

September 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 project is its 95% interest in Cibaliung, a high-grade epithermal gold/silver vein system located southwest of Jakarta in Banten Province, western Java. Cibaliung is expected to produce at an annual rate of 70,000 oz (gold equivalent).

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

- Underground mine development accessed the first ore panel during the quarter and gold grades exceeded expectations.
- All work on site was scaled back during the quarter due to funding constraints. Activities on site are currently limited to underground maintenance and upgrading of site infrastructure in advance of the wet season.
- The Company has not secured funding for the completion of the project. If funding is not obtained forthwith the Company will be required to halt all operations at Cibaliung. If funding is not procured forthwith the Board will have to critically consider the ability of the Company to continue trading.

Project Generation – Indonesia

- No new project generation activities were undertaken during the quarter.

Expenditure

- Total exploration and development expenditure in Indonesia during the quarter amounted to A\$6.6m.

Corporate

- The Company reached agreement with ANZ Bank to close out the Gold Hedge Book for 157,998 ounces at US\$651 and US\$658 and to increase the project debt from US\$20m to US\$60m. The Project Debt now stands at US\$63m as a result of drawing down US\$3m under the third cost overrun facility.

CIBALIUNG GOLD PROJECT – INDONESIA (95%)

Expenditure

Expenditure in relation to development of the Cibaliung Gold Project totalled A\$6.5 million during the quarter.

Decline Development

Ground conditions in the decline continued to be very poor throughout the quarter. Remedial work continued where required on both the Cikoneng Decline and the Cikoneng Vent Shaft Access.

Stockpiling of mineralised material from the Cikoneng Decline was achieved in September.

Total decline development was advanced to over 1,150 metres during the quarter however development has now been halted pending the identification of a longer term financial solution for completion of the mine. Underground maintenance is continuing on a limited basis as required.

The stockpiling of mineralised rock had commenced from the vent access cross-cut. The Cikoneng cross-cut No. 1 remains within 6 m of the projected ore shoot and cross-cut No. 2 remains some 35m from the projected ore shoot. The Cibitung decline was advanced during the quarter however development is currently also on hold.

Gold Processing Plant

Civil, structural and mechanical installation work was halted in the previous quarter in order to conserve financial resources. The processing plant is now on limited care and maintenance while planning for recommencement of construction is being undertaken. Work will recommence when the Company has put in place funding to complete the Project. Other infrastructure works on site have also been scaled back to conserve financial resources in the near term.

Funding Strategy

The Company continued negotiations during the quarter with a number of parties to fund the completion of the project. These negotiations continue, but have not been finalised to date.

The Company has drawn down US\$3 million under the third cost overrun facility provided by ANZ Bank. ANZ Bank has previously advised the Company that it will not be in a position to provide additional funding to the project beyond that 31 October 2008.

The Company requires further funding to continue the development of the Cibaliung Gold Project. If funding is not obtained forthwith the Company will be required to halt operations at Cibaliung. Cibaliung will still result in cash outgoings even on a care and maintenance basis as will general corporate expenses at the parent company level. Absent funding being procured forthwith to meet these potential, future obligations the Board will have to critically consider the ability of the Company to continue trading.

Cibaliung Exploration

The exploration team provided technical support to the mine development during the quarter including underground geological and geotechnical mapping. Cibaliung Exploration Expenditure totalled A\$14,000.

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 (Pongkor & Gosowong).

Due to the focus of geological support activity on the Cibaliung mine development during the quarter, exploration work on the other Java projects was confined to lower cost surface exploration work on the Trenggalek Project.

Trenggalek Project, East Java (ARX – 95%)

The Trenggalek KP exploration area in East Java covers 30,044 ha. Further mapping and rock geochemical sampling were carried out on the northeastern side of the KP during the quarter. Assay results were received for 50 rock chip samples taken from altered and chalcedonic quartz veined volcanic rocks, hydrothermal eruption breccias and silica capping exposed on hills and ridges in a 6 km² area of the Gregah prospect. One sample returned a peak gold and silver result of 13.6 g/t Au and 100 g/t Ag from a 10-cm wide banded quartz-chalcedony-sulphide vein. The other 49 samples returned an average of 0.17 ppm Au, 3 ppm Ag, 28 ppm Cu, 10 ppm Pb, 36 ppm Zn, 418 ppm As, 32 ppm Sb and 0.48 ppm Hg. The combination of low gold, silver and base metal results, and highly anomalous arsenic (up to 2440 ppm As), antimony (up to 296 ppm), and mercury (up to 3.5 ppm Hg) results associated with chalcedonic silicification in these samples is indicative of upper-level or shallowly eroded epithermal mineralisation. Mapping and surface sampling will continue in the next quarter to expand the size of this target area.

Pekalongan Project, Central Java (ARX – 95%)

The Pekalongan KP exploration area in Central Java covers 5,618 ha. An application for renewal of this KP tenement was made in the last quarter. A decision on this application is still awaited from the regency government.

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. Anglo has the obligation to fund all exploration activities pursuant to the terms of the strategic alliance.

The Aisasjur KP tenement 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.

No field activity was completed during the quarter. A new application was made to the Department of Forestry for permission to undertake further exploration in protected forest area covering deep porphyry copper-gold targets at the Aisasjur Prospect.

West Nusa Tenggara

Bima Project – East Sumbawa (ARX – 95%)

The Bima KP general survey area 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 has a joint venture relationship on the Pekalongan and Trenggalek projects on Java.

Field work commenced late in the quarter. An orientation drainage and soil geochemical survey was completed over an area of possibly porphyry-related silicification in volcanic rocks identified in the northern part of the KP. Results from this survey will be reported in the next quarter. Early results from rock chip sampling completed in this area returned up to 0.56 ppm Au, 96 ppm Ag, 501 ppm Cu, 2230 ppm Pb, 2700 ppm Zn and 5.5% Ba in separate grab samples of brecciated and silicified volcanic rock.

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\$ 82,000 during the quarter.

This report is dated 31 October 2008. For further information please contact:

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