

December 2008 Quarter Activities Report

ABOUT ARC EXPLORATION LIMITED

Formed in 1983, Arc Exploration Limited (**ASX Code: ARX**) is an Australian listed gold company focused on developing projects in Indonesia. The company's key development project is its 95% interest in Cibaliung, a high-grade epithermal gold/silver vein system located southwest of Jakarta in Banten Province, western Java.

Two key strategic alliances in Indonesia are taking Arc Exploration closer to achieving its exploration growth objectives.

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

In addition the Company has a 95% joint venture interest with PT Sumber Mineral Nusantara in the Pekalongan and Trenggalek tenements located in Central and East Java respectively, areas prospective for low sulphidation epithermal gold/silver deposits similar to the Cibaliung project. The Company also holds a 95% interest in the Bima tenement located in East Sumbawa of West Nusa Tenggara Province.

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Cibaliung Gold Project – Indonesia

- The Cibaliung Project was placed on care and maintenance during the quarter.
- The Company has not secured funding for the completion of the project. If funding or the sale of this project is not secured in the near term the Board will have to critically consider the ability of the Company to continue trading.

Expenditure

- Total expenditure in Indonesia during the quarter amounted to A\$5.1m.

Project Generation

- Limited exploration work was undertaken during the quarter.

CIBALIUNG GOLD PROJECT – INDONESIA (95%)

Expenditure

Expenditure in relation to the Cibaliung Gold Project totalled A\$4.9 million during the quarter.

All site personal were retrenched during the quarter with a small number of staff re-hired on a short term basis to carry out care and maintenance work and site security.

Decline Development

All decline development and stockpiling of mineralised material halted during the quarter in order to conserve financial resources. Underground maintenance is continuing on a strictly limited basis as required.

Gold Processing Plant

Civil, structural and mechanical installation work was halted in the third quarter of 2008 in order to conserve financial resources. The processing plant is now on limited care and maintenance.

All other project infrastructure works were place on care and maintenance during the quarter. Some remedial work on the project tailings storage facility was undertaken during the quarter.

Funding Strategy

The Company continued negotiations during the quarter with a number of parties to fund or acquire the project. Negotiations with one party are now well advanced, but have not been finalised to date.

If funding is not obtained or the project is not sold in the near term the Company will be required to halt all operations at Cibaliung. Absent funding or a sale in the near term the Board will have to critically consider the ability of the Company to continue trading.

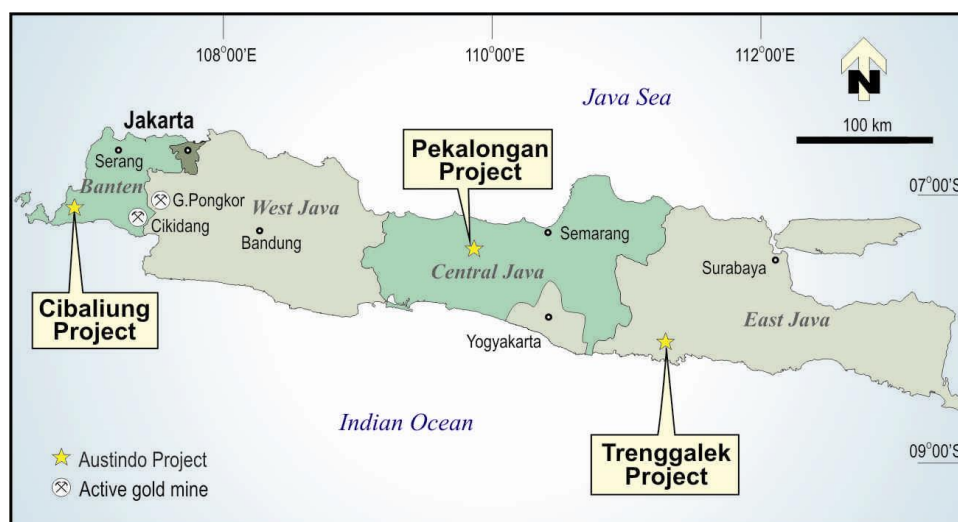
Cibaliung Exploration

The exploration team continued to provide limited technical support to the project during the quarter including underground geological and geotechnical mapping. Expenditure totalled A\$30,000.

PROJECT GENERATION – INDONESIA

Java

The Company is exploring for high-grade epithermal gold-vein deposits on the island of Java, which lies on the highly prospective Sunda-Banda volcanic arc. The geological settings of the Company's Cibaliung, Trenggalek and Pekalongan projects on Java show strong similarities to world-class gold deposits lying on or close to the same volcanic arc (e.g. Pongkor & Gosowong).



Trenggalek Project, East Java (ARX – 95%)

The single Exploration KP in East Java covers 30,044 ha. A low-level of field activity was focussed on the Trenggalek Project during the quarter. Further mapping and prospecting were carried out on the western side of the KP.

