PALACE RESOURCES LIMITED

(Incorporated in Western Australia)

ACN 106 240 475

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

CORPORATE DIRECTORY

Directors

Guy Le Page– Non Executive Director and Chairman
Nicholas Clark – Managing Director
Ian Murie – Non Executive Director

Company Secretary

Roland Berzins

Registered and Principal Office

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Website: www.palaceresources.com.au

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ABN 74 106 240 475
ACN 106 240 475

Auditors

MGI Perth Audit Services Pty Ltd
Level 7 The Quadrant
1 William Street
Perth WA 6001

Telephone: - (+61 8) 9463 2463
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Share Registry

Advanced Share Registry Services
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Palace Resources Limited is listed on the Australian Securities Exchange:

ASX Code: PXR
ASX Code: PXRO
ASX Code: PXROA

ABN 74 106 240 475

Dear Shareholder

Welcome to the 2011 Annual Report of the Company.

There have been some significant developments over the recent months, which we believe will have a material influence in regard to the future prospects of the Company.

In particular, this is with regard to the Company's foray into the Indonesian resources sector.

With regard to the Company's Australian exploration program, Palace currently holds a granted exploration licence and has applications for other licences between Browns and Supplejack Ranges, 70 kilometres north of Tanami and 700 kilometres northwest of Alice Springs in the Northern Territory.

The granted licence lies within an area of pastoral leasehold and so access is relatively straightforward and there are no constraints on uranium exploration. The licence applications however overlie land owned by Aboriginal interests and so it is perceived that a grant is unlikely in the near term.

In order to understand the potential of this area, the Company entered into a Joint Venture agreement with Excalibur Mining Corporation Ltd (ASX: EXM). Palace has had to forego 90% of its Uranium rights, in order to form this Joint Venture, but for this it has gained 10% of the tenements gold rights.

During the financial year, the Company has issued a further 141,123,312 fully paid ordinary shares, raising a total of $3,779,678 (after costs).

Outside of this reporting period the Company appointed Mr Nicholas Clark as Managing Director. Nick has vast experience in Indonesia and is fluent in both Bahasa and a fair appreciation of Mandarin. A lawyer and economist by training, his experience includes 18 years in Indonesia, the US and China. One of Nick's roles is to assist the Company in its pursuit of mineral opportunities in Asia, in particular Indonesia.

The 2011/2012 period for Palace will be an exciting time with the Company undertaking its first thermal coal project in Indonesia with the opportunity to acquire other projects, through our newly appointed Managing Director's contacts and associations in the country.

For more information visit www.palaceresources.com.au

On behalf of the Directors of the Company I would like to thank you for your support during a somewhat difficult period for the Company.

Guy Le Page

Guy Le Page, FFIN, MAusIMM

Chairman

30 September 2011

ANNUAL FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

CORPORATE GOVERNANCE STATEMENT

APPROACH TO CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Palace Resources Ltd support and adhere to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Palace is in compliance with those guidelines, to the extent possible, which are of importance to the commercial operation of a junior resource company.

During the financial period ended, shareholders continued to receive the benefit of an efficient and cost – effective corporate governance policy for the Company.

The board of directors of Palace Resources Ltd is responsible for the Corporate Governance of the Company. The Board guides and monitors the business and the affairs of the Company on behalf of the shareholders, by whom they were elected and to whom they are responsible.

Upon listing, the Company established a set of Corporate Governance policies and procedures. These were based on the Australian Securities Exchange Corporate Governance Council's ("Council") "Principles of Good Corporate Governance and Best Practice Recommendations".

In accordance with the Council's recommendations, the Company has followed the guidelines during this period. Where a recommendation is not followed, that fact must be disclosed, together with the reason for the departure.

For further information on Corporate Governance policies adopted by the Company, refer to our website:
www.palaceresources.com.au

Principles and Recommendations		Compliance	Comply
Principle 1 – Lay solid foundations for management and oversight			
1.1	Establish the functions of the Board of directors ("Board") of Palace Resources Ltd ("the Company") and those delegated to manage and disclose those functions	The Board is responsible for the overall corporate governance of the Company. The Board has adopted a Board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. On appointment of a director, the Company issues a letter of appointment setting out the terms and conditions of the appointment to the Board.	Complies
1.2	Disclose the process for evaluating the performance of senior executives	The board only employ's 1 employee and does not formally review the performance of the senior executives / Board.	Does not comply. However the Board continually monitors the behaviour of its senior executives / directors and discusses with them all aspects of their activities with regard to the Company.
1.3	Provides the information indicated in *Guide to reporting on Principle 1.*	A summary of the Board's functions and responsibilities is summarised in this Corporate Governance Statement. The Boards charter is also available on request.	Complies
Principle 2 – Structure the board to add value			
2.1	A majority of the Board should be independent directors	A Palace director is considered independent when he or she is independent of management (that is, non-executive), and free from any business or other relationship that could materially interfere with, or could be reasonably perceived to materially interfere with, the exercise of his or her unfettered and independent judgement. Materiality is considered on a case by case basis by reference to the director's individual circumstances rather than general materiality thresholds. The Palace Board has made its own assessment to determine the independence of each director on the board. In essence a non-executive director is deemed independent, if the director does not fail any of the following materiality thresholds: • less than 10% of the Company shares are held by the director and any entity or individual directly or indirectly