

September 2015 Quarter Activities Report

ABOUT ARC EXPLORATION LIMITED

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

The Company has a joint venture interest with PT Sumber Mineral Nusantara on the Trenggalek Project in East Java. This project lies on the Sunda-Banda magmatic arc and is prospective for high-grade epithermal gold-silver veins and porphyry copper-gold systems.

The Company also has interests in Australia. It exercised its Options to Farm-in to two gold properties in New South Wales, Junee and Oberon and another gold property in the Mount Garnet district in northeast Queensland.

All three projects in Australia contain drill-delineated gold resources with potential for expansion through further exploration.

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INDONESIA

Trenggalek Project, East Java

- The Company signed a Memorandum of Understanding with PT Danusa Tambang Nusantara to explore the Trenggalek Project.
- Due diligence by PT Danusa is on-going and expected to be completed by the end of November.

AUSTRALIA

Junee Project, NSW

- No activity to report for the quarter.

Oberon Project, NSW

- No activity to report for the quarter.

Mount Garnet Project, Queensland

- No activity to report for the quarter.
- ARX exercised its option to proceed to farm-in on the Mount Garnet Project owned by Snowmist Pty Ltd.

CORPORATE

- In July the Company conducted a Share Purchase Plan ("SPP") which raised a total of \$106,000.
- For the remainder of the second half of 2015 the Company will continue to conserve cash by undertaking only such work on its existing projects which is essential or involves minimal cash outlay while it pursues joint venture interest for their longer term development.
- As part of a cost reduction program the Company called an EGM and changed its Auditors to a mid-tier firm.
- To preserve cash, Directors and Senior Management have agreed to reduce their salaries by 50% and take the remainder in shares at the SPP price.
- 28,861,120 numbers of shares were issued in lieu of salaries of senior management.

INDONESIA

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



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

Trenggalek Project, East Java (95% ARX)

ARX operates a joint venture with its local Indonesian partner, P.T. Sumber Mineral Nusantara, who holds the Trenggalek Exploration IUP tenement, located in the Southern Mountains of East Java. The Southern Mountains is composed of an older segment of the Sunda-Banda magmatic arc which hosts the Tumpangpitu porphyry copper-gold located about 200 kilometres to the east of Trenggalek, and the large Batu Hijau and Elang porphyry copper-gold deposits located on Sumbawa Island. Trenggalek contains a similar package of rocks to those hosting these three major porphyry deposits.

The Trenggalek Exploration IUP tenement is valid until November 2016 and covers an area of about 300 km² or 29,969 Ha.

Early exploration work by ARX on the Trenggalek IUP concentrated on testing of intermediate-sulphidation epithermal gold-bearing veins, breccias, jasperoid and high-grade float targets at multiple prospects identified within the tenement. These gold targets are hosted by Oligo-Miocene age volcanic and volcanoclastic rocks, limestone, subvolcanic plugs and possible diatreme breccias. Several of the prospects have had limited drill testing and produced some significant gold-silver intercepts including 9 m at 4.5 g/t Au & 8 g/t Ag at Sentul, 13.7 m at 3.2 g/t Au & 60 g/t Ag at Buluroto, and 6.6 m at 4.9 g/t Au & 149 g/t Ag at Kojan. High-grade gold-vein float occurrences identified at the Jati and Jombok have yet to be traced to source and remain a valid exploration target.

A new phase of exploration commenced in late 2011 under a Joint Venture with Anglo American to explore for porphyry copper-gold targets. This partnership continued until late 2014 when Anglo American withdrew due to a global rearrangement of their exploration priorities. The partnership provided the first opportunity to test the porphyry potential of the Trenggalek IUP and generated an extensive geophysical and geochemical database for porphyry targeting.

Scout drilling of targets identified at Jerambah and Singgahan prospects in the south-eastern corner of the IUP with Anglo American in late 2013 – early 2014 confirmed the occurrence of large porphyry-style alteration systems containing low-grade copper-gold-molybdenum mineralisation associated with multiple diorite-quartz diorite-tonalite intrusions and diatreme breccias at both prospects. These large alteration systems remain open and have only been partly explored.

During the quarter the Company signed a Non-Binding Memorandum of Understanding (MoU) with PT Danusa Tambang Nusantara (Danusa) to explore Trenggalek. Danusa is a subsidiary of one of the largest contract miners in Indonesia.

