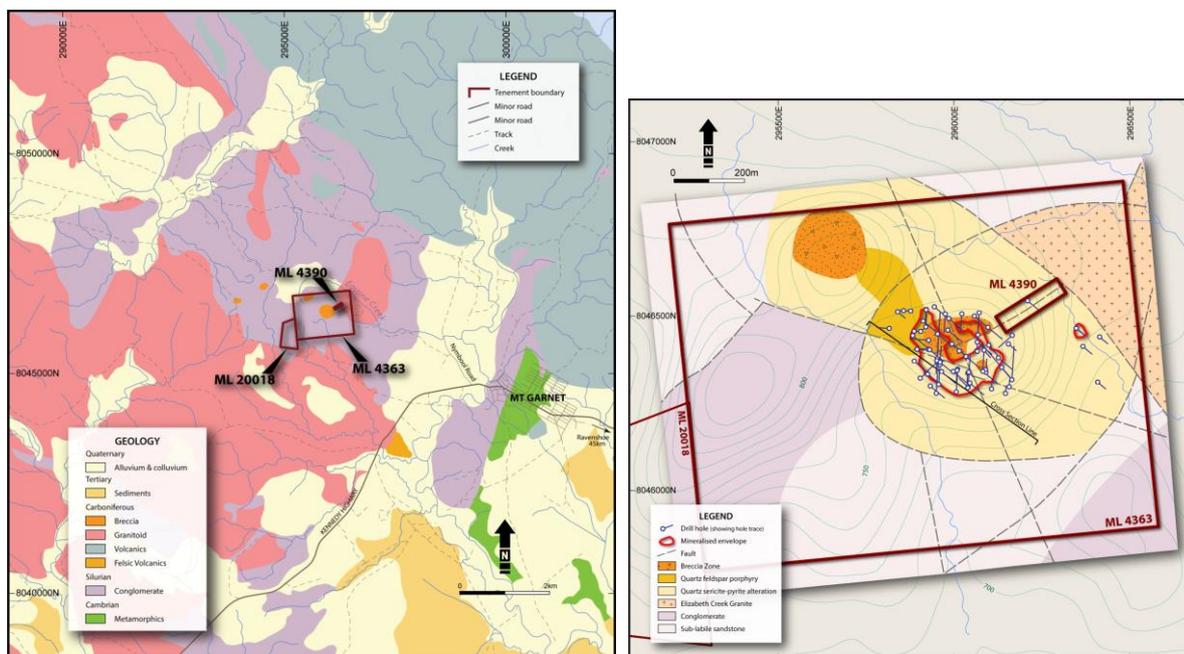
Summary Statement of Resources

The Triple Crown gold resource estimated reported at a 0.3 g/t gold cut-off is prepared by Dr Ian Blayden of Geological and Management Resources Pty Ltd and based on internal reports compiled by Snowmist:

	Indicated Resources		
	Dry tonnes (Mt)	Gold (g/t)	Contained Gold (oz)
Oxide	0.63	1.2	25,000
Fresh	1.45	0.9	44,000
Total	2.1	1.03	69,000

The resource estimates were based on historic drilling data acquired by previous exploration companies holding the project area. 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 21 August 2013.

ARX plans to do a program of geophysics, further surface work, geological interpretation and possible drill testing during the initial 2 Year Option Period.



Triple Crown ML's in the Mt Garnet District

Triple Crown Gold Deposit & Geology

New South Wales

In the previous quarter the Company announced that it had signed Binding Term Sheets with New South Resources Limited ("NSR") to Option and Farm-in on their two gold projects located in New South Wales, Junee and Oberon. Notice to proceed with the Option and Farm-in arrangements on these two projects was given to NSR on 3 July 2013.

The **Junee Project**, located near the major regional centre of Wagga Wagga, comprises three contiguous Exploration Licences (EL's 6516, 6658 & 6768) that straddle part of the major regional Gilmore Fault Zone and contains 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, such as Northparkes, Gidginbung and Cowal, occur along this fertile volcanic belt and their distribution is also 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 mineralization envelope, including 22m at 37.3 g/t gold, 16m at 10.5 g/t gold and 6m at 18.2 g/t gold.

An additional new Exploration Licence, EL 8152, has been granted directly to ARX that comprises 13 units (approximately 36 square-kilometres) and adjoins the western margin of the package of exploration licences held by NSR. It lies immediately south of Dobroyde. The package of volcanic rocks that hosts Dobroyde is interpreted to extend into this newly granted EL tenement, highlighting potential for additional gold resources.

A mandatory 50% partial relinquishment of less prospective ground within adjoining EL 6768 was also done during the quarter. The total area of the EL package on the Junee Project is now approximately 87 square-kilometres.

The **Oberon Project**, located near the major regional centre of Bathurst, comprises one large licence EL 6525 and a smaller adjoining licence EL 8110 that was recently granted to NSR. The total area of the EL package on this project is approximately 265 square-kilometres.

