

September 2016 Quarter Activities Report

ABOUT ARC EXPLORATION LIMITED

Arc Exploration Limited (**ASX Code: ARX**) is an Australian-listed company focused on gold and base metal exploration in Indonesia and Australia.

The Company has a joint venture interest with PT Sumber Mineral Nusantara on the Trenggalek Project in East Java. The project lies on the highly prospective Sunda-Banda magmatic arc, which is host to several known high-grade epithermal gold and porphyry copper-gold deposits.

The Company also has an interest in Australia. It is farming-in on a gold-base metal property located in the Mount Garnet mineral district of northeast Queensland. The project contains a drill-delineated gold resource at Triple Crown and has potential for expansion through further exploration.

Arc Exploration Limited
ABN 48 002 678 640
Level 8, 65 York Street
Sydney NSW 2000

T + 61 2 8076 6004
F + 61 2 8215 1600
Email: info@arx.net.au

www.arcexploration.com.au

INDONESIA

Trenggalek Project, East Java

- Gold results were received for the three holes (STDH10 to STDH12) on the Sentul epithermal veins at Sentul. Best results of 1.25 m at 4.1 g/t Au from 86.5 m down-hole and 1.1 m at 2.46 g/t Au from 113 m down-hole both in STDH10 on the Sentul West vein.
- Porphyry style mineralisation exposed at surface in Singgahan.
- Induced Polarisation and Ground Magnetic surveys commenced at Singgahan to define drill targets.
- Danusa has agreed to continue with Stage 2 Exploration with a budget of US\$ 1 million to be spent by May 2017.

AUSTRALIA

Mount Garnet Project, Queensland

- No field activity to report for the Quarter.

CORPORATE

- Arrangements were agreed with Taylor Collison Limited as Lead Manager to effect a placement of 950,000 shares at a price of \$0.60 per share to raise \$570,000 subject to shareholder approval at meeting which took place on 5 October 2016.

INDONESIA

ARX is exploring for gold and base metal deposits along Indonesia's highly prospective magmatic arcs and associated geological terranes (See Figure 1). The primary exploration targets are high-grade epithermal gold-silver veins and porphyry-related copper-gold deposits.



Figure 1. Trenggalek Project location & major gold and base metal deposits in Indonesia

Trenggalek Project, East Java (farming out up to 80%)

ARX operates a joint venture in respect of the Trenggalek Exploration IUP tenement, located in the Southern Mountains of East Java (See Figure 1). The Southern Mountains is composed of an older segment of the Sunda-Banda magmatic arc, which hosts several known large porphyry copper-gold deposits; *Tumpangpitu* located about 200 kilometres to the east of Trenggalek, and *Batu Hijau* and *Elang* located on Sumbawa. Trenggalek contains a similar package of rocks to those hosting these three major porphyry deposits.

The Trenggalek Exploration IUP tenement is held by ARX's Indonesian partner, PT Sumber Mineral Nusantara ("SMN"). The tenement, covering an area of 29,969 ha or about 300 km², is now valid until November 2018.

PT Danusa Tambang Nusantara (Danusa), a subsidiary of one of the largest contract miners in Indonesia, is currently managing and funding exploration work at Trenggalek under an agreement that was first announced last year (see ARX Announcements dated 18 November 2015 and 10 February 2016).

A new phase of diamond drilling commenced at Trenggalek in early February and continued with two man-portable rigs up until early June 2016.

A total of 2745 metres in 20 holes has been completed to-date in this latest drilling phase (See Table 1). These holes have tested for mineralised extensions within the large Sentul and Buluroto epithermal gold veins (See Figure 2), which were previously tested with scout diamond drilling by ARX in 2010/11.

Danusa has agreed to continue with Stage 2 Exploration with a budget of US\$ 1 million to be spent by May 2017.

Gold results for the first five holes in this latest drilling program were reported in April of this year (See ASX announcement Update on Drilling at Trenggalek, Indonesia dated 18 April 2016). Gold results for the next eleven holes, STDH03 to STDH09 (Sentul) and BRDH03 to BRDH06 (Buluroto) were reported in the previous quarterly activities report (See ASX announcement June 2016 Quarter Activities Report dated 29 July 2016). Gold results for the remaining holes completed in this latest drilling program (STDH10 to STDH12) were reported during the quarter (See ASX announcement Update on Drilling at Trenggalek, Indonesia dated 1 September 2016).

