

December 2011 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 in two projects with PT Sumber Mineral Nusantara. These are the Trenggalek tenement in East Java and the Bima tenement in East Sumbawa. Both projects lie on the Sunda-Banda magmatic arc and are prospective for high-grade epithermal gold-silver vein deposits and porphyry copper-gold deposits.

In association with the Anglo American Group, the Company is also exploring for large porphyry copper/gold deposits in Papua.

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Exploration - Indonesia

Trenggalek

- Two new prospects were identified at **Trenggalek**:
 - *Sumber Bening* is a large area of silica-clay-pyrite and local vuggy silica alteration centred on quartz-feldspar porphyry that may be a lithocap with porphyry gold-copper potential at depth; and
 - *Bogoran* comprises widely distributed gold anomalies in narrow quartz veins and silicified limestone ("jasperoid") and may have potential for shallow bulk tonnage gold.

Bima

- Following extensive community consultation exploration activity recommenced.
- Field work included regional reconnaissance in the northern and western parts of the tenement, and further soil sampling and trenching at *Soro*.
- New trench results from *Soro*, include **26 m at 0.35 g/t gold** in ST34, **16 m at 0.64 g/t gold** in ST30 and **10 m at 0.65 g/t and 4 m @ 1.3 g/t gold** in ST 29 that have extended and defined a new zone of gold mineralisation.
- Exploration activities were halted at the end of the quarter following demonstrations at the port of Sape. Subsequently the exploration license was temporarily suspended by the Regent of Bima for a period of 12 months.

Papua

- Processing of a forestry use permit ("Pinjam Pakai") continued for the three IUP's in West Papua that are part of the **ARX – Anglo Strategic Alliance**.

Corporate

- At the end of this quarter the Company holds a strong financial position with a cash balance in excess of A\$5.8 million. This is expected to be sufficient to fund the Company's planned activities through at least the next 12 months.

PROJECT ACTIVITY – INDONESIA

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

Java

Trenggalek Project, East Java

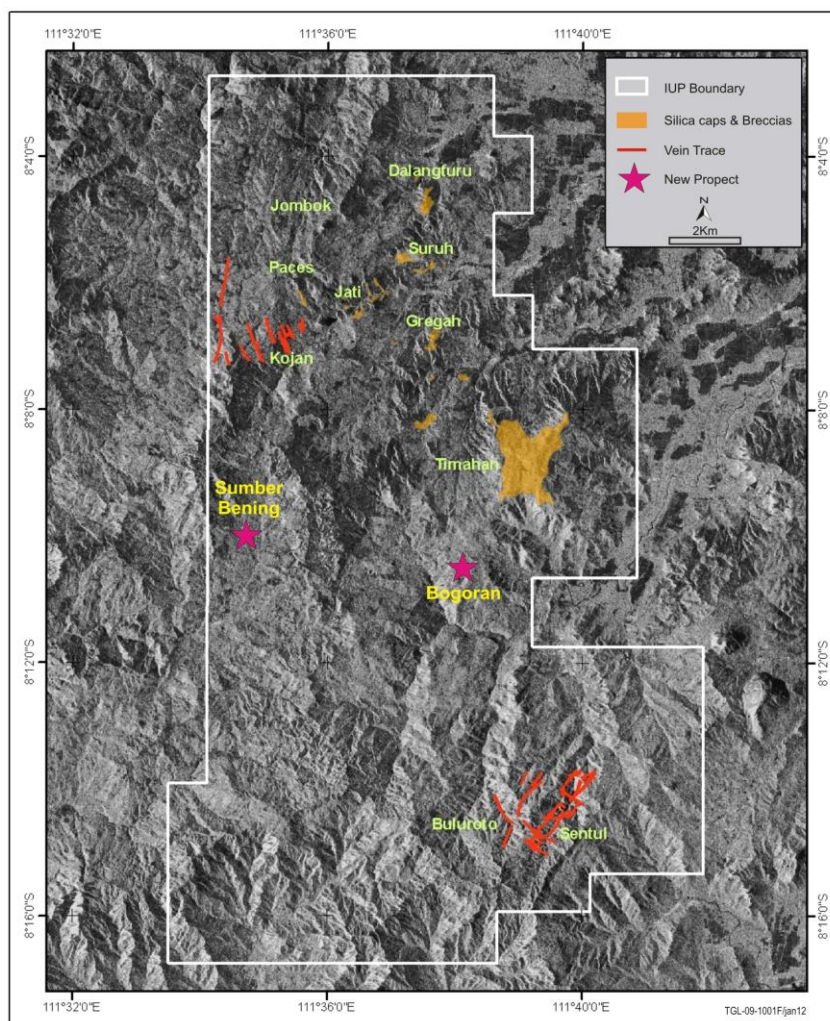
The Company has a joint venture with P.T. Sumber Mineral Nusantara, which holds the Trenggalek Exploration IUP license covering an area of 30,044 ha (~300 km²) in the Southern Mountains of East Java.