Pursuant to the MoU, Danusa has an exclusive right to conduct due diligence for a period of 2 months. Subject to satisfactory due diligence, the parties have agreed to an indicative investment structure that would provide Danusa with the opportunity to progressively earn up to 80% of the project for expenditure of up to US\$ 10 million within 4 years including an up-front cash payment to ARX. The progressive earn in process contemplates a minimum expenditure of US\$ 1 million every 6-8 months with agreed milestones.

If Danusa moved over time to 80%, ARX would retain a 15% interest in the Trenggalek Project and also receive a royalty of 0.7% of sales revenue on gold production of between 500,000-1,500,000 ounces from epithermal mineralisation conditional upon the LME gold price being above US\$1,000 per oz.

Whilst recognising the porphyry gold-copper potential of the Trenggalek Project, Danusa advises that it intends to initially concentrate its efforts on exploring and evaluating the epithermal gold veins. Particular attention will be at Sentul in the southeast of the licence area. Danusa will also seek to upgrade the current Exploration Licence into an Exploitation Licence if a potentially viable gold resource can be demonstrated at Sentul or on any other of the multiple gold prospects identified within the licence area.

Exploration expenditure at Trenggalek for the quarter totalled US\$49,390.

AUSTRALIA

ARX operates joint ventures to explore for gold and base metals on two projects in New South Wales, Junee and Oberon, and on the Mount Garnet Project located in northeast Queensland (Figure 2).

All three projects in Australia contain drill-delineated gold resources with potential for expansion through further exploration.

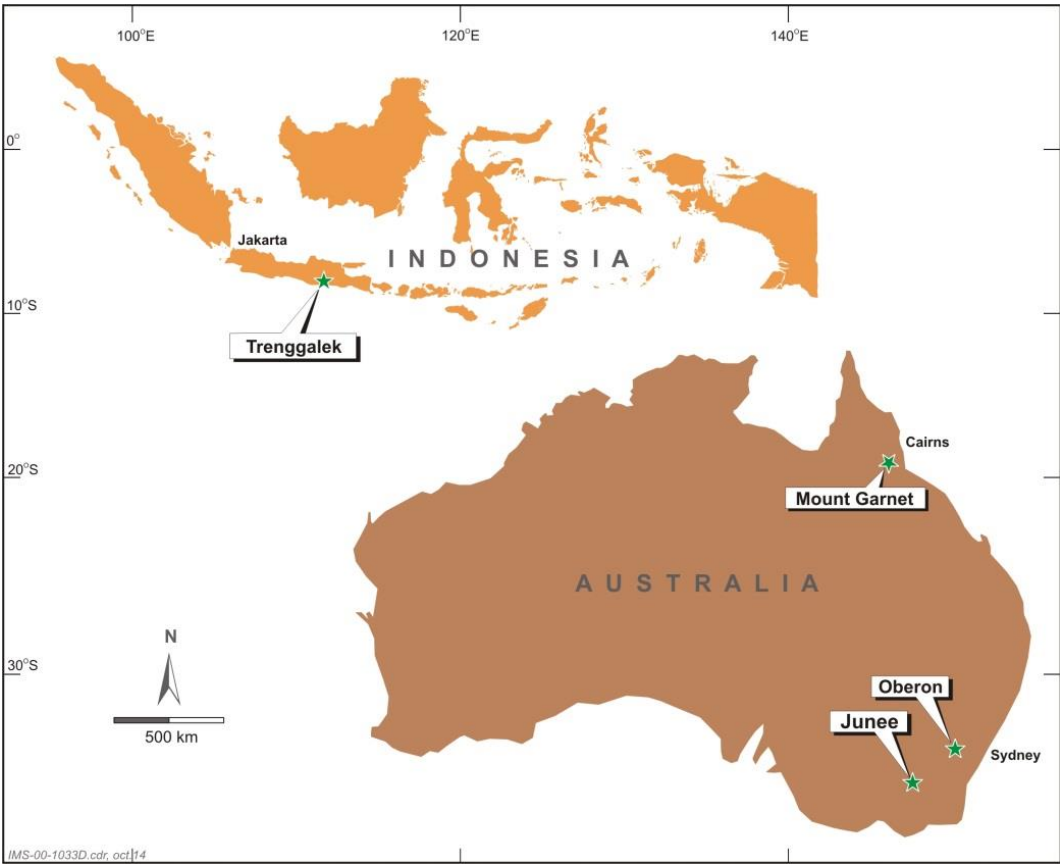


Figure 2. Australian and Indonesian Project Locations

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") (Figure 3).

