PALACE RESOURCES LIMITED

ABN 74 106 240 475

AND ITS CONTROLLED ENTITY

HALF-YEAR REPORT
FOR THE HALF YEAR ENDED

31 DECEMBER 2009

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DIRECTORS' REPORT

Your directors present their report on Palace Resources Limited and its controlled entity ("the consolidated entity or group") for the half-year ended 31 December 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of the directors who held office during or since the end of the half-year are:

Mr Guy Le Page	Appointed 7 August 2009
Mr Robert Hyndes	Appointed 14 October 2009
Mr Roland Berzins	
Mr Anthony Short	Resigned 14 October 2009
Mr Matthew Sullivan	Resigned 7 August 2009

Directors were in office for the entire period and until the date of this report unless otherwise stated.

DIVIDENDS

No dividends were paid or declared during the period. No recommendation for the payment of dividends has been made.

REVIEW AND RESULTS OF OPERATIONS

The net loss of the Group after income tax for the half-year ended 31 December 2009 amounted to $446,821. (Half year ended 31 December 2008 a loss of $733,568).

SUBSEQUENT EVENTS

There are no matters or circumstances that have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods, other than:

On the 18th of December 2009, the Company announced that it planned to undertake a four-stage $1.2m capital raising by way of the following:

- A share placement comprising 9,000,000 shares at an issue price of 1.2 cents ($0.012) made pursuant to the Company's 15% discretionary capacity (**Discretionary Placement**)
- A non-renounceable rights issue of 72,173,853 Shares at an issue price of 1.2 cents ($0.012) on the basis of one (1) share for every one (1) share held on the record date together with one (1) free attaching option for every three (3) shares applied for and allotted for to raise $866,086 before costs (**Rights Issue**);
- A share placement comprising 16,000,000 shares at an issue price of 1.2 cents ($0.012) to raise $192,000 before costs (**Share Placement**); and
- An option placement comprising the issue of 99,000,000 options at an issue price of 0.1 cents ($0.001) to raise $99,000 before costs (**Option Placement**).

The Share placement of 9,000,000 shares at an issue price of $0.012 has been completed and payment received on 22 January 2010.

The Right Issue prospectus was issued on 12 February 2010 and the Share Placement prospectus was issued on 26 February 2010.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Ord Partners, to provide the directors of the Consolidated entity with an Independence Declaration in relation to the review of the half-year report. This Independence Declaration is set out on page 4 and forms part of this directors' report for the half-year ended 31 December 2009.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to Section 306(3) of the Corporations Act 2001.

R Berzins - Director

Dated this 11th day of March 2010, - Perth, Western Australia.

O R D
PARTNERS
CHARTERED ACCOUNTANTS

Ian K Macpherson CA

Robert W Parker CA

11 March 2010

To the Board of Directors of Palace Resources Limited

Dear Sirs

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, in relation to the review of the financial report for the half-year ended 31 December 2009, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully
ORD PARTNERS

Robert Parker
Partner

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PALACE RESOURCES LIMITED AND ITS CONTROLLED ENTITY
ABN 74 106 240 475