Gold mineralisation at Trenggalek occurs in epithermal quartz vein systems associated with hydrothermal breccias and silica cappings hosted by a package of volcanic rocks and limestone. The area is also prospective for replacement-style gold mineralisation in silicified limestone ("jasperoid") and possibly deeper porphyry-related copper-gold targets.

The potential for major gold-copper deposits in East Java is highlighted by the discovery made by Intrepid Mines of a large oxide gold (2.4 million-ounce gold) and deeper porphyry gold-copper (25 million-ounce gold, 15 billion-pounds copper) resources at their Tujuh Bukit Project.

Exploration activity focussed on prospecting in areas outside of the production forest and resulted in two new prospects being identified on the western side of the tenement.

Consultation continued with the Indonesian Ministry of Forestry for the renewal of the forestry use permit ("Pinjam Pakai").



TRENGGALEK IUP SHOWING MAJOR PROSPECTS

Sumber Bening

Sumber Bening lies within a 4km circular feature highlighted by PALSAR satellite imagery comprising elevated terrain with a radial and annular drainage pattern on the western side of the IUP. Within this feature an extensive area (+2-km by 1-km) of silica-clay-pyrite alteration with localised pods of vughy silica-hematite-pyrite alteration centred on quartz-eye bearing volcanoclastic rocks and rhyodacite porphyry intrusions occurs.

Initial grab sampling of altered rock boulders and outcrops returned assays of up to 0.14 ppm gold and anomalous gold-pathfinder elements that include bismuth (up to 1410 ppm Bi), copper (up to 277 ppm Cu) and molybdenum (up to 37 ppm Mo). The extent of the alteration and the coincident geochemical association in vughy silica and clay-pyrite altered quartz-eye porphyry rocks are particularly encouraging and may represent an alteration lithocap over buried mineralised porphyry intrusions.

Systematic surface geochemical sampling and possibly ground geophysics are proposed to further evaluate this new porphyry target.



Bogoran

Bogoran lies on major structural lineaments highlighted by PALSAR satellite imagery that extend along the eastern side of Timahan Prospect and into the area where scout drilling was conducted in 2011.

Initial grab sampling from float and outcrops produced elevated gold in silicified limestone and in narrow epithermal quartz veins cutting andesite porphyry. Thirty-seven of 60 rock samples returned gold assays ranging from 0.1 to 2.96 g/t gold (average 0.43 g/t gold). One grab sample taken from a 20 cm wide banded quartz-limonite vein returned a gold result of 23.3 g/t gold.

Two jasperoid zones measuring 400 m by 20 m and 200 m by 80 m occur at the northern end of the prospect and several narrow zones of NE- and NNW-trending quartz veining up to 500 m long occur in andesite on the southern and eastern sides of the prospect. The host structures may coalesce into broader zones of mineralisation that have bulk tonnage potential.