The key commercial terms as previously announced on the 21st August 2013 are:

- ARX initially entered a two-year option period for a payment of \$50,000 to Snowmist and a minimum expenditure of A\$150,000 during the option period.
- ARX may earn a 51% interest by sole funding A\$500,000 within two years upon exercise of the option.
- ARX may then earn up to an 80% interest by sole funding a further A\$580,000 within a further one year.

During the option period ARX completed a review of historical work on Triple Crown and also undertook surface evaluations to assess the property. During the quarter ARX exercised its option to proceed to Farm-in to the Mount Garnet Project (see ASX announcement of 28th July 2015) based on the view that 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.

The *Triple Crown* gold deposit contains 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. Triple Crown has only been explored to shallow depth and there remains potential to significantly expand the known gold resource at greater depth.

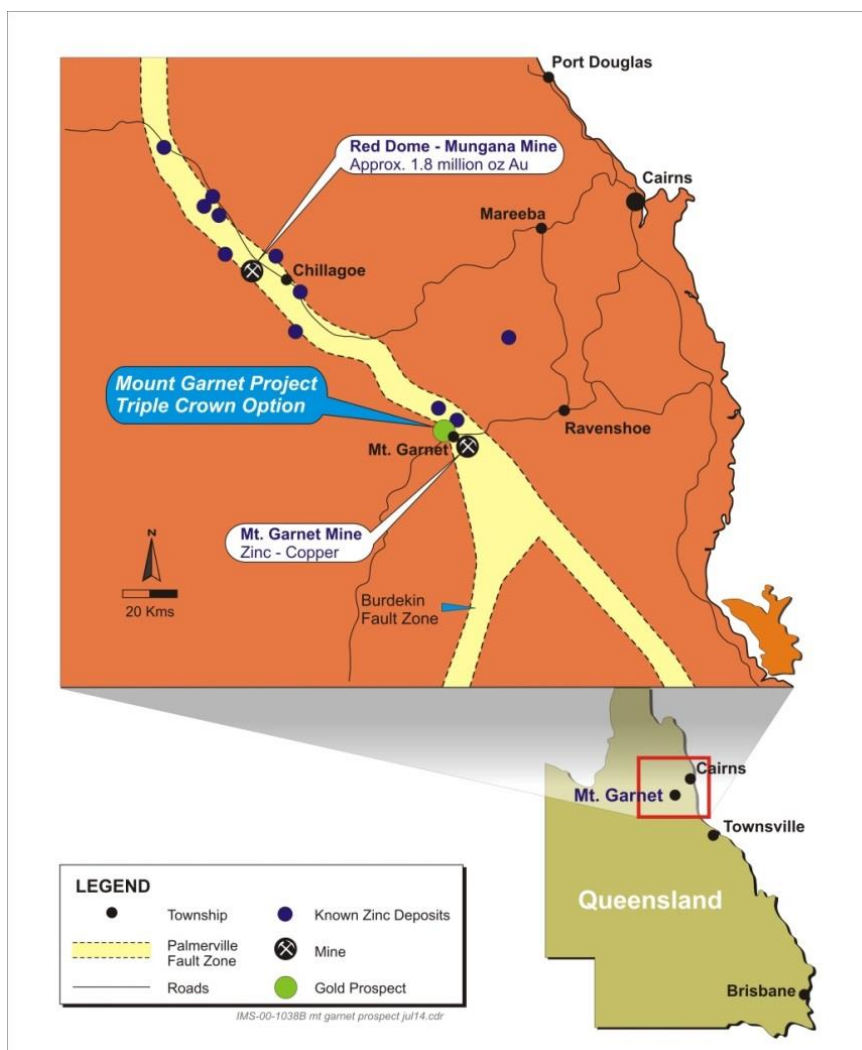


Figure 3. Mount Garnet Project Location

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.

During the quarter the Company is engaging in discussions with potential joint venture partners and conducted field visit in relation to this.

ARX expenditure on the Mount Garnet Project for the quarter totalled A\$22,416.

Junee Project, NSW (100% NSR; ARX earning up to 80%)

The **Junee Project** is located close to existing mine operations and development infrastructure and near the major regional centre of Wagga Wagga. It comprises three Exploration Licences (EL's 6516, 6768 & 8152). The total area of this tenement package is about 48 square-kilometres (*Figure 4*).

