

March 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 to explore for large porphyry copper/gold deposits in Papua and West Papua.

Arc Exploration Limited
ABN 48 002 678 640
Level 14, 19-31 Pitt Street
Sydney NSW 2000

Tel: + 61 2 9241 3451
Email: info@arx.net.au

www.arcexploration.com.au

INDONESIA

Trenggalek Project, East Java

- *Pinjam-Pakai* ("Borrow and Use") Forestry Permit granted; increase in exploration activity planned at Trenggalek.
- Contracts signed for ground geophysics and scout drilling to commence testing porphyry targets at Sumber Bening next quarter.
- Exploration is funded by Anglo American.

Strategic Alliance with Anglo American in Papua

- No field work was undertaken.

NEW PROJECT GENERATION

- ARX signs Term Sheets for options over two new Australian gold projects in early April.
- Projects located in the highly endowed Lachlan Orogen of New South Wales, which contains world-class gold and gold-copper deposits.
- Projects each contain an advanced gold target with potential to expand through further discoveries.

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 last quarterly report. Exploration activities at Trenggalek are currently managed by ARX but fully funded by Anglo American.

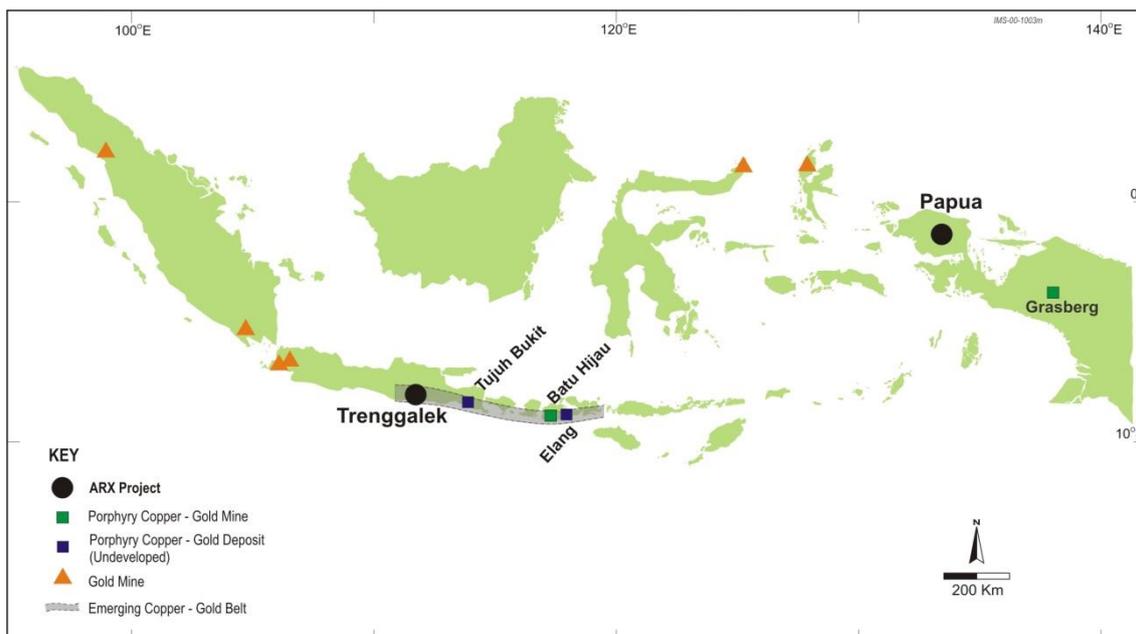
Targets

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 mineralisation at depth.