Further surface work is in progress to better define the potential for bulk tonnage and high grade gold targets.



Exploration expenditure at Trenggalek during the quarter totalled A\$163,863.

West Nusa Tenggara

Bima Project – East Sumbawa

The Company operates another joint venture with P.T. Sumber Mineral Nusantara (P.T. SMN). The Bima Exploration IUP license covers an area of 24,980 hectares (~250 km²) in East Sumbawa, West Nusa Tenggara.

The Bima Project is located about 230 km east of Newmont's Batu Hijau porphyry copper-gold deposit and lies on the same segment of the Sunda-Banda magmatic arc. Targets identified at Bima are gold and base metal-rich intermediate-sulphidation epithermal veins, disseminated gold in silicified limestone, and gold-rich high-sulphidation lithocaps hosted in a package of volcanic and sedimentary rocks that may be related to deeper porphyry copper-gold targets.

During the quarter the Company recommenced limited exploration activity comprising regional geochemical sampling and further soil sampling and trenching at *Soro Prospect*.

The decision to recommence field work followed the positive response received from the local communities and Government authorities after a series of community liaison meetings that were held over the course of the previous two quarters at all of the major villages within the IUP (see *photographs below*).

Exploration activities were subsequently halted at the end of the quarter due to anti-mining demonstrations at the port of Sape. The demonstrators stated that they opposed all mining and demanded the revocation of P.T. SMN's exploration licence. The demonstrators blockaded the port and a police action to re-open the port on the 24th December 2011 resulted in two reported fatalities.

The Company was formally advised on 31st December 2011 that the Exploration IUP licence held by P.T. SMN had been temporarily suspended for one year effective from 23rd December 2011.

P.T. SMN remains in full compliance with all legal, regulatory and licence requirements and will continue to seek resolution of the current situation.

