

ASX ANNOUNCEMENT

27 October 2010

Palace Resources strikes deal to acquire Indonesian coal assets

Plans to change its name to Coal of Asia to reflect new operations and growth opportunities

Highlights

- Palace Resources set to acquire a 75 per cent stake in extensive coal exploration projects in West Papua province, Indonesia
- The tenements cover approximately 1,970sqkm in an under-explored region and extend right up to an existing natural deep water port currently used for timber exports
- The tenements are immediately along strike from extensive coal outcrop on neighbouring tenements. This includes a 2.5m outcrop of high-grade, semi-soft metallurgical coal
- Numerous coal outcrops seen on the leases to be acquired by Palace
- Two geologists already on site, three more to arrive next week to collect samples for metallurgical test work
- Aggressive drilling campaign involving up to seven rigs to start in mid-November as part of strong push to establish a maiden JORC resource within six months
- The transaction is subject to due diligence at the absolute discretion of Palace as well as shareholder and relevant regulatory approvals to be considered at a General Meeting in late 2010.
- Discussions are underway with West Papuan authorities to upgrade the port to a bulk-loading port that has an unimpeded navigational lane to the Pacific Ocean;
- Experienced coal industry executive Frederik Suhren to be Palace Managing Director.

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The Board of Palace Resources Ltd (ASX:PXR) is pleased to announce it has entered into an agreement to acquire a 75 per cent stake in three highly prospective Indonesian coal projects.

The acquisition, which is subject to due diligence and shareholder and regulatory approval, will be completed via the acquisition by Palace of Primecity Holdings Pty Ltd, which has the right to acquire the 75% interest in the three projects in the West Papua Province of Indonesia.

The Prospects cover an approximate area of 1,970sqkm and are located close to existing roads and operating ports and adjacent to significant acreage held by a coal investment company (Schedule B).

Coal outcropping is clearly evident on the tenements adjacent to and immediately along strike from those to be acquired by Palace, with one 2.5m outcrop containing high-grade, semi-soft metallurgical coal. Geologists have reported numerous outcrops on the Palace leases.

Palace has assembled a team of five geologists who will start collecting samples for metallurgical testing. Engineers are due on site to begin scoping studies to upgrade the existing port to enable it to handle bulk materials.

An aggressive exploration program is currently being planned in conjunction with SRK Consulting. This will see as many as seven drilling rigs in operation from mid-November as part of Palace's strategy to calculate a maiden JORC resource within six months.

As part of the acquisition, Palace intends to appoint former Griffin Group senior executive Frederik Suhren as Managing Director.

Subject to the satisfaction of certain terms and conditions including;

- Due diligence to the absolute satisfaction of Palace,
- Shareholder approval at a General Meeting on or around mid December 2010,
- Satisfaction of relevant regulatory requirements, and
- The raising of at least A\$3 million via a placement of securities in Palace

Palace proposes to acquire 100 per cent of Primecity for an initial consideration of A\$2.86 million (satisfied by the issue of securities) with a further US\$10 million payable upon certain milestones being achieved. The consideration payable is summarised as follows and in Schedule A.

- Issue of 102 million fully paid Palace shares ("Shares") together with;
- Issue of 368 Palace Converting Performance Shares ("CPS") converting to 184 million Palace Shares,
- Reimbursement of expenses (up to a maximum of USD\$1.5 million) and,
- Two cash payments to the current shareholders of PT. West Papua Ming ("WPM") on totalling US\$2 million and US\$8 million on reaching certain milestones.

The transaction will see Primecity become a wholly owned subsidiary of Palace. Palace Chairman Guy Le Page said the acquisition gave Palace a strong foundation on which to develop commercial operations and generate shareholder wealth. Further details of the agreement to acquire Primecity are set out in Schedule A.

LOCATION AND INFRASTRUCTURE

The Prospects are located towards the northern tip of West Papua, Indonesia, approximately 300km south of the township of Manokwari. The area is considered by Palace to be prospective for high-grade and high calorie coal based on reconnaissance exploration results in the region.

