

ASX Announcement 17<sup>th</sup> December 2010

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## Palace's Indonesian coal plans on track as Port development reaches a significant milestone

### Key points:

- Primecity Holdings Pty Ltd ("**Primecity**"), (which **Palace Resources** is in the process of acquiring, refer ASX Announcement 27/10/2010), has signed a binding agreement for the development of a dedicated coal terminal at the port of Mumiwaren, Indonesia. The transaction is subject to, *inter alia*, Shareholder approval;
- The proposed dedicated coal terminal would be about 10km away from the Joyhehi coal lease;
- A Scoping Study has been completed to identify a suitable location for the establishment of port infrastructure.
- Detailed technical assessments were undertaken by internationally recognized infrastructure consultants on three port sites with the Mumiwaren port site identified as the most suitable;
- The study confirmed previous government studies identifying Mumiwaren as a suitable site for the establishment of world class port infrastructure;
- Development costs are anticipated to be up to 30% lower than in the industrialized world; and
- Initial coal shipments are expected to be made utilizing the existing facilities thereby significantly reducing start up capital requirements.

### Background

Indonesian focused coal company Palace Resources Limited (**ASX: PXR**) ("**Palace**" or "the Company") wishes to advise that **Primecity**, which **Palace** is in the process of acquiring, has signed a binding agreement for the development of a dedicated coal terminal at the port of Mumiwaren, Indonesia.

At that same time **Primecity** has completed a Scoping Study to identify a suitable location for a port capable of receiving coal material from the company's proposed mining operations. The transaction with **Primecity**, whereby **Palace** will acquire a 75 per cent stake in extensive coal exploration projects in West Papua province, Indonesia, was announced to the ASX on 27/10/2010). The transaction remains subject to Shareholder approval.

## Port Agreement

**Palace** has been advised by **Primecity** that:

- A Memorandum of Understanding (“the MOU”) with the Regional Government of Manokwari was executed on 28 November 2010;
- The MoU secures Regional government support for **Primecity** to exclusively develop a dedicated coal terminal at the port of Mumiwaren;
- The port of Mumiwaren is located within a 10km radius of the Joyhehi coal concession area;
- The MoU was executed jointly by the Bupati of Manokwari, Inspectorate of the Regional Government, Head of Transportation, Communication and Informatics, Head of the Department of Forestry and Head of Environmental Affairs Agency; and
- Beneficial interest of the agreement would transfer to **Palace** in the event the proposed transaction announced to the ASX on 27 October 2010 was approved by shareholders.

## Port Scoping Study

Global Mining Services Pty Ltd (“GMS”) was appointed to conduct a preliminary investigation and prepare a report to identify a suitable location for a port capable of receiving coal material from the company’s proposed mining operations and loading that material into sea faring vessels for export.

The conceptual terrestrial port infrastructure layout was to adopt world’s best practices for port developments and the project cost estimates were to be based on internationally recognised pricing. It is important to add that early indications are that actual cost of construction in Indonesia could be 30% cheaper than international costing. Further work needs to be completed to verify the savings.

The terms of reference for the preliminary investigation were as follows:-

1. Determine possible port sites along the eastern coast of Manokwari Regency districts to serve coal mining operations in Manokwari Regency for PT West Papua Mining (“WPM”).
2. Prepare conceptual plans and cost estimates for the recommended site.
3. Determine commercial opportunities for involvement of the private sector at the port.
4. Assess the overall cost estimate for the identified site.
5. Provide a report to WPM on the location, costs and delivery mechanisms for a possible port in the district.

A site survey was conducted on 28 October 2010. The preliminary investigation addressed the following points as the key physical considerations for determine a suitable port location in each case:-