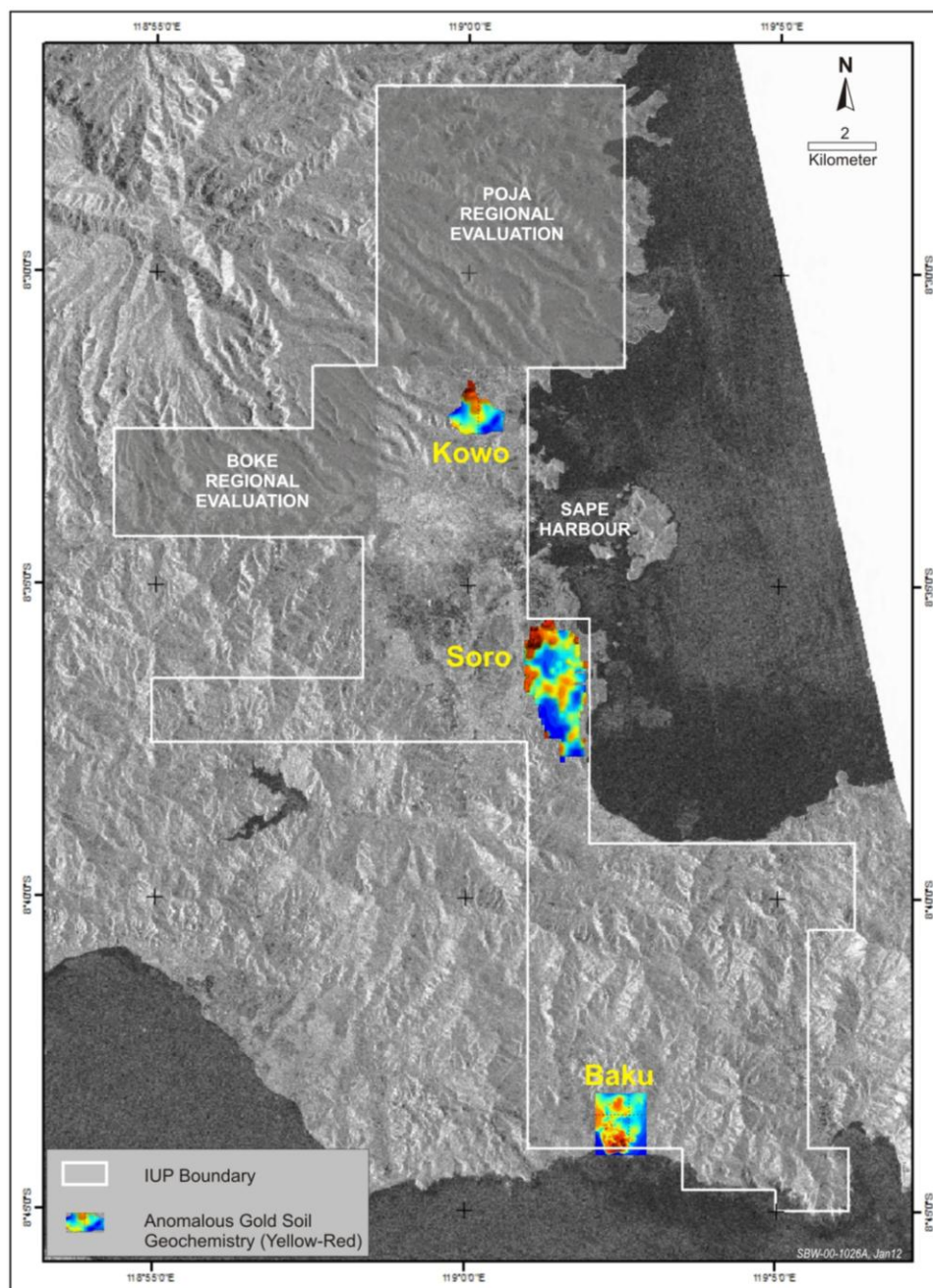


LAMBU & SAPE COMMUNITY MEETINGS
Attended by Community Members, Government & Company Personnel (Oct-Nov 2011)

Regional Work

Reconnaissance was conducted at Poja in the northern part of the IUP. The area comprises young volcanic cover and the aim was to identify any windows of older mineralised volcanic rocks similar to those exposed at Kowo where trench intersections of up to 28m at 0.47 g/t Au & 8.5 g/t Ag and 32m at 0.68 g/t Au & 22 g/t Ag in KT-06 have been reported.

Drainage samples were collected at a sample density of about 1 sample per 2 square-kilometres over the survey area and assayed for gold and a suite of gold-pathfinder elements.



BIMA IUP SHOWING MAJOR PROSPECTS

Gold results from minus-80 mesh fine-fraction stream sediment and BLEG samples are low (<0.005 ppm Au; <1 ppb Au) and no further work is proposed at this stage.

Boke Prospect

Reconnaissance was also conducted at the *Boke Prospect* on the western side of the IUP, in areas of altered volcanic rocks.

Geological mapping delineated two large areas (1.3 km x 1.7 km and 0.6 km x 2.0 km) of silica-clay-pyrite-limonite alteration and minor thin quartz veining hosted in volcanic rocks.

Drainage samples were collected at a sample density of about 2 samples per square-kilometre and assayed for gold and a suite of gold-pathfinder elements.

Sixteen of the 40 BLEG samples returned greater than 1 ppb gold and 10 ppb silver with peak results of 22.7 ppb gold and 223 ppb silver. Anomalous gold results were also returned from fine-fraction stream sediment samples with a peak result of 1.08 ppm gold accompanied by gold-pathfinder anomalies.

Follow-up rock sampling returned mostly low gold results but up to a maximum of 44 g/t silver, 43 ppm bismuth, 193 ppm copper and 350 ppm molybdenum in grab samples. Soil sampling results are awaited.