The most significant gold intercepts from those latest results were (see Tables 1 & 2 and Figures 3 & 4 for drill-hole locations):

- 1.25 m at 4.1 g/t Au from 86.5 m down-hole in STDH10 on Sentul West vein
- 1.1 m at 2.46 g/t Au from 113 m down-hole in STDH10 on Sentul West vein
- 1 m at 1.03 g/t Au from 217 m down-hole in STDH12 on Sentul West vein

Drilling in these two prospects has now ceased while further review and interpretation of the results in conjunction with historic data is undertaken.

Singgahan Prospect

Scout diamond drilling on the Singgahan Prospect located in the southeast corner of the Trenggalek Exploration IUP tenement (See Figure 2) was conducted in 2014 (see ARX announcement of 12th May 2014 and 21st July 2014). The four inclined diamond holes (1,541m) drilled at Singgahan completed a fence of holes across part of an extensive copper-gold-molybdenum soil anomaly and coincident magnetic-high anomaly. The source of the soil geochemical anomaly is interpreted to be a weakly mineralised intrusion breccia cropping out at surface. The source of the magnetic high is a small mineralised diorite intrusion that appears to be rootless as modelled by a 3D magnetics inversion analysis. The high-magnetic signature of the diorite is attributed to abundant secondary magnetite occurring as disseminations in porphyry-style quartz-anhydrite veins and potassic-propylitic alteration. Porphyry-style mineralisation was intersected in these holes which returned multiple low grade copper-gold-molybdenum intercepts.

A petrological investigation completed on selected core samples taken from these holes has confirmed the occurrence of porphyry-style veining and alteration, with copper and molybdenum minerals.

Recent mapping in the area has identified porphyry style mineralisation at the surface. A combined Induced Polarisation Survey and Ground Magnetic survey consisting of 19.9 km on 13 lines commenced during the quarter. These results combined with existing aeromagnetic data and detailed geological mapping will be used to define drill targets at Singgahan for the next phase of exploration to be undertaken at Trenggalek by Danusa.