The tenements straddle the major regional Gilmore Fault Zone and cover rocks of the Junee-Narromine Volcanic Belt, part of the highly prospective Ordovician-Early Silurian Macquarie Volcanic Arc in the Lachlan Orogen. Large porphyry-related gold and gold-copper deposits (E.g. Northparkes, Gidginbung and Cowal) occur along this fertile volcanic belt and their distribution is believed to be spatially related to the Gilmore Fault Zone and its associated fault splays.

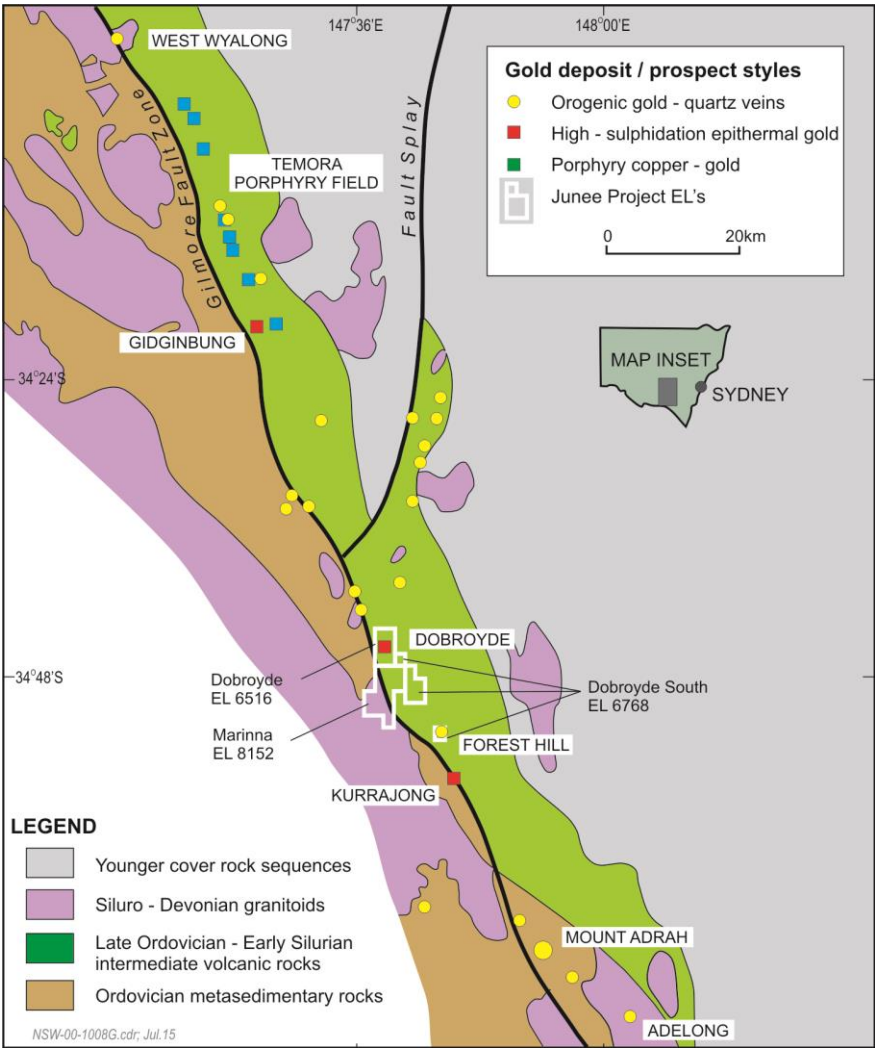


Figure 4. Junee Project Location on Regional Geology

EL 6516 contains the 77,000-ounce Dobroyde gold deposit (see ASX announcements of 3rd and 10th July 2013) on which historic drilling has produced some spectacular high-grade gold intercepts within a low-grade mineralisation envelope, including 22m at 37.3 g/t gold, 16m at 10.5 g/t gold and 6m at 18.2 g/t gold (see ASX announcements of 9th October 2013).

During the quarter the Company engaged in discussions with potential joint venture partners. No field activities were undertaken during the quarter.

ARX expenditure on the Junee Project for the quarter totalled A\$6,823.

Oberon Project, NSW (100% NSR, ARX earning up to 80%)

The **Oberon Project** is located close to existing mine operations and development infrastructure near the major regional centre of Bathurst. It comprises two Exploration Licences (EL's 6525 & 8349). The total area of this tenement package is about 188 square-kilometres.