Initial assay results demonstrate coherent low-level gold and silver anomalies in drainage samples over the two areas of alteration. Quartz-eye porphyry found within the alteration zones is encouraging as this rock type is commonly associated with porphyry-related gold-copper mineralisation elsewhere on the island (e.g. Batu Hijau). A large part of the Boke prospect remains to be tested.

Soro Prospect

Infill soil sampling at the northern end of the prospect has more accurately defined and extended the zones of anomalous gold-multielement soil geochemistry over mineralized silicified limestone and volcanoclastic rocks that occupy a large area of at least 4 km by 2 km.

A further sixteen trenches for a total of 962 m were completed in the northern part of the prospect. The results have extended known zones and have also identified new zones of gold mineralisation. Soil anomalies to the south also remain to be tested by trenching.

Widely spaced step-out trenches on the north-western side of the prospect returned broad low-grade intercepts of **16 m at 0.36 g/t gold** in ST28 and **12 m at 0.25 g/t gold** and **26 m at 0.35 g/t gold** in ST34. These occur about 1 km south of trench ST18 that previously returned intercepts of 59 m at 0.84 g/t gold and 26 m at 1.31 g/t gold.

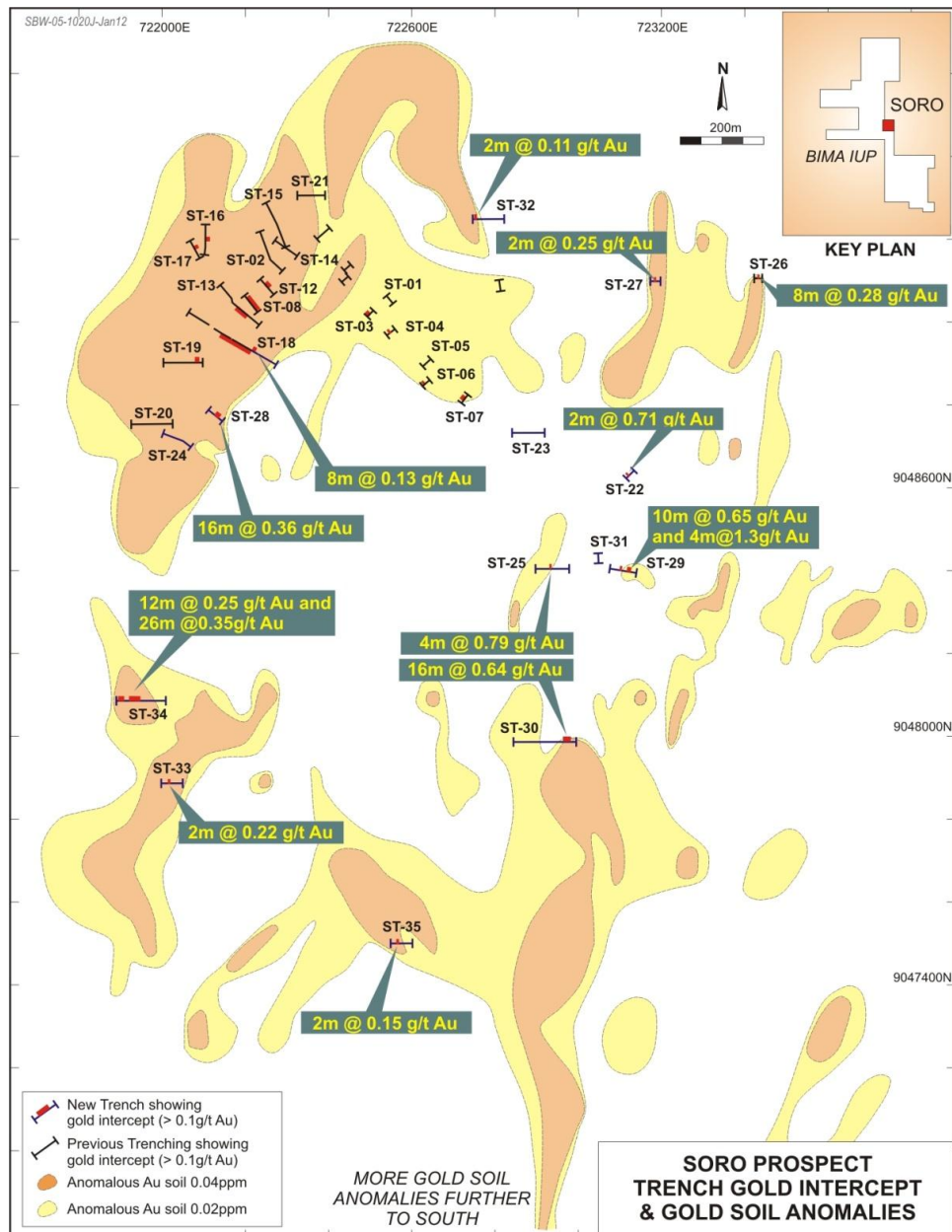
A new zone of gold mineralisation was identified by trenching on the north-eastern side of the prospect. Several widely spaced trenches completed over gold-soil anomalies returned up to **10 m at 0.65 g/t gold** and **4 m at 1.30 g/t gold** in ST29 and **16 m at 0.64 g/t gold** in ST30.