The potential of the region for major porphyry copper-gold deposits is highlighted by the discovery of Tumpangpitu by Intrepid Mines 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

Forestry Permit

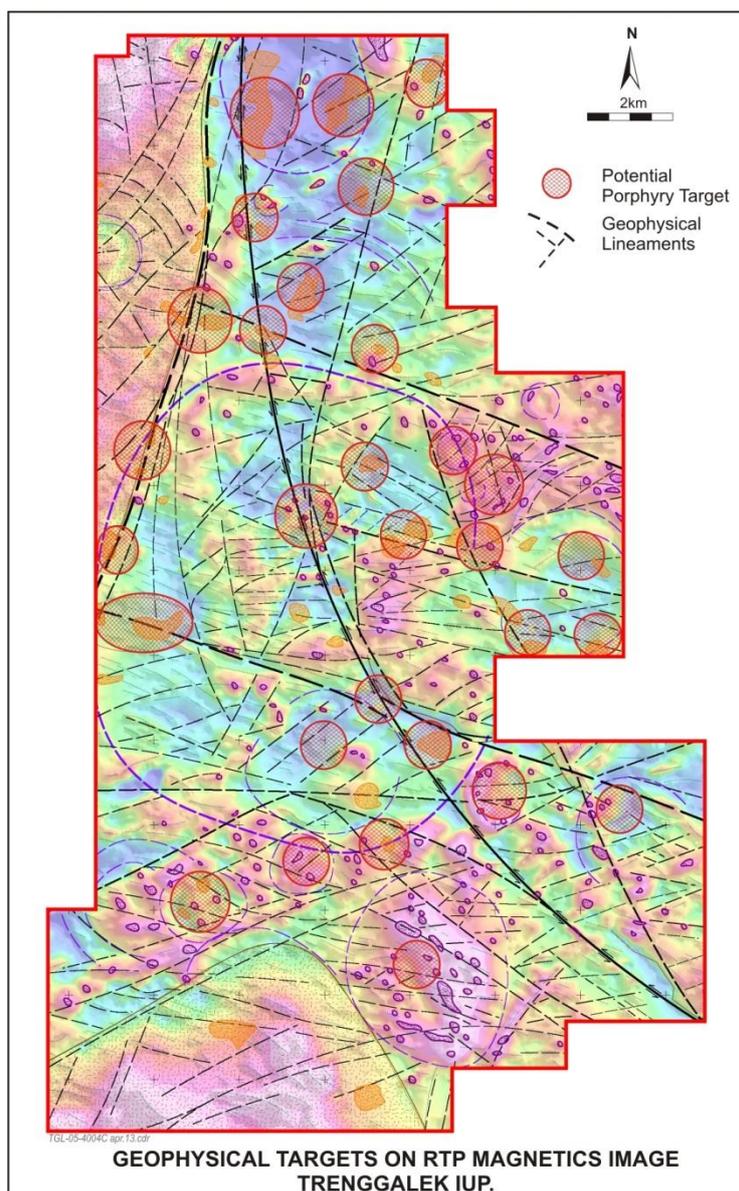
A *Pinjam Pakai* ("Borrow Use") Permit for the Trenggalek IUP was granted by the Indonesian Ministry of Forestry on 28 February 2013 and is valid until the 2 November 2013. This allows the company to conduct exploration work on several targets in production forestry areas within the tenement.

Geophysical Interpretation

Chris Moore of Moore Geophysics was commissioned to do a first pass two-dimensional interpretation of the processed magnetics and radiometrics data generated from the airborne survey flown last year.

Multiple targets were highlighted (see figure below). These are derived from geophysical responses that are interpreted to represent possibly one or more of the following geological features that are sometimes associated with the occurrence of porphyry deposits; structural junctions, dilational zones, and hydrothermal alteration footprints associated clusters of volcanic plugs and other high-level intrusions. The targets delineated from this work coincide with some of the known prospects and others highlight new areas that require follow-up ground evaluation.

This interpretation is being integrated with available geological and geochemical information in order to refine and rank targets ahead of follow-up ground evaluation, further ground geophysics and drilling. Airborne magnetics and radiometrics data was apparently a fundamental tool used in the discovery of the buried porphyry system at Tujuh Bukit.



Interpretation by Moore Geophysics

Field Activity

Work during the quarter focussed on follow-up on priority targets in non-forestry areas. Work involved mapping, sampling and alteration studies using a Terraspec analyser to identify alteration minerals indicative of possible buried porphyry copper-gold deposits.

