

15 August 2012

Dear Shareholder

We are writing to provide an update on recent important developments at Arc Exploration (ARX).

As announced to the Stock Exchange on 8 August 2012, ARX entered into an agreement with Anglo American (Anglo) which sees Anglo undertake airborne geophysical and ground geochemical surveys at Trenggalek after which Anglo may elect to earn a majority position in the project. With the airborne surveys complete and the results being analysed the ground geochemical surveys are now underway in selected areas.

The relationship with Anglo now covers three areas: the long held Papua Joint Venture (which has tripled in size in the last year), a services agreement whereby ARX supplies geological evaluation and exploration services to Anglo, and the new relationship on Trenggalek. ARX is pleased that a company of the size and stature of Anglo American works with ARX in Indonesia.

ARX is well funded. It has cash of over \$4 million, no debt and a 'cash burn' rate presently well below \$400,000 per quarter.

Going forward we are looking for opportunities in Indonesia and elsewhere. We are reviewing opportunities primarily on the basis of their quality, but also on the basis of their cost and ongoing funding requirements.

We are confident that with careful financial management, being active in the market for new opportunities and progressing our Indonesian assets in cooperation with others, shareholders will benefit.

Thank you for supporting ARX.



Bruce J Watson
Chairman



John C Carlile
Managing Director