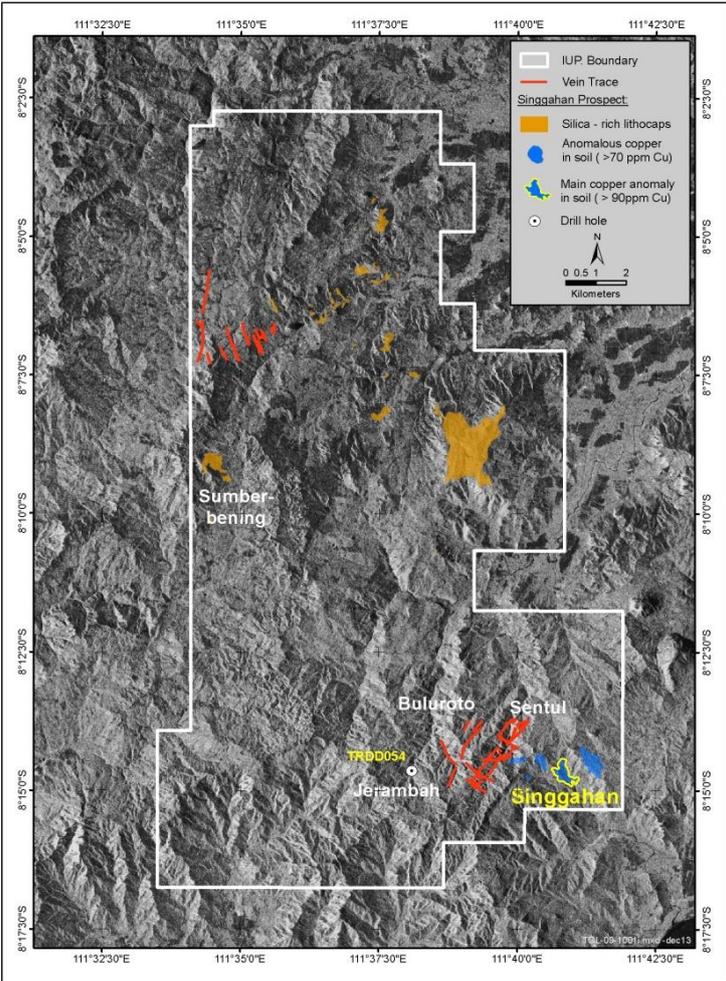


Figure 2. Trenggalek Exploration IUP

Table 1. TRENGGALEK PROJECT - Drill-hole Details

Hole ID	Vein	Collar Coords			Dip deg	Azimuth Deg	Depth m
		mE	mN	mRL			
Sentul Prospect							
STDH01	Sentul East	572,838	9,089,160	576	-50	135	172.9
STDH02	Sentul East	572,821	9,089,000	644	-50	315	138.4
STDH03	Sentul East	572,768	9,088,884	616	-55	315	172.9
STDH04	Sentul East	572,680	9,088,779	624	-55	315	213.1
STDH05	Sentul West	572204	9088917	692	-55	135	126.0
STDH06	Sentul East	575924	9088656	616	-60	300	144.5
STDH07	Link vein	572349	9088620	645	-55	180	162.0
STDH08	Sentul West	572230	9088977	687	-55	135	150.2
STDH09	Link vein	572349	9088620	645	-55	000	120.3
STDH10	Sentul West	572289	9089032	675	-50	135	184.15
STDH11	Link vein	572220	9088570	687	-55	020	151.8
STDH12	Sentul West	572132	9088562	754	-55	270	272.4
Buluroto Prospect							
BRDH01	NE Vein	571,818	9,089,722	681	-50	90	43.4
BRDH02	NE Vein	571,910	9,089,780	654	-50	305	127.6
BRDH03	NE Vein	572,009	9,090,127	564	-50	150	168.0
BRDH04	NE Vein	572,081	9,090,233	506	-50	150	172.6
BRDH05	NE Vein	572,314	9,090,331	379	-50	90	120.6
BRDH06	NE Vein	572,297	9,090,184	426	-50	305	104.1

Table 2. TRENGGALEK PROJECT – Latest Gold Intercepts

Hole ID	Vein	From (m)	To (m)	Interval (m)	Au g/t	Recovery
Sentul Prospect						
STDH10	Sentul West	86.5	87.75	1.25	4.1	>95%
		98	101.85	3.85	0.3	>95%
		108	116	8.0	0.49	>95%
		including 113	114.1	1.1	2.46	>95%
		125.25	132	6.75	0.26	>95%
STDH11	Link Vein	49.7	50.3	0.6	0.24	>95%
		125.7	129.4	3.7	0.19	>95%
						>95%
STDH12	Sentul West	107	109.4	2.4	0.35	>95%
		196.4	199.15	2.75	0.76	>95%
		217	218	1	1.03	>95%
		236	242	6	0.236	>95%
		253.3	261	7.7	0.376	>95%

Exploration expenditure at Trenggalek for the quarter totalled US\$ 171,423.