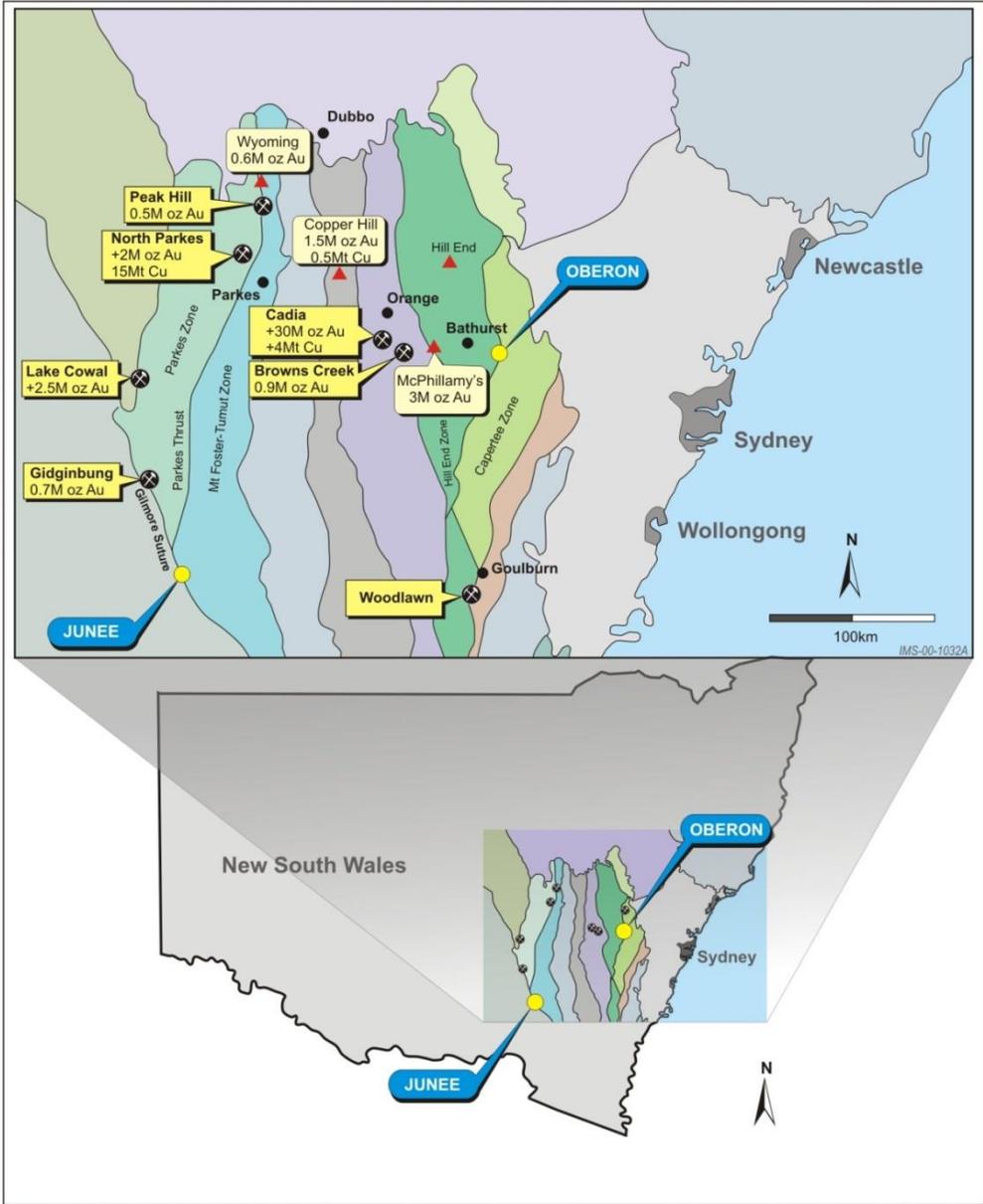
The project area covers Siluro-Devonian and Ordovician volcanic rocks of the Hill End Trough and the Macquarie Volcanic Arc on the eastern side of the Lachlan Orogen. The Siluro-Devonian volcanosedimentary rocks in this region are host to VMS-related gold-base metal (McPhillamys, Lewis Ponds) and orogenic gold-vein (Hill End, Lucknow) deposits. Ordovician volcanic rocks within the project area are of similar age and composition 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 mineralization. Carboniferous granites intrude

both of the older rock sequences and the edges of these intrusions are prospective for gold skarn deposits (Lucky Draw, Browns Creek).

EL 6525 contains the 150,000-ounce *Murphys* gold deposit (see ASX announcements of 3rd and 10th July 2013) on which historic drilling has produced some broad low-grade gold intercepts including 49m at 0.75 g/t gold, 23m at 1.05 g/t gold and 34m at 0.62 g/t gold.

The *Dobroyde* (**Junee**) and *Murphys* (**Oberon**) gold 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 is summarised in the June 2013 Quarterly Report.

ARX has initiated a program of geophysical and geological interpretation on the existing extensive databases to generate new targets and to aid with the preparation of future drilling programs to expand the gold resources on each of the projects.



Location Plan Showing Location of the Junee & Oberon Projects

CORPORATE

ARX announced the retirement of Mr John Carlile as Managing Director and CEO and the appointment of Dr Jeffrey Malaihollo to this role effective of 1 October 2013. Mr John Carlile has retired from the position but will remain as a Non-Executive Director with ARX.

Dr Malaihollo's background and experience positions him well to lead ARX. He is aged 47 and originally from Indonesia, with a PhD in Geological Sciences from the University of London researching the tectonics of eastern Indonesia. Dr Malaihollo has been involved in the exploration and mining industry for 20 years working with both major and junior exploration companies in Indonesia, Australia and elsewhere. He was the Managing Director and a founder of AIM-ASX listed GGG Resources Plc, which in 2010 acquired a four hundred thousand ounce gold resource in Western Australia and within less than three years increased this to over three million ounces. Prior to this he was the Head of Research at a specialist mining finance house in London.

This report is dated 17 October 2013.

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Competent Person Statement

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 mineralization 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 & Oberon gold 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. For further information please contact: