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Company Announcements Office
Australian Stock Exchange

RIO TINTO – MT HILLALONG EXPLORATION AGREEMENT

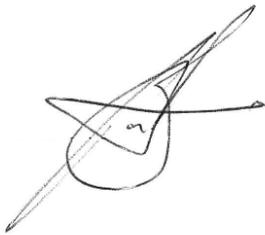
AUSTRALIAN PACIFIC COAL LIMITED (ASX:AQC) (the Company) is pleased to announce that its 100% owned subsidiary Area Coal Pty Ltd has executed an Exploration Option and Joint Venture Agreement with Rio Tinto Exploration Pty Limited (RTX), which sets out terms of an exploration agreement and the potential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

The key terms of the agreement are:

- RTX will make an initial payment to the Company of \$2.3 million.
- Area Coal will transfer title of the following tenements to RTX: EPC 1773 and EPCs 1867 and 1645 (if granted).ⁱ
- RTX will 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.
- RTX will have 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. At that time the parties will form an unincorporated joint venture, in which Area Coal would retain a 25% free carry interest.
- If RTX exercises the option to acquire an interest in EPC 1824, Area Coal then would hold a put option (exercisable on the date that is 12 months after the formation of the joint venture) 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 above put option, it will have a further put option, exercisable within 180 days of the JV management committee commissioning a feasibility study, to sell its 25% interest to RTX for consideration calculated on the basis of resource tonnage.
- If Area Coal does not exercise its second put option it will become liable for 25% of all future development and operational costs of the JV.
- Should RTX not exercise its initial option to acquire an interest in the project, Area Coal will retain its existing 100% ownership of EPC 1824 and can reacquire the other three Mt Hillalong tenements associated with the transaction.

AQC Managing Director, Mr Paul Byrne, said “This is a very positive development for the Company. We are pleased to enter into such an agreement with an organisation with the skills and experience of Rio Tinto. Rio Tinto and others have major coal operations in the general vicinity. The area is a major hub for coal mining in Queensland with multiple large scale operations within 50 kilometres of the exploration projects.

The funds released by this proposal will be used by the Company to continue its exploration program including on ground exploration and drilling of its tenements.”

A handwritten signature in black ink, appearing to read 'Paul Byrne', written over a faint, light-colored circular stamp or watermark.

Paul Byrne
Executive Director

ⁱ Area Coal has lodged applications for EPCs 1867 and 1645, but they have not yet been granted.