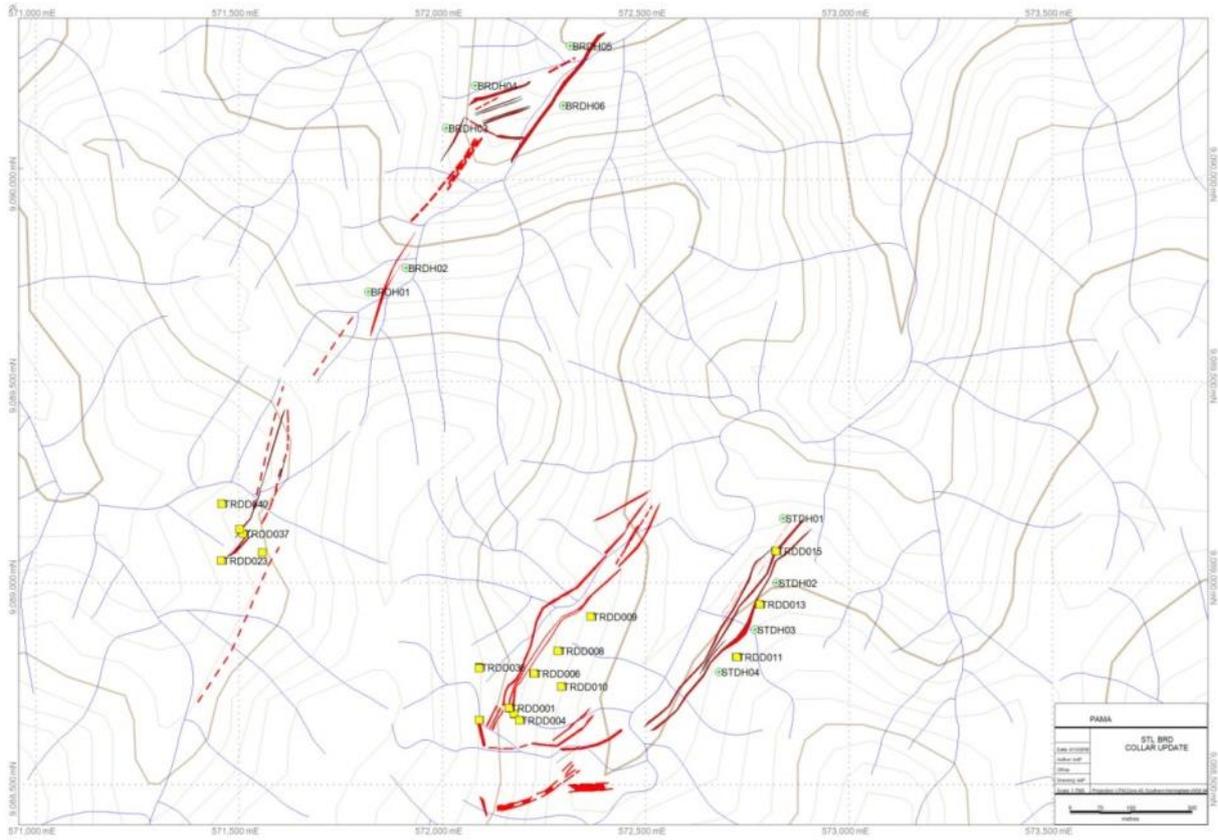


Figure 3: Buluroto & Sentul Prospects – Drillhole Location Plan
 (Note: The TRDD hole ID's are previous ARX holes drilled in 2010/11)