As with previous trench intercepts, these new gold results are associated with anomalous gold-pathfinder metals. These recent results have significantly extended the area of gold mineralisation at Soro which remains open to the south.

The broad low-grade gold intercepts appear in some case to be associated with adjacent high grade structures as indicated by a previous trench intercept of 2 m at 35.4 g/t gold within a zone of 38 m at 2.88 g/t gold in ST13. Ground magnetics and electrical geophysics conducted in early 2011 showed coincident low magnetic and high resistivity and chargeability zones beneath the gold-multielement soil anomalies, which further support the potential for gold mineralisation at depth.

Best mineralised trench intercepts are summarised in the following table:

Trench ID	Length (m)	Au (g/t)
ST18 EXT	8	0.13
ST22	2	0.71
ST25	4	0.79
ST26	8	0.28
ST27	2	0.25
ST28	16	0.36
ST29	10	0.65
Incl	2	2.36
&	4	1.30
ST30	16	0.64
Incl	2	2.27
&	2	1.61
ST32	2	0.11
ST33	2	0.22
ST34	12	0.25
&	26	0.35
Incl	2	1.08
ST35	2	0.15



Exploration expenditure at Bima during the quarter totalled A\$283,273.

Papua

Strategic Alliance – Anglo American

The Company holds a 20% interest in a Strategic Alliance with Anglo American PLC (Anglo) to explore for copper-gold deposits in Papua and West Papua provinces. The Alliance currently holds three Exploration IUP's covering nearly 3,000 km² at the centre of the Bird's Head peninsula in West Papua Province. These lie over highly prospective ground in the region which also hosts Grasberg - Indonesia's largest porphyry copper-gold deposit.

Anglo is responsible for managing and funding all exploration activities for the Alliance and is advancing preparations to fly an airborne magnetics and radiometrics survey. The objective of this survey is to generate new prospects.

Processing of a forestry use permit ("Pinjam Pakai") is in progress for the three IUP's in West Papua.

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.

Sampling and Sample Analysis

Results relating to geochemical samples reported herewith are derived from soil, stream sediment and rock samples. Sampling is entirely supervised by the Company's project geologists. Commercial geochemical standards are routinely inserted into the sample batches for quality control. Samples are securely packaged, batched, and then transported under supervision to the Intertek Laboratory in Jakarta. At the laboratory, the samples are prepared by crushing and pulverizing the entire sample. Gold is assayed by 50 g charge Fire Assay with an AAS finish. Silver, copper, lead and zinc are tested by either multi-acid digestion/AAS finish or a Multielement ICP analysis package. Arsenic, antimony and molybdenum are tested by either pressed pellet XRF or a Multielement ICP analysis package.

This report is dated 24 January 2012.

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