

## ASX ANNOUNCEMENT

6 October 2011

# Palace Resources executes agreement to acquire Lumpo Resources Pte Ltd

### Highlights

- Palace Resources has entered Memorandum of Understanding (“**MOU**”) to acquire 100% of Lumpo Resources Pte Ltd (“**Lumpo**”)
- Lumpo has entered into a binding MOU to acquire a 65% joint venture interest in a prospective coal project in West Sumatra, Indonesia (“**Sumatran Project**”)
- Sumatran Project comprises of a 922.7 hectare production licence (*Izin Ushua Pertambangan Produksi* or “**IUP**”) with all environmental and mining approvals in place
- Pre-feasibility study indicates mining, haulage and transshipment costs of approx US\$70/tonne FOB
- High quality coal commanding premium prices in excess of US\$200/tonne
- Palace Resources has a strong relationship with Indonesian locals and local officials
- The Sumatran Project has developed roads and good access to export infrastructure.

Palace Resources Limited (ASX: PXR) (**Palace** or **Company**) is pleased to announce that it has signed a conditional and binding MOU with the shareholders of Lumpo Resources Pte Ltd (**Vendors**), a company incorporated in Singapore, to acquire all of the issued shares in the capital of Lumpo (**Acquisition**).

Lumpo has entered into a conditional and binding MOU with PT Tambang Batubara Lumpo (**TBL**), a company incorporated in Indonesia, to acquire a 65% joint venture interest (**JV Interest**) in its coal project in Western Sumatra, Indonesia (**Sumatran Project**).

Palace believes that the Acquisition will bolster the Company’s aggressive exploration drive into Indonesia and will assist its continuing efforts to develop key partnerships in the region.

### Overview of the Sumatran Project

The Sumatran Project covers a total licence area of approximately 922.70 hectares.

Palace Resources recently completed a preliminary site visit and is currently in the process of mobilising an exploration team for the Sumatran Project. This team will include

a competent person for the purposes of the JORC Code who will be instructed to undertake work to prove up the project's resource to a JORC Code compliant standard.

### **Acquisition Terms**

Under the Acquisition, Palace will acquire all of the issued capital of Lumpo for the following consideration:

- a) 75,000,000 fully paid ordinary shares in the capital of Palace (Shares);
- b) Reimbursement of Lumpo's investment in the project up to a maximum of US\$250,000; and
- c) A royalty of US\$10/tonne from production.

Shares shall be escrowed for a period of 12 months from the date of issue (or longer period if required by the ASX Listing Rules).

### **Conditions Precedent**

Completion of the Acquisition is subject to a number of conditions precedent, including:

- a) the Company completing financial and legal due diligence on Lumpo and the Company being satisfied with the outcome of those due diligence investigations;
- b) each party obtaining all shareholder and regulatory approvals necessary for the Acquisition;
- c) the entry into a formal binding joint venture agreement to develop the Sumatran Project between the Vendors and TBL, on conditions or on terms satisfactory to Palace;
- d) Palace and the Vendors entering into a formal share sale agreement to fully document the terms of the Acquisition; and
- e) prior to completion of the Acquisition, there being no material adverse change to the business, financial or trading position, assets or liability, profitability or prospects of the Vendors, their business and assets.

These conditions precedent must be satisfied or waived on or before 13<sup>th</sup> January 2012.

As announced to ASX on 12 September 2011, the Company has completed legal due diligence on the Sumatran Project which confirms that the Sumatran Project's IUP is valid in accordance with Indonesian laws. It is now focused on undertaking technical due diligence to verify the information that has been provided by TBL.

On completion of the Acquisition, all members of the current board of Lumpo will resign and nominees of Palace will be appointed to the board of Lumpo.

### **Joint Venture Interest**

The MOU between Lumpo and TBL in relation to the JV Interest provides that the parties will enter into a formal binding joint venture agreement (**Joint Venture Agreement**) in relation to the Sumatran Project, conditional upon:

- a) Lumpo conducting and being satisfied with the outcome of their legal and technical due diligence investigations in respect of TBL and the property of the joint venture;

- b) each party obtaining all shareholder and regulatory approvals necessary to enter into the Joint Venture Agreement;
- c) Lumpo's board of directors approving Lumpo's entry into the Joint Venture Agreement; and
- d) prior to entering into the Joint Venture Agreement, there has been no material adverse change to the business, financial or trading position, assets or liability, profitability, prospects, business of TBL or the property of the joint venture.

These conditions must be satisfied or waived on or before 13 January 2012.

Under the Joint Venture Agreement, the participating interests of the parties in the joint venture shall be 65% Lumpo and 35% TBL.

The parties will form a management committee to which Lumpo will be entitled to appoint three members and TBL one.

The joint venture will appoint a manager and subject to the control and direction of the management committee, the manager shall have day to day management control of all joint venture's operations in respect of the IUP. Subject to the approval of the management committee, the manager will initiate a boring program as soon as practically possible (subject to completing drilling grid plan, obtaining rigs and all necessary approvals) following the date of execution of the Joint Venture Agreement, with the intention of drilling at least 30 holes averaging up to 60 metres and a minimum total of 1,800 metres of boring.

#### **Next steps**

Palace will keep shareholders informed of any material developments regarding the Acquisition.

**Yours faithfully**



**Nicholas Clark**  
**Managing Director**  
+61 8 9429 2900

#### **About Palace Resources**

Palace Resources goals are to create a sustainable exploration and development business focussed on resource opportunities in the Indonesian resource rich region. Palace has a strong management team which has a track record of acquiring and developing mineral projects in the Asia Pacific region. Palace is aggressively exploring and developing resources in the south-east Asia region, particularly Indonesia.

For more information visit [www.palaceresources.com.au](http://www.palaceresources.com.au)