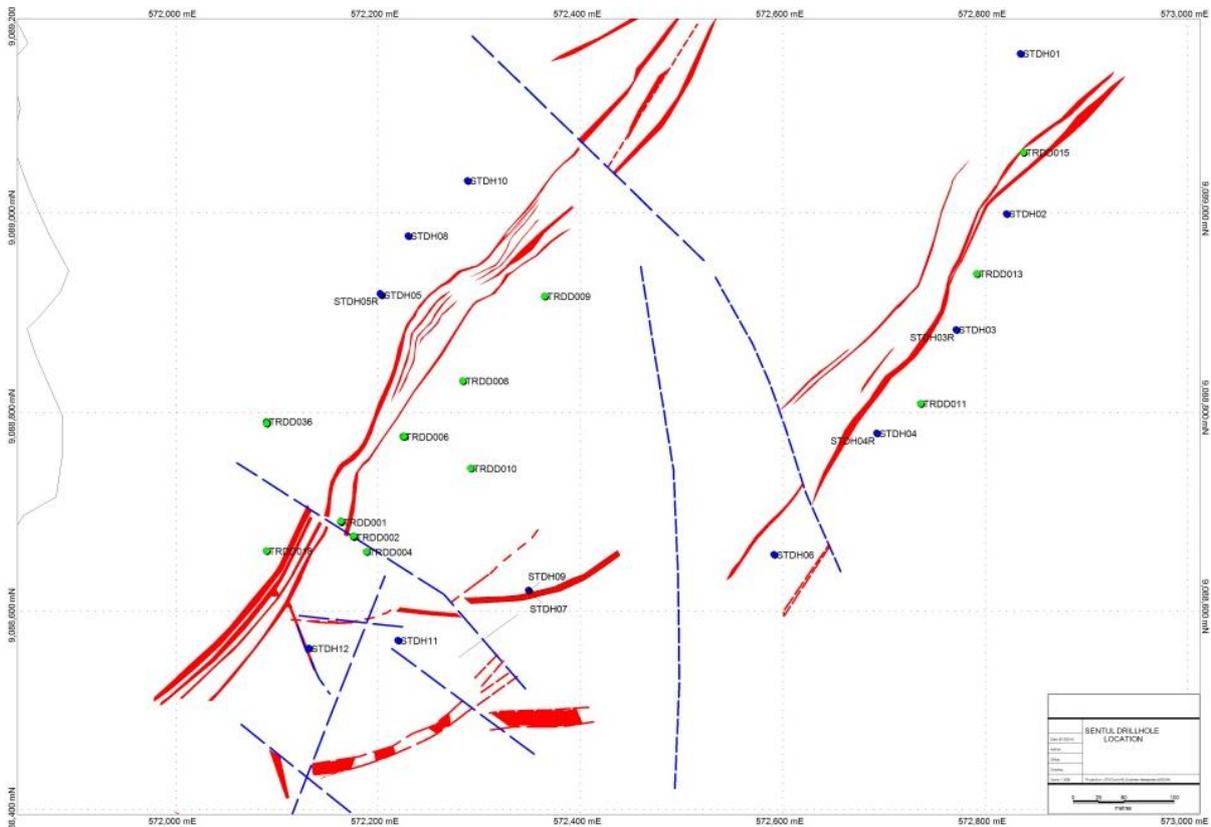


Figure 4: Sentul Prospect – Drillhole Location Plan
 (Note: The TRDD hole ID's are previous ARX holes drilled in 2010/11)

AUSTRALIA

ARX operates a joint venture to explore for gold and base metals on the Mount Garnet Project located in northeast Queensland (See Figure 6).

To conserve funding, ARX exercised its right under Farm-in agreements with New South Resources Pty Limited dated 1 August 2014 to withdraw from the Junee and Oberon projects located in New South Wales, effective from 13th April 2016 (see ARX Announcement dated 14 March 2016).