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Continuing operations	**Half Year Ended 31 December 2009 $**	**Half Year Ended 31 December 2008 $**
Other revenue	14,175	33,010
Employee benefit expenses	(24,844)	(51,469)
Consulting fees	(174,440)	(105,208)
Exploration expenditure expensed as incurred	(6,075)	-
Compliance and regulatory expenses	(24,567)	(41,730)
Business development expenses	(4,936)	(8,512)
Impairment of available – for-sale financial assets	-	(184,000)
Impairment of amount due by related entities	(25,161)	(200,000)
Depreciation	(2,039)	(4,718)
Director fees	(36,965)	(35,000)
Finance costs	(546)	(1,123)
Travel and accommodation expenses	(65,103)	(19,931)
Rental and office expense	(44,628)	(65,412)
Other expenses	(51,692)	(49,475)
Loss before income tax expense	(446,821)	(733,568)
Income tax expense	-	-
Loss for the period	(446,821)	(733,568)
Other comprehensive income		
Net changes in the fair value of available-for-sale financial assets	20,185	79,000
Other comprehensive income for the period	20,185	79,000
Total comprehensive loss for the period attributable to the shareholders of the parent	**(426,636)**	**(654,568)**
Basic and diluted loss per share (cents)	(0.9)	(1.4)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Note	31 December 2009 $	30 June 2009 $
Current assets			
Cash and cash equivalents		133,767	355,315
Trade & other receivables		102,329	117,661
Total Current Assets		236,096	472,976
Non-Current Assets			
Other financial assets		172,333	152,148
Plant and equipment		-	2,039
Deferred exploration expenditure	5	121,888	121,888
Total Non-Current Assets		294,221	276,075
Total Assets		530,317	749,051
Current Liabilities			
Trade and other payables		90,532	57,605
Provisions		2,083	26,700
Total Current Liabilities		92,615	84,305
Total Liabilities		92,615	84,305
Net Assets		437,702	664,746
Equity			
Contributed equity	6	4,318,044	4,118,452
Reserves		393,023	372,838
Accumulated losses		(4,273,365)	(3,826,544)
Total Equity		437,702	664,746

The accompanying notes form part of these financial statements.

PALACE RESOURCES LIMITED AND ITS CONTROLLED ENTITY
ABN 74 106 240 475

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Issued capital	Option Premium Reserve	Available for sale asset reserve	Accumulated losses	Total
	$	$	$	$	$
Balance at 1 July 2009	4,118,452	372,838	-	(3,826,544)	664,746
Loss for the period	-	-		(446,821)	(446,821)
Net changes in fair value of available-for-sale assets	-	-	20,185	-	20,185
Total comprehensive income / (loss) for the period	-	-	20,185	(446,821)	(426,636)
Shares issued in the period	204,000	-	-	-	204,000
Shares transaction costs	(4,408)	-	-	-	(4,408)
Balance as at 31 Dec 2009	4,318,044	372,838	20,185	(4,273,365)	437,702

	Issued capital	Option Premium Reserve	Available for sale asset reserve	Accumulated losses	Total
	$	$	$	$	$
Balance at 1 July 2008	4,118,452	372,838	(79,000)	(1,826,785)	2,585,505
Loss for the period	-	-	-	(733,568)	(733,568)
Net changes in fair value of available - for - sale assets	-	-	79,000	-	79,000
Total comprehensive income / (loss) for the period	-	-	79,000	(733,568)	(654,568)
Balance as at 31 Dec 2008	4,118,452	372,838	-	(2,560,353)	1,930,937

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	HALF YEAR ENDED 31 DECEMBER 2009 $	HALF YEAR ENDED 31 DECEMBER 2008 $
Cash Flow from Operating Activities		
Interest received	12,985	33,010
Payments to suppliers and employees	(433,579)	(288,787)
Financing costs	(546)	(1,123)
Net cash used in operating activities	(421,140)	(256,900)
Cash Flow from Investing Activities		
Payment for other financial assets	-	-
Payment for mining tenements	-	(46,213)
Net cash used in investing activities	-	(46,213)
Cash Flow from Financing Activities		
Loan to related parties	-	(230,000)
Proceeds from issue of shares	204,000	-
Cost of issuing shares	(4,408)	-
Proceeds from loan repayment by related party	-	4,378
Net cash provided by/ (used in) financing activities	199,592	(225,622)
Net (decrease) in cash held	(221,548)	(528,735)
Cash and cash equivalents at the beginning of the period	355,315	1,490,572
Cash and cash equivalents at the end of the period	133,767	961,837

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The half-year consolidated financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, applicable accounting standards including AASB 134 " Interim Financial Reporting", Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards board ("AASB"). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Consolidated entity as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

Basis of preparation

The condensed half-year consolidated financial statements have been prepared on the basis of historical cost except for derivative financial instruments and available-for-sale financial assets which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise stated.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

Significant Accounting Judgements and Key Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this half-year report, the significant judgements made by management in applying the Consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2009.

Going concern

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Consolidated Entity has incurred a net loss after tax for the half year ended 31 December 2009 of $446,821 (2008: $733,568) and experienced net cash outflows from operations of $421,140 (2008: $256,900). As at 31 December 2009, the Consolidated Entity had net current assets of $143,481 (30 June 2009: $388,671). As at 31 December 2009, the Consolidated Entity had a net asset position of $437,702 (2009: $664,746)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

The Directors believe that there are sufficient funds to meet the Consolidated Entity's working capital requirements.

However, the Directors recognise that the ability of the Company to continue as a going concern and to pay its debts as and when they fall due may be dependent on the ability of the Company to secure additional funding through either the issue of further shares, options and or convertible notes.

In relation to the expenditure commitment for the Australian granted licenses, the directors

- will pursue potential farm out activities on the company's exploration assets;
- will seek, where appropriate, to obtain exemptions on exploration and mining tenements where minimum expenditure commitments have previously been met or where resources have been defined and are awaiting mining leases approval;
- expect that major shareholders of the Company will support fund raising as has been demonstrated in past share issues to the existing shareholder base.

Based on the above, the Company is confident that it will successfully raise additional funds, if required, to meet its financial obligation in future period.

Additionally, the directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will achieve the matters set out above. As such, the directors believe that they will continue to be successful in securing additional funds through debt or equity issues as and when the need to raise working capital arises.

On the 18th of December 2009, the Company announced that it planned to undertake a four-stage $1.2m capital raising by way of the following:

- A share placement comprising 9,000,000 shares at an issue price of 1.2 cents ($0.012) made pursuant to the Company's 15% discretionary capacity (**Discretionary Placement**)
- A non-renounceable rights issue of 72,173,853 Shares at an issue price of 1.2 cents ($0.012) on the basis of one (1) share for every one (1) share held on the record date together with one (1) free attaching option for every three (3) shares applied for and allotted for to raise $866,086 before costs (**Rights Issue**);
- A share placement comprising 16,000,000 shares at an issue price of 1.2 cents ($0.012) to raise $192,000 before costs (**Share Placement**); and
- An option placement comprising the issue of 99,000,000 options at an issue price of 0.1 cents ($0.001) to raise $99,000 before costs (**Option Placement**).

The Share placement of 9,000,000 shares at an issue price of $0.012 has been completed at the time of this report, the funds being received on 22 January 2010.

Notwithstanding this, there is uncertainty whether the Company will be able to continue as a going concern.

Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

Adoption of new and revised Accounting Standards

In the half year ended 31 December 2009, the consolidated entity has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2009.

During the current reporting period, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 January 2009.

The affected policies and standards are:

- AASB 8 *Operating Segments*;
- AASB 101 *Presentation of financial statements* (Revised, September 2007) and AASB 2007-8 and 2007-10 *Amendments arising from the revisions to AASB 101*; and
- AASB 127 *Consolidated and Separate financial statements.*

The adoption of these new and revised Standards and Interpretations have not affected the amounts reported for the current or prior period, but have changed certain disclosures made in the financial statements of the Company.

NOTE 2: LOSS FOR THE PERIOD

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

	31 December 2009 $	31 December 2008 $
Interest received	12,985	33,010

NOTE 3: SEGMENT INFORMATION

The Company has adopted AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Due to the size and nature of the Company, the Board as a whole has been determined as the chief operating decision maker.

The Company's operating segments have been determined with reference to the monthly management accounts used by the chief operating decision maker to make decisions regarding the Company's operations and allocation of working capital.

The Company operates in one business segment and one geographical segment, namely mineral exploration industry in Australia only. AASB 8 Operating Segments states that similar operating segments can be aggregated to form one reportable segment. Also, based on the quantitative thresholds included in AASB 8, there is only one reportable segment, namely mineral exploration industry. However, none of the other operating segments currently meet any of the prescribed quantitative thresholds, and as such do not have to be reported separately. The Company has therefore decided to aggregate all their segments into one reportable operating segment.

