

26 August 2013

**RIO TINTO EXPLORATION CONFIRM COMMENCEMENT OF FIRST OPTION PERIOD – MT HILLALONG PROJECT**

Australian Pacific Coal (AQC) is pleased to announce the commencement of the exploration programme on the Mount Hillalong Joint Venture with Rio Tinto Exploration Pty Ltd (Rio Tinto) pursuant to the Exploration Option and Joint Venture Agreement Mount Hillalong (EOJVA). The EOJVA was entered into between the parties on 8 August 2011.

Rio Tinto has informed AQC that the joint venture's exploration programme is now activated. Rio Tinto has a 24 months period within which to conduct this programme of exploration. Rio Tinto has advised AQC of a detailed drilling and seismic programme that will be undertaken on targets already identified in preparation for this drilling programme.

This is a milestone event for AQC. Under the terms agreed with Rio Tinto, the joint venture Commitment Period expires on 23 August 2015.

The terms of the EOJVA provide AQC with a number of options in the event that Rio Tinto exercises its option to acquire a 75% interest in the Mount Hillalong tenement (EPC 1824).

Regular updates on exploration activities will be made to the market as drilling results become available.

Yours faithfully,



Paul Byrne  
CEO

***About Australian Pacific Coal Limited***

*Australian Pacific Coal Limited (ASX:AQC) is an ASX-listed company focused on the exploration and development of metallurgical and thermal coal projects. With interests in 34 coal tenements strategically located in south-east Queensland's Bowen and Surat Basins, AQC has joint venture agreements in place with mining major Rio Tinto and Cuesta Coal.*

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**STRICTLY CONFIDENTIAL**

Paul Byrne  
Chief Executive Officer  
Area Coal Pty Ltd  
Level 7, 10 Felix Street  
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23<sup>rd</sup> August 2013

Dear Sir

**COMMITMENT PERIOD – Exploration Option and Joint Venture Agreement Mount Hillalong**

Unless indicated otherwise, in this letter all capitalised terms have the same meaning as in the Exploration Option and Joint Venture Agreement Mount Hillalong (**EOJVA**).

In accordance with the EOJVA executed on 8 August 2011 by Rio Tinto, Area Coal and Pacific Coal, Rio Tinto hereby notifies Area Coal as follows:


- as per clause 5.1 of the EOJVA, the date of this letter is the first day of the Commitment Period, which will expire in 24 months on 23 August 2015.

Rio Tinto looks forward to a safe and successful exploration program in the Mount Hillalong project.

If you have any questions regarding this letter please contact either [REDACTED]