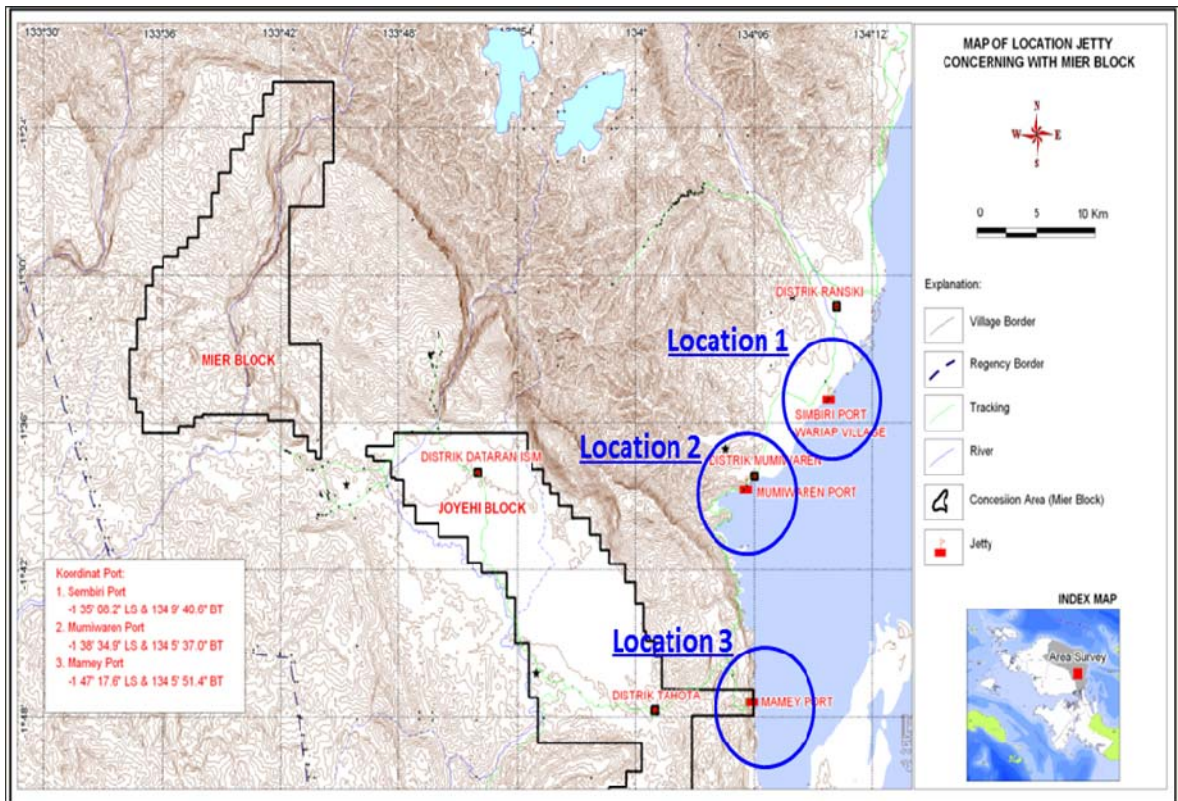
- Distance from mining area
- Channel navigation route
- Natural terrain features
- Existing ground elevation
- Existing natural harbour protection (islands, gulfs, hills, etc)
- Depth of the bay
- Existing location of coral formations
- Construction materials availability.

Three potential port locations, relative to the proposed mining operations, were considered as potential port sites, consisting of:-

- Location 1:           Wariap/Indoryaki/Sembiri
- Location 2:           Mumiwaren/Gunung Botak
- Location 3:           Mamey

The Manokwari Regency was recognised approximately 30 years ago as a potential site for a deep water port and industrial estate. Successive studies undertaken by the Indonesian State Government and the most recent review undertaken by GMS support this view. These three identified locations are shown in Figure 1.

GMS assembled a technical group to examine the sites suggested from a technical perspective in order to recommend a preferred location for further investigation. This technical group has considerable experience and expertise in the development of ports in Western Australia and Queensland, including port planning and development, coastal and ocean engineering, harbour design and construction, harbour and marina operation, environmental science, mining and civil engineering and town planning.