The revenues and results of this segment are those of the Company as a whole and are set out in the statement of comprehensive income. The segment assets and liabilities of this segment are those of the Company and are set out in the statement of financial position.

This does not represent any changes in disclosure from the predecessor Standard AASB 114 Segment reporting.

NOTE 4. COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

The Consolidated entity commitments are continued to be in place. For details of these commitments, please refer to 30 June 2009 annual financial report.

The Consolidated entity is not aware of any contingent assets and liabilities which existed at the end of the half-year or have arisen as at the date of this report.

NOTE 5. EXPLORATION & EVALUATION EXPENDITURE

	31 December 2009 $	30 June 2009 $
NON-CURRENT		
Deferred Exploration Expenditure, at cost	121,888	121,888
Exploration Expenditure movement		
Brought forward at the beginning of period	121,888	821,097
Exploration expenditure written off during the year	-	(762,006)
Impairment of exploration expenditure	-	62,797
Exploration expenditure capitalised during the period	-	-
Carried forward exploration expenditure	121,888	121,888

NOTE 5. EXPLORATION & EVALUATION EXPENDITURE (cont.)

The value of the Company's interest in exploration and evaluation expenditure is dependent upon:

- The continuance of the Company's right of tenure of the areas of interest;
- The results of future exploration; and
- The recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

NOTE 6: ISSUED CAPITAL

	31 December 2009 $	30 June 2009 $
ORDINARY SHARES		
Issued and fully paid	4,318,044	4,118,452

Movement in ordinary shares on issue	NO. OF SHARES	$
As at 1 July 2009 (net)	46,173,853	4,118,452
Shares issued during period:	-	
Issued 6 August 2009 @ issue price of 1.2 cents each	6,900,000	82,800
Issued 17 November 2009 @issue price of 1.2 cents each	10,100,000	121,200
Costs of issue	-	(4,408)
Balances as at 31 December 2009	63,173,853	4,318,044

NOTE 7: SUBSEQUENT EVENTS

There are no matters or circumstances that have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the Consolidated entity**,** the results of those operations, or the state of affairs of the Consolidated entity in future financial periods, other than the proposed capital raising:

On the 18th of December 2009, the Company announced that it planned to undertake a four-stage $1.2m capital raising by way of the following:

- A share placement comprising 9,000,000 shares at an issue price of 1.2 cents ($0.012) made pursuant to the Company's 15% discretionary capacity (**Discretionary Placement**)
- A non-renounceable rights issue of 72,173,853 Shares at an issue price of 1.2 cents ($0.012) on the basis of one (1) share for every one (1) share held on the record date together with one (1) free attaching option for every three (3) shares applied for and allotted for to raise $866,086 before costs (**Rights Issue**);
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- An option placement comprising the issue of 99,000,000 options at an issue price of 0.1 cents ($0.001) to raise $99,000 before costs (**Option Placement**).

The Share placement of 9,000,000 shares at an issue price of $0.012 has been completed, funds received 22 January 2010

The Rights Issue prospectus was issued on 12 February 2010 and the Share Placement prospectus issued on 26 February 2010.

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

R Berzins
Director
Dated this 11th day of March 2010

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF PALACE RESOURCES LIMITED

ORD PARTNERS
CHARTERED ACCOUNTANTS

Ian K Macpherson CA

Robert W Parker CA

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Palace Resources Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2009, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year period ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement; whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Palace Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Palace Resources Limited is not in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Material uncertainty regarding going concern

Without qualifying the opinion expressed above, attention is drawn to the following matter. As a result of matters referred to in Note 1 "Going Concern" to the financial statements, the ability of the Company to continue as a going concern and meet its planned and committed expenditures including exploration expenditures is dependent upon the Company raising further working capital. In the event that the Company cannot raise further working capital, there is material uncertainty whether the Company will able to pay its debts as and when they become due and payable. Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets nor to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

ORD PARTNERS
Chartered Accountants

Robert Parker

Perth, 11 March 2010