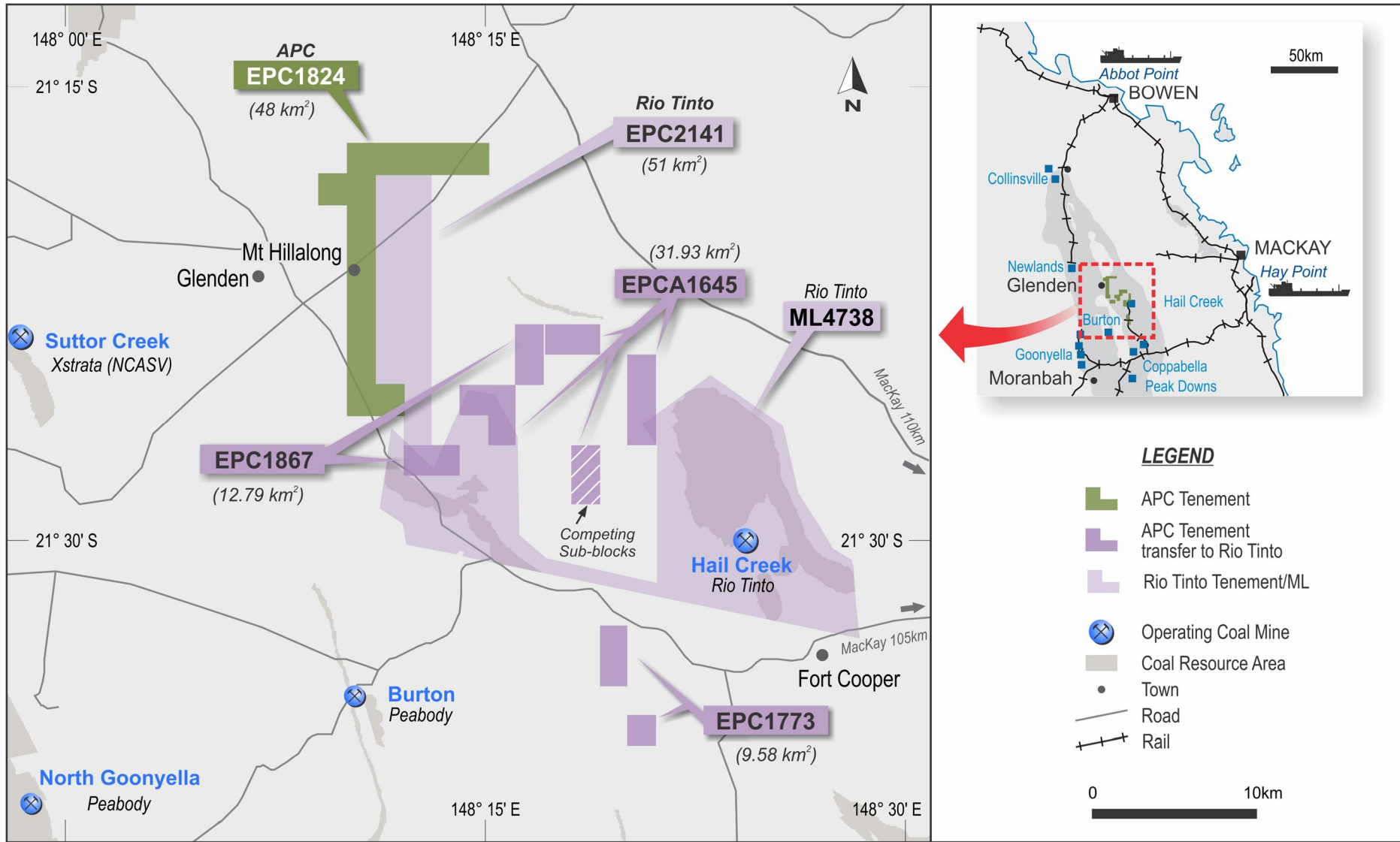
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**Yours faithfully**



**Ian Ledlie**  
Director, Rio Tinto Exploration Pty Ltd

# AUSTRALIAN PACIFIC COAL & RIO TINTO EXPLORATION MT HILLALONG TENEMENTS



Note: This map does not display tenements held by other explorers

## THE MT HILLALONG EXPLORATION OPTION AND JOINT VENTURE AGREEMENT

AUSTRALIAN PACIFIC COAL LIMITED (ASX:AQC) (the Company) through its 100% owned subsidiary Area Coal Pty Ltd (Area Coal) has an Exploration Option and Joint Venture Agreement (EOJVA) with Rio Tinto Exploration Pty Limited (RTX). This EOJVA sets out terms of an exploration agreement and RTX's potential acquisition or joint venture of the Company's Mt Hillalong project.

The key terms of the EOJVA are:

- An initial payment to the Company of \$2.3 million was received in August 2011.
- Area Coal transferred title to EPC 1773 and 1867 to RTX. EPC 1645 is to be transferred to RTX if granted to Area Coal.
- RTX must sole fund and manage an exploration program with a minimum expenditure of \$700,000 within the first 24 months of gaining access to explore EPC 1824. The 24 month term commenced on 23 August 2013 and expires on 23 August 2015.
- RTX has an option to acquire a 75% interest in EPC 1824 by making a defined payment to Area Coal at any time within the first 24 months of the exploration program (option). In the event of RTX's exercise of this option, the parties will form an unincorporated joint venture, in which Area Coal will retain a 25% free carried interest.
- If RTX exercises the option to acquire an interest in EPC 1824, Area Coal would then hold a put option (exercisable on the date that is 12 months after the joint venture's formation) (the first put option) enabling it to sell its 25% interest in the JV to RTX for an additional defined payment to Area Coal.
- If Area Coal does not exercise the first put option, it will have a second put option, exercisable within 180 days of the JV management committee commissioning a feasibility study, to sell its 25% interest in the joint venture to RTX for consideration calculated on the basis of EPC 1824's resource tonnage.
- If Area Coal does not exercise this second put option it will become liable for 25% of all future development and operational costs of the JV.
- Should RTX not exercise its option to acquire the aforementioned 75% interest in EPC 1824, Area Coal will retain its existing 100% ownership of this tenement. In addition, it can reacquire the other Mt Hillalong tenements that were transferred to RTX as part of this transaction.