

ASX ANNOUNCEMENT
Monday, 21 January 2013

Palace Acquires Rights to an Additional Highly Prospective Coal Project, East Kalimantan

Highlights

- Palace majority owned subsidiary, Paser Pte Ltd enters into MOU for exclusive rights to explore, mine and market coal from highly prospective coal concession in East Kalimantan, Indonesia (**Petangis Project**);
- Petangis Project comprises of a 100 hectare general survey licence (Izin Usaha Pertambangan Produksi or "IUP") with developed roads and good access to export infrastructure;
- Comprehensive due diligence process including a drill program to commence shortly;
- Targeting Petangis coal quality report March, 2013;
- Drill results on Paser Project – Temporary suspension of proposed mining project due to high sulphur content @ depth; and
- Experienced in country technical team with strong relationships with Indonesian locals and local officials.

Palace Resources Limited (ASX: PXR) (**Palace** or **Company**) is pleased to announce that it's 70% owned subsidiary Paser Pte Ltd (Paser) has signed an MOU with the shareholders of PT. Punggungan Tengah Samudera Indonesia (**PT PTSI**), a company duly incorporated in Indonesia, for the exclusive rights to explore, mine and market coal from a 100 hectare prospect area in East Kalimantan, Indonesia. (see Appendix 1 for a summary of the terms of the MOU between PXR and PT PTSI).

Palace believes that the Petangis Project is highly prospective with initial coal samples taken from outcrops within the prospect area returning excellent assay results including calorific values from 6876 – 7149 Kcal/kg (adb), 1.07 – 1.54% Sulphur and 11.26 – 16.02% ash content. With exploration infrastructure in place and within close proximity to the current Paser project, Palace is in a strong position to mobilise its technical teams and assess the projects potential efficiently and cost effectively.

Analysis of drill results from the Paser project have returned a higher than expected average sulphur content rendering the project less attractive at current commodity prices. The

outcomes of the recent drilling program have delayed the Company's plans to commence production from the Paser region. The Company continues to pursue its mining objectives in the region and has decided to further investigate the Petangis project and determine the economic viability of the project as a matter of priority.

Overview of the Petangis Project

The Petangis Project covers an area of approximately 100 hectares within a greater 1,000 hectare general survey licence (See Appendix 2: North Petangis Block). Under the MOU between Paser and PT PTSI, Paser has been granted the exclusive right to explore, mine and market coal from the designated 100 hectares only. An application to convert the 1,000 hectare concession from a general survey status to exploration status was submitted to the local authority in early December 2012. The exploration status is expected to be granted by early February, 2013 and will provide Palace with the ability to mobilise a drill team and undertake its full due diligence process.

The concession area lies within the Tanjung Formation, located \pm 127 Km southwest from Balikpapan (5hr drive) and is approximately 4km to the north of the Company's current exploration project (Paser Project). Administratively the prospect area is located in Petangis Village, Batu Engau District, Paser Regency, East Kalimantan, Indonesia. Good quality haul roads exist in and around the concession area with jetty locations within 14km of concession (Max hauling distance = 14km). Jetty locations are within a short distance to a deep water harbour with an existing operational port nearby (Barge to mother vessel = 30 km or approx 10 hours).

The Company's in country technical team has direct experience in coal mining projects that lie within the Tanjung Formation, Paser Regency and has completed initial ground survey and coal sampling. Two samples within the 100 hectare prospect area returned excellent assay results including calorific values from 6876 – 7149 Kcal/kg (adb), 1.07 – 1.54% Sulphur and 11.26 – 16.02% ash content.

Palace is currently in the process of mobilising a reconnaissance and drilling team to validate the economic viability of the prospect area.

Material Terms of Heads of Agreement (HOA) with Paser

On 16 April 2012, Palace announced that it had entered into a HOA with the original Paser shareholders, with regard to the acquisition of a prospective coal project in East Kalimantan, Indonesia, referred to as the Paser Project.

As part of, and in accordance with the East Kalimantan Paser Project Acquisition agreement, of that date, Palace would acquire 70% of the entire shareholding of Paser and the original shareholders would receive a production royalty from that project.

In addition to the royalty to be paid by Paser to PT PTSI, Palace will pay US\$1/tonne if a 5Mt mineable resource is defined or part thereof, paid from production revenues to Paser's current minority interest shareholders, for sourcing the **Petangis Project**.

The obligation of the Company to perform in accordance with the terms and conditions of the HOA between the Company and Paser is subject to the satisfaction of the following conditions precedent as soon as practically possible:

- a) the Company completing legal and technical due diligence on the Petangis project (including validity of the current general survey license) and the Company being satisfied with the outcome of those due diligence investigations;
- b) the Company completing a 10 hole drill program and coal quality analysis to the satisfaction of the Company.

Next steps

Palace will keep shareholders informed of any material developments regarding the Petangis project. Further, the Company continues to review additional resource projects that meet investment criteria within Indonesia and abroad.

Competent Person's Statement

The data in this report that relates to Exploration Results is based on information evaluated by Mr Waluyo Satrio who is a member of The Australian Institute of Mining and Metallurgy (MAusIMM) and who has sufficient experience 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 (the "JORC Code"). Mr Satrio is a fulltime employee of PT Indonesia Carbon Energy and he consents to the inclusion in the report of the Exploration Results in the form and context in which it appears.

Yours Faithfully

Roland Berzins
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About Palace Resources Limited

Palace Resources goals are to create a sustainable exploration and development business focused 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.padangresources.com.au

Appendix 1: Material terms of MOU

The material terms of the MOU between Paser and PT PTSI are as follows:

- (a) Paser shall fund all capital and operational commitments and expenses in respect to the Petangis Project;
- (b) A royalty shall be paid by Paser to PT PTSI as follows:
 - (i) US\$12 per metric tonne for sales, if coal from the Petangis Project is sold at a price equal to, or above, US\$85/tonne
 - (ii) US\$10 per metric tonne for sales, if the sale price is below US\$85 per tonne and equal to, or above US\$70 per tonne; and
 - (iii) if the sale price is below US\$70 per tonne for three consecutive months, the royalty will be cancelled and Paser and PT PTSI shall revert to a profit sharing arrangement on an 80%/20% basis (respectively).
- (c) Paser shall cover all other fees/contributions in respect to the Petangis Project, including but not limited to, land owner fees, hauling road fee, local government fee, community development fee, certificate of origin fee, estimated at Rp60,000/tonne (sixty thousand rupiah per tonne).
- (d) Paser shall pay to PT PTSI a total of Rp2 billion (approximately A\$200,000) by way of a loan which will be repaid by PT PTSI out of first profit distributions from production that PT PTSI would otherwise have been entitled to by way of royalty or profit sharing. The Rp2 billion is required to be paid by Paser to PT PTSI as follows:
 - (i) Rp 1,000,000,000 (approximately A\$100,000) on completion of a satisfactory 10 hole drill program as determined by the Company; and
 - (ii) Rp 1,000,000,000 (approximately A\$100,000) on first shipment of coal from the Paser Project.
- (e) Paser to recoup the Rp 2 billion loan to PT PTSI from the royalty payments payable by Paser to PT PTSI;
- (f) Paser must initiate a boring program as soon as practicably possible with the intention of drilling at least 10 holes, unless otherwise agreed between both Paser and PT PTSI.

Under the terms of the HOA, the Company has agreed to fund all of the cash commitments of Paser in respect to the Petangis Project (with the Paser Vendors (being the holders of 30% of the issued capital of Paser) to be free carried).

Appendix 2: North Petangis Block