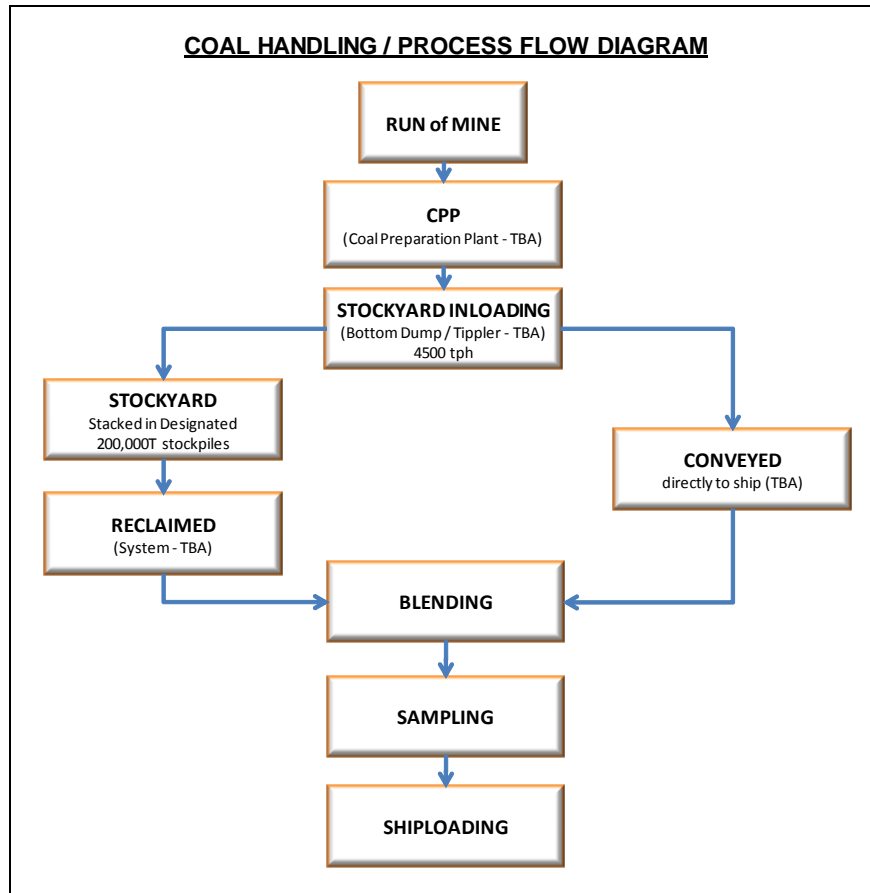


**FIGURE 1** Suggested Port Locations East of Manokwari Regency

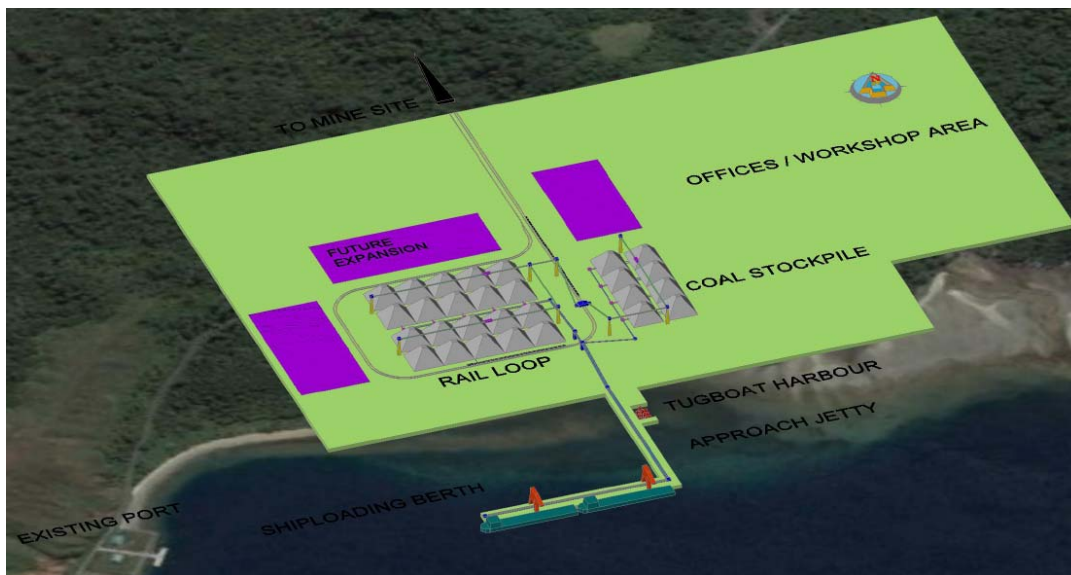
After an intense review process, the prime site recommended for further consideration is Location 2, Mumiwaren/Gunung Botak, which clearly appears suitable for a beach/barge/ship operation. This location holds the most promising potential to provide safe mooring for the vessels necessary for the export of coal, as well as commercial and recreational fleets in the Manokwari Regency.

The scope of work of the preliminary investigation is to provide a conceptual port design of a coal handling terminal for export, including the necessary support facilities, utilising approved port-marine infrastructure. This conceptual port is to consist of an integrated world-class open access port ultimately capable of exporting a minimum of 10Mtpa of coal products, together with the option of investigating ramp-up options of 2Mtpa moving to 5Mtpa and then to 10Mtpa.

An indicative coal handling process from the mining operations to ship loading is indicated in Figure 2, for which the necessary infrastructure from the mine and at the port is required. A conceptual 3D layout is overlain at the Mumiwaren port site to represent the typical facilities and is shown in Figure 3.



**FIGURE 2:** Coal Handling Process Flow from Mine to Ship



**FIGURE 3:** Conceptual 3D Layout Overlay at Mumiwaren Site (Location 2)

It is likely that the port will facilitate other non coal mining related and material handling developments within the region, which will bring additional direct employment, support jobs and revenue to the local and central governments. The site may well be attractive to a private developer or government who may wish to utilise the existing small port as an adjunct to development of the surrounding land. The commercial opportunities associated with the possible port development commonly would include:-

- Harbour charges
- Marine related industry
- Tourism/recreational development
- Residential land development.

In conclusion, based on the site visit of 28 October 2010, information provided to GMS and its own research, GMS recommends that the Mumiwaren site (Location 2) is the preferred location for the proposed coal export port facility, subject to the further independent studies. These further studies should also include whether the port should move to the ultimate minimum capacity of 10Mtpa immediately or via a staged ramp-up from 2Mtpa through to 5Mtpa capacities, including the implementation of an initial barge based port operation.

## **Summary**

**Palace** views the outcomes of the Scoping Study into the port location and the signing of binding agreements by **Primecity** for the development of a dedicated coal terminal at the port of Mumiwaren as to key milestones in the development of its Indonesian coal assets. The Company looks forward to updating the market as to further developments at these coal assets in the coming months.

## **Ends**

For more information please contact:

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