The Prospects range from zero to 30km by road from a deepwater harbor, with an existing operational port, that is currently used for timber exports (Figure 1.). Basic road is reasonable throughout the majority of the Prospects, but will require upgrading to permit the movement of heavy mining equipment in the event of future mining operations.

WPM is in discussions with the relevant authorities to upgrade a port to a bulk-loading port that has an unimpeded navigational lane to the Pacific Ocean.

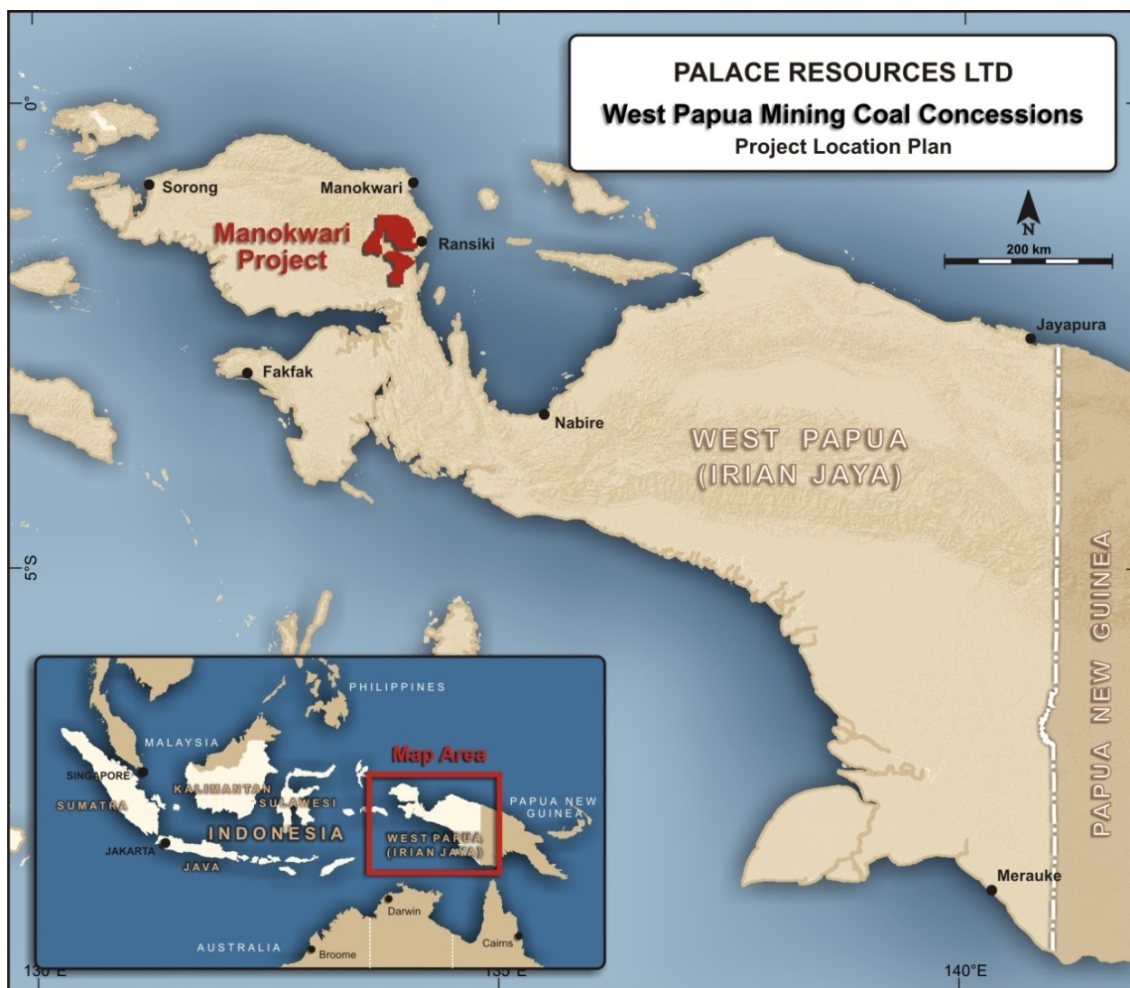


FIGURE 1: West Papua project location map.