The project area covers Siluro-Devonian and Ordovician volcanic rocks of the Hill End Trough and the Macquarie Volcanic Arc and is located on the eastern side of the Lachlan Orogen. The Siluro-Devonian volcano-sedimentary rocks in this region are host to VMS-related gold-base metal (McPhillamys, Lewis Ponds) and orogenic gold-vein (Hill End, Lucknow) deposits. Ordovician volcanic rocks within the project area are of a similar age and composition to those hosting the multiple gold-copper porphyry and gold-copper skarn deposits found in the nearby Cadia district. The Oberon Project area is therefore prospective for similar styles of mineralisation. Carboniferous granites intrude both of the older rock sequences and the edges of these intrusions are prospective for gold skarn deposits (Lucky Draw, Browns Creek).

EL 6525 contains the 150,000-ounce *Murphys* gold deposit (see ASX announcements of 3rd and 10th July 2013) from historic drilling which has produced some broad low-grade gold intercepts including 49m at 0.75 g/t gold, 23m at 1.05 g/t gold and 34m at 0.62 g/t gold.

During the quarter the Company engaged in conversations with potential joint venture partners. No field activities were undertaken during the quarter.

ARX expenditure on the Oberon Project for the quarter totalled A\$12,525.

CORPORATE

During the Quarter the Company completed a Share Purchase Plan (SPP) and raised \$106,000 by issuing 58,888,891 shares.

In the current market conditions where access to equity funding is limited, the strategy of the Company remains to attract joint venture partners to farm-in and fund development of properties. For the second half of 2015 ARX will continue to conserve cash by undertaking only such work on its existing projects which is essential or involves minimal cash outlay while it pursues joint venture interest for their longer term development.

ARX has also commenced a cost reduction program to conserve cash across all of its operations in both Australia and Indonesia. As part of the cost reduction program the Company called an Extraordinary General Meeting and changed its auditors from KPMG to Nexia Court & Co during the quarter. The Company wishes to thank KPMG for the service that they provided over the past eight years and looks forward to working with Nexia Court.

To preserve cash, Directors and senior management of the Company have elected to forgo 50% of their remuneration to the end of calendar 2015. The remaining 50% of their remuneration which they are to receive will be paid by the issue of shares in the Company, at the SPP price, rather than in cash and as a result no cash remuneration will be paid to Directors or senior management for the remainder of this year. In the case of Directors these arrangements are subject to shareholder approval which will be pursued at the next general or annual general meeting of the Company.

During the quarter the Company issued a total of 28,861,120 shares in lieu of salaries for senior management. The total number of shares outstanding now is 1,192,943,588.

This report is dated 29 October 2015.

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Competent Person Statement

The information in this announcement that relates to Exploration Results is based on information compiled by Mr Brad Wake, BSc (Applied Geology), who is a member of the Australian Institute of Geoscientists. Mr Wake has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Wake is a full time employee of Arc Exploration Limited and consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the *Dobroyde* and *Murphys* gold resources is extracted from the report entitled Junee and Oberon Projects - Statement of Resources created and released to the ASX on 10 July 2013.

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 the original market announcements and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. 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 announcement.

**Table 1. Details of Tenements & ARX Interest
At 30 September 2015**

Project	Location	Tenement	Area (km²)	ARX Interest
Trenggalek	East Java, INDONESIA	Exploration IUP	299.7 km ²	95%
Oberon	New South Wales, AUSTRALIA	EL 6525 EL 8349	160 km ² 28.6 km ²	Farm-in 100%
Junee	New South Wales, AUSTRALIA	EL 6516 EL 6768 EL 8152	16.9 km ² 14.1 km ² 16.9 km ²	Farm-in Farm-in 100%
Mount Garnet	Queensland, AUSTRALIA	ML 4363 ML 20018 ML 4390 EPM 25343	129 ha 21 ha 1 ha 17 km ²	Farm-in Farm-in Farm-in 100%

Table 2. Exploration/Mining Tenements Acquired/Disposed of during the Quarter

Project	Location	Tenement	Area (km²)	ARX Interest
Oberon	New South Wales, AUSTRALIA	None acquired/disposed		
Junee	New South Wales, AUSTRALIA	None Acquired/disposed		
Mount Garnet	Queensland, AUSTRALIA	Exercised Option to Farm-In		