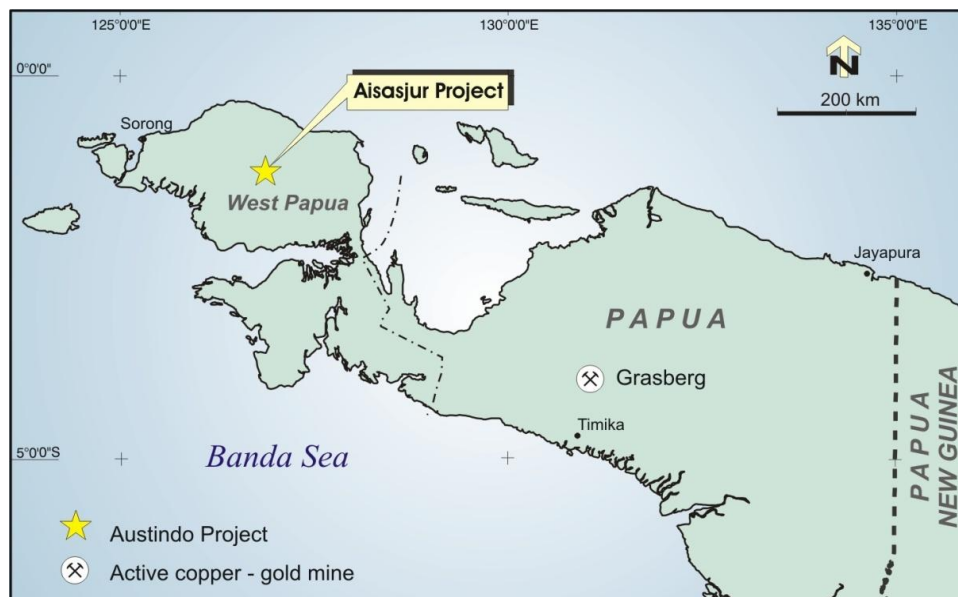
Pekalongan Project, Central Java (ARX – 95%)

No field activity was carried out on this project during the quarter. The application for a 12-month extension to the Exploration KP was approved by the Regency Government but over an area reduced from the original 5,617 ha to 2,447 ha. The Company has requested that the Regency Government revise its decision and approve an extension for the entire original area before it commits any further exploration funding to the project. A response is awaited.

Papua

Aisasjur Project - Anglo Strategic Alliance (ARX – 20%)

The Company has a strategic alliance with the Anglo American Group (Anglo) to explore for large copper and gold deposits in West Papua and Papua provinces. The Company has a 20% joint venture interest in the Aisasjur Project while Anglo has the obligation to fund all exploration activities pursuant to the terms of the strategic alliance.



The single Exploration KP in the Kepala Burung area of West Papua Province covers 9,486 ha. Geologically, the project area lies within one of Indonesia's young volcano-plutonic arcs and is prospective for large porphyry copper-gold and epithermal gold-silver deposits. Mineralised intrusive rocks intersected in previous drilling completed under the project alliance show a similarity in age, geological setting and geochemistry to the Grasberg Igneous Complex, located about 500 km to the east-southeast along the New Guinea Fold Belt.

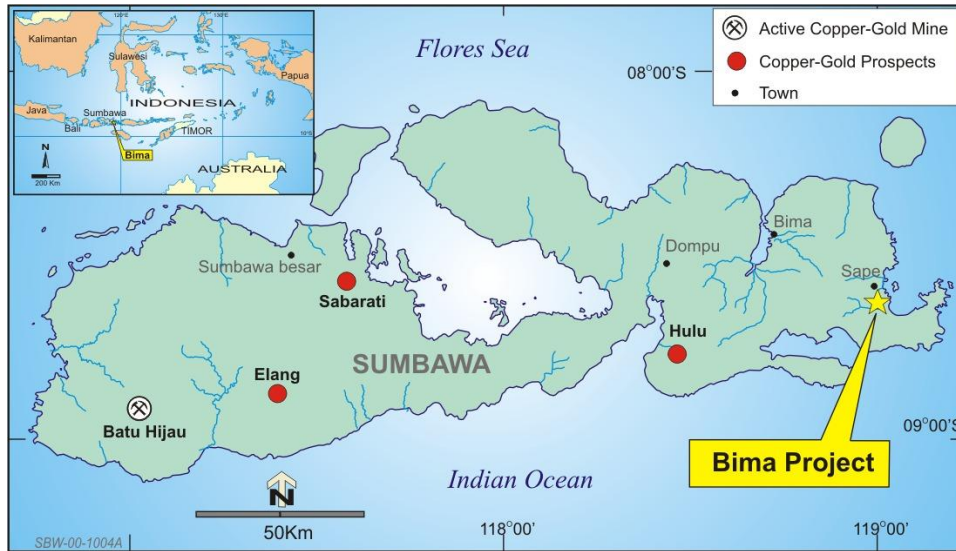
Anglo has reported that further exploration drilling was completed on a deep porphyry copper-gold target at the Aisasjur Prospect during the quarter. A total of 3,558 m was completed in five diamond drill-holes using two helicopter-supported CS-1000 drill rigs. Reporting of final results from these holes is awaited from Anglo.

West Nusa Tenggara

Bima Project – East Sumbawa (ARX – 95%)

The single General Survey KP in East Sumbawa covers of 24,980 ha. The Bima KP lies on a segment of the highly prospective Sunda-Banda magmatic arc, which is host to the giant Batu Hijau porphyry copper-gold deposit, located in West Sumbawa. The KP is held by P.T. Sumber Mineral Nusantara with whom ARX also has a joint venture relationship on the Pekalongan and Trenggalek projects on Java.

Geochemical assaying of orientation drainage and soil samples collected in the previous quarter is incomplete. Results will be reported pending available funding to complete the assaying in the next quarter.



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 a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr. Wake consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Total exploration expenditure at the Trenggalek, Pekalongan and Bima projects totalled A\$151,000 during the quarter.

This report is dated 30 January 2009. For further information please contact:

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