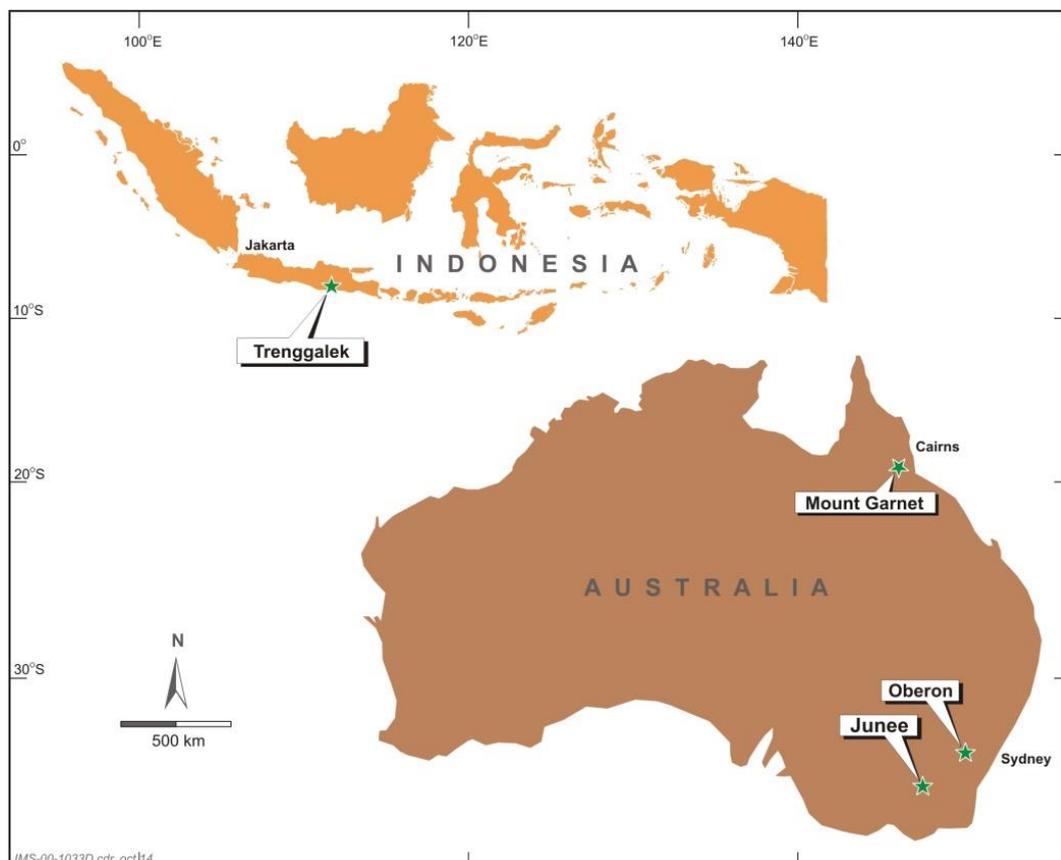


Figure 6. Australian and Indonesian Project Locations

Mount Garnet Project, Queensland (100% Snowmist, ARX earning up to 80%)

The **Mount Garnet Project**, located near the major regional centre of Cairns, comprises three Mining Leases (ML's 4363, 4390, 20018) covering about 150 hectares that are 100% held by Snowmist Pty Ltd ("Snowmist"), and an exploration tenement (EPM 25343) covering about 17 km² that is held by Arc Exploration Limited ("ARX").

The package of mining tenements held by Snowmist contains the *Triple Crown* gold deposit, which has a drill-indicated gold resource estimated to be 69,000 ounces and includes a small oxide resource of about 25,000 ounces gold (see ASX announcement of 21st August 2013). Historic drilling at Triple Crown has produced some broad low-grade gold intercepts including 22m at 2.33 g/t gold, 51m at 1.73 g/t gold and 35m at 1.39 g/t gold (see ARX Announcement dated 21 August 2013).

The project area lies in the Mount Garnet tin-base metal mining subdistrict of the Herberton Tinfield and within the southern end of a discontinuous belt of Siluro-Devonian calcareous metasedimentary rocks (Chillagoe Formation) that is bounded by the major regional Palmerville fault and intruded by Permo-Carboniferous granites. These rocks are host to a number of gold-base metal-tin skarn and disseminated gold-base metal-tin stockwork/breccia deposits in the region, including Red Dome (gold-copper), Mungana (gold-zinc) and King Vol (zinc) in the Chillagoe district, and Mount Garnet (zinc-copper), Gillian (tin) and Triple Crown (gold) in the Mount Garnet district.

There is a significant potential to increase the known gold resource at Triple Crown and additional potential to identify new gold-breccia targets and other deposit styles, including base metal skarn similar to that exploited at the nearby Mount Garnet zinc-copper mine.

No material field activities were undertaken during the quarter.

ARX expenditure on the Mount Garnet Project for the quarter totalled A\$11,536.

This report is dated 27 October 2016.

For further information please contact:

Andrew J. Cooke

Company Secretary

Tel: + 61 2 8076 6004

Email: andrewcooke@arx.net.au

Or visit the website: www.arcexploration.com.au

Competent Person Statement

The information in this report that relates to the following were created and reported in accordance with the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves:

- The exploration results in this report that relate to the Trenggalek Project is extracted from the report entitled Update on Exploration at Trenggalek, Indonesia created and released to the ASX on 1 September 2016;
- The information in this report that relates to the Triple Crown gold resource is extracted from the report entitled Mount Garnet Project - Statement of Resources created and released to the ASX on 21 August 2013.

The reports referred to above are 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 these original market announcements. 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 announcements.

**Table 3. Details of Tenements & ARX Interest
At 30 September 2016**

Project	Location	Tenement	Area (km ²)	ARX Interest
Trenggalek	East Java, INDONESIA	Exploration IUP	299.7 km ²	95%
Mount Garnet	Queensland, AUSTRALIA	ML 4363	129 ha	Farming-in
		ML 20018	21 ha	Farming-in
		ML 4390	1 ha	Farming-in
		EPM 25343	17 km ²	100%

Table 4. Exploration/Mining Tenements Acquired/Disposed of during the Quarter

Project	Location	Tenement	ARX Interest	Comment
-	-	-	-	-