

UPDATE ON DEVELOPMENT OF CIBALIUNG GOLD PROJECT

UNDERGROUND DEVELOPMENT PROGRESSING WELL **GOLD GRADE EXCEEDS EXPECTATIONS**

Arc Exploration Limited is pleased to confirm further stockpiling of mineralised material on the ROM pad at the Company's Cibaliung Gold Project (ARX 95%) located in Banten Province, Java, Indonesia and that gold grades have exceeded expectations.

Total decline development to date has advanced to 1,160 metres.

The Vent Access cross-cut has intersected the southern end of the Cikoneng shoot at the 1132 mRL. Assay results received for continuous-chip samples taken across the Cikoneng shoot in this cross-cut returned an average grade of 7.2 g/t Au & 42 g/t Ag over an estimated true-width of 3.2 m. The grade & width of the shoot both exceed expectations from this section of the original resource model. These results may also up-grade this area of the Cikoneng shoot into pay-grade ore available for mechanised mining.

Stockpiling of mineralised vein material intersected in the Vent Access cross-cut has presented approximately 200 tonnes of potential ore to the ROM pad to date. Another 200 tonnes of low-grade mineralised wallrock is also stored on the ROM pad.



View of mineralised material stockpiled on ROM pad, looking southwest

Cross-cut No. 1 has progressed along the 1120 mRL and is projected to be within a few metres of the upper middle section of the Cikoneng shoot. Steel sets have been installed to provide additional support due to water ingress from abandoned artisanal workings. As a result of intersecting these workings, it has been possible to dewater the ore-shoot at this level and the water table has dropped considerably. Cross-cut No. 2, only recently commenced at the 1095 mRL, is projected to be approximately 26m from the upper-middle section of the Cikoneng shoot.



Development of the Cibitung decline has now resumed and is advancing well. The focus of underground development has now shifted to the Cibitung decline so that the two ore shoots can ultimately be developed in the most efficient way.

With underground development proceeding substantially in line with the Company's expectations, it has now been agreed with the Redpath Group that their training and supervisory services will be discontinued. The Company now has an experienced team of underground miners and trained supervisors who will continue with ongoing underground development.

The information in this report that relates to Underground Sampling 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.

Project Funding

The Company is continuing its discussions with a number of parties to earn a direct interest in the project by funding the remaining development expenditure through to positive cashflow.

The Company is also in ongoing discussions with ANZ Bank regarding existing debt and hedging facilities. The Company has accepted an additional cost overrun facility in the amount of US\$4 million offered by ANZ Bank and is now proceeding with documentation and satisfaction of conditions precedent to permit drawdown of this facility at the earliest opportunity.

ABOUT ARC EXPLORATION LIMITED (ARX)

Formed in 1983, Arc Exploration Limited is an Australian listed exploration company focused on exploring Indonesia.

The Company has a 95% joint venture interest with PT Sumber Mineral Nusantara in the Trenggalek and Pekalongan and tenements located in East and Central Java respectively, areas prospective for high-grade epithermal gold/silver deposits. The Company also holds a 95% joint venture interest in the Bima prospect in East Sumbawa which is prospective for high-grade epithermal gold-silver and bulk tonnage porphyry-style gold-base metal deposits.

In addition, the Company has a strategic alliance with the Anglo American Group to explore for large porphyry copper/gold deposits in Papua.

The Company also retains a 95% interest in the Cibaliung Gold Project, a high-grade epithermal gold/silver vein system located southwest of Jakarta in Banten Province, western Java. Cibaliung is expected to produce at an overall annual rate of 70,000 oz (gold equivalent).

For further information please contact:

John C. Carlile
Managing Director

Email: carlile1@attglobal.net

Andrew J. Cooke
Company Secretary

Tel: + 61 2 9419 8044

Email: andrewcooke@arx.net.au

Or visit the website www.arcexploration.com.au