THE PROSPECTS

WPM, through its operating companies, holds three exploration licences/IUP's (Izin Usaha Pertambangan Eksplorasi – IUP Eksplorasi) totalling 1,970sqkm in the Regency of Manokwari, Special Autonomy Province of West Papua, through its operating companies as follows:

- **PT MIER NATURAL RESOURCES** covering 500sqkm and prospective for coal;
- **PT JOYEHI INDO RESOURCES** covering 500sqkm and prospective for coal;
- **PT HIYEJO INDO GOLD** covering 970sqkm and prospective for coal and gold.

The IUP's are valid for seven years and will allow Palace to conduct exploration including surveying, drilling and other surface activities with the guarantee of a Production License at the conclusion of the exploration phase.

INVESTING IN WEST PAPUA

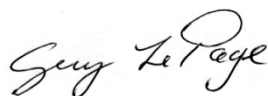
The West Papua Province, Indonesia, is an under-explored region and considered by Palace as highly prospective for coal and gold exploration. It includes world-class deposits such as the Grasberg Mine (Freeport-McMoRan Copper & Gold Inc). The Grasberg Mine is located in West Papua and is one of the world's largest copper and gold mines.

Significant infrastructure investments are being undertaken in West Papua by major energy companies such as BP, which is proceeding with preparation work for the construction of a 7mtpa LNG plant in West Papua and applying for additional exploration acreage in West Papua.

COMMUNITY RELATIONS

Support from the local people has been very encouraging. An agreement between WPM and the tribal chiefs/land owners has been procured in the form of a People's Charter, giving the exclusive right to the Operating Companies to develop all various natural resources on the entire areas for 75 years.

Yours faithfully



Guy Le Page, MAusIMM, FFIN
Chairman

Forward Looking Statements

Statements regarding plans with respect to the Company's mineral properties are forward-looking statements. There can be no assurance that the Company's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that the Company will be able to confirm the presence of mineral deposits, that any mineralisation will prove to be economic or that a mine will successfully be developed on any of the Company's mineral properties.

SCHEDULE A

Material Terms of Agreement to Acquire 100% of Primecity

Palace has executed an Agreement to acquire 100% of the issued capital of Primecity for a total consideration of A\$2.86 million with a further USD\$10.0 million payable on certain milestones.

1. **Issue of Shares to Primecity:** Issue of 102 million fully paid ordinary Palace Shares (“Shares”) to Primecity.
2. **Issue of Converting Performance Shares to Primecity:** Issue of 368 Converting Performance Shares (“CPS”) in Palace subject to certain milestones, on the same terms and conditions as the Converting Performance Shares on issue in Primecity.

If all milestones are achieved, the 368 CPS will be converted to 184 million Palace Shares and will be issued to Primecity. The total Palace Shares to be issued is a maximum of 286 million shares.

The terms and conditions of the four classes of CPS are as follows:

- a) Each **Class A Converting Performance Share** converts into 500,000 ordinary fully paid shares in the capital of Palace upon achievement of a $\geq 50\text{Mt}$ Exploration target on or before the earlier of 24mths from date of issue or 30 December 2012
- b) Each **Class B Converting Performance Share** converts into 500,000 ordinary fully paid shares in the capital of Palace upon achievement of Port Access and Hauling Agreement (includes road access from deposit to port) on or before the earlier of 36mths from date issue or 30 December 2013
- c) Each **Class C Converting Performance Share** converts into 500,000 ordinary fully paid shares in the capital of Palace upon achievement of $\geq 35\text{Mt}$ JORC Resource on or before the earlier of 48mths from date of issue or 30 December 2014
- d) Each **Class D Converting Performance Share** converts into 500,000 ordinary fully paid shares in the capital of Palace upon achievement of $\geq 70\text{Mt}$ JORC Resource on or before the earlier of 60mths from date of issue or 30 December 2015.

All of the Shares to be issued including the conversion of performance shares will be subject to a 12 month voluntary escrow from the date of issue or conversion.

3. Reimbursement of Expenses:

- Palace to reimburse Primecity for all agreed previous verifiable transaction and business development costs;

- Palace to reimburse current shareholders of WPM all previous verifiable expenses up to a maximum of USD\$1.50 million on acquisition of a 75% interest by Primecity in WPM/and or its three operating companies.

4. Milestone Cash Payments;

- A cash milestone payment to the current shareholders of WPM of USD\$2.0 million on the execution of a Port Access and Hauling Agreement (includes road access from deposit to port).
- A cash milestone payment to the current shareholders of WPM of USD\$8.0 million following the delineation of a 35 million tonne JORC resource.

5. Other Terms and Conditions

- Completion of due diligence to the absolute discretion of Palace in relation to the Primecity Sale Shares and Concessions within 28 days of execution of the Conditional Agreement;
- Palace obtaining shareholder approval for the issue of the Palace Shares and Palace CPS at a General Meeting required for the issue of the Palace Shares and Palace CPS to the Vendors;
- Completion of an Experts Report in part satisfaction of ASX Listing Rule 10.1;
- Palace completing a capital raising of at least A\$3 million to part fund this acquisition with approval at a General Meeting to be sort in mid December 2010

6. Effect on Capital Structure:

The indicative capital and ownership structure of Palace detailed in the table below is set out in the following four stages:

- Current capital structure of Palace;
- Pro-Forma capital structure of Palace following the proposed 15% placement;
- Pro-Forma capital structure of Palace following the raising of at least A\$3.0 million;
- Pro-Forma capital structure of Palace following the acquisition of a 100% interest in Primecity; and
- Pro-Forma capital structure of Palace following the conversion of all classes of all CPS.

Palace Resources Ltd
Pro Forma Capital Structure

#	Event	Shares	Listed Options	Converting Performance Shares	Comments/\$ Raised
1	Current Capital Structure	160,347,706	37,283,858	0	PXRO Expiring 30 June 2012 at \$0.20 each
			123,057,896	0	PXROA Expiring on 30 June 2012 exercisable at \$0.06 each
2	15% Placement	24,052,156			\$721,565
	Sub Total	184,399,862	160,341,754		
3	\$3 Million Capital Raise	100,000,000			Assuming an issue price of \$0.03 (3 cents)
	Sub Total	284,399,862	160,341,754		
4	Acquisition of 100% interest of Primecity	102,000,000		368	368 Converting Performance Shares convert to 184,000,000 Palace Ordinary Shares
	Sub Total	386,399,862	0	368	
5	Capital Structure Post Conversion of all Converting Performance Shares	184,000,000			368 Converting Performance Shares converted to 184,000,000 Palace Ordinary Shares
	Total	570,399,862	160,341,754		

Please note the “\$3 Million Capital Raise” listed in number 3 in the table above is proposed to be completed via a prospectus to issue up to 100m shares @ 3 cents each to raise \$3m. A placement was selected as the preferred capital raising approach due to the time constraints of the proposed transaction. Some existing shareholders may participate in the capital raising initiative.

7.0 Effect on Voting Rights

The table below details the shares to be issued to each vendor in accordance with the principal terms of the acquisition. Each vendor is an unrelated party and at no time will an individual vendor exceed 20% voting rights and as such PXR does not perceive the requirement for s 611 approval under the Corporations Act.

#	Vendors	Consideration Securities					
		Shares	Converted Performance Shares	Voting Rights (Pre 15% Placement)	Voting Rights (Post 15% Placement)	Voting Rights (Post Placement, Capital Raise and Acquisition of WPM)	Voting Rights (Post Placement, Capital Raise, Acquisition of WPM & Conversion of all CPS)
1	Fay	17,000,000	24,000,000	10.77%	9.37%	8.87%	10.22%
2	Formaine	17,000,000	24,000,000	6.92%	6.02%	7.27%	9.13%
3	Spartan	17,000,000	24,000,000	11.06%	9.62%	8.99%	10.30%
4	Prizeline	25,500,000	36,000,000	0.00%	0.00%	6.60%	10.78%
5	Southside	25,500,000	36,000,000	0.00%	0.00%	6.60%	10.78%
	Sub Total	102,000,000	144,000,000	28.75%	25.00%	38.33%	51.21%

SCHEDULE B