A possible high-sulphidation epithermal system was identified at **Gregah Prospect**. The TerraSpec analyser detected alunite, dickite and kaolinite in alteration assemblages within and surrounding silica cappings at this prospect. Gold results of up to 10 g/t were previously returned from grab samples of quartz-chalcedony veins and hydrothermal breccias taken at this prospect and these are also associated with elevated arsenic and antimony geochemistry. The alteration feature at Gregah is large, extending over 4 km by 4 km, and is believed to be centred on a quartz-feldspar intrusion and associated volcanoclastic rocks.

Planned Program

Contracts were signed during the quarter with GPX Geophysics of Perth to undertake ground IP-Resistivity surveys and PT Maxidrill Indonesia to undertake diamond drilling at Trenggalek.

Site preparatory work was underway at the end of the quarter with the aim of commencing a geophysical survey in April and drilling soon thereafter.

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 a large alteration footprint (+5 km x 2 km) and has returned elevated gold-copper-bismuth-molybdenum-arsenic-antimony geochemistry in previous soil and rock chip samples.

TerraSpec analyses of surface outcrops confirmed the presence of dickite, pyrophyllite and alunite in the vuggy silica and clay-rich alteration zones at Sumber Bening. These minerals commonly occur in the upper levels of porphyry copper-gold systems.

The high-sulphidation epithermal and geochemical signatures occur in altered quartz-feldspar porphyry and diorite intrusions in volcanoclastic rocks. These features support the potential for mineralised porphyry copper-gold intrusions at depth at Sumber Bening, which are the primary target of the ground geophysics and scout drilling in the next quarter.

Exploration expenditure at Trenggalek for the quarter totalled US\$ 213,400 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 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

The Company continued to evaluate new project opportunities in eastern Australia during the quarter. Numerous possibilities were reviewed with the search targeting accessible projects that contain at least one advanced gold prospect together with additional exploration upside for further discoveries in a productive mineral province.

On 11 April 2013 the Company announced that it had signed Option to Farm-in Term Sheets on two gold projects located in the Junee and Oberon districts of New South Wales that met these criteria,. They occur within the Lachlan Orogen, a complex geological province endowed with world-class gold and gold-copper deposits. These projects are held 100% under exploration licences (ELs) by New South Resources Limited (NSR).

The **Junee Project** comprises three exploration licences covering about 70 km² along a belt of productive Ordovician volcanic rocks that contains several different styles of major gold deposits: high-sulphidation epithermal gold (Gidginbung, Peak Hill), low-sulphidation epithermal gold (Cowal) and porphyry copper-gold (Northparkes). It contains an advanced gold target, *Dobroyde*, which is a high-sulphidation epithermal gold system discovered by Getty Oil in the early 1980's.

The **Oberon Project** is one exploration licence covering 254 km² across belts of Siluro-Devonian and Ordovician volcanic rocks. The Siluro-Devonian rocks are prospective for gold and base metals in VMS (Volcanic-hosted Massive Sulphide) and VMS-related systems, such as Woodlawn and the more recent discovery made at McPhillamys to the west of the Oberon Project. 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. It contains an advanced gold target, *Murphys*, which is a VMS-related quartz-stockwork gold system discovered by Newmont Mining in the late 1970's.

Information supplied by NSR indicates that the two advanced gold targets each contain a modest-sized, low-grade gold resource. These will be assessed further during the due diligence process.

There is good potential to discover additional resources at other gold targets identified on these projects. In addition, there is potential for the discovery of porphyry copper-gold deposits in the relatively underexplored Ordovician rock suites that occur within the licence areas.

The key commercial terms are:

- Subject to a 90 day exclusive due diligence period ARX may enter a 1 year Option Period on one or 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.

Planned Program

Due diligence will be undertaken on these projects and results announced in the next quarter.

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.

This report is dated 22 April 2013.

For further information please contact:

Andrew J. Cooke
Company Secretary
Tel: + 61 2 9241 3451
Email: andrewcooke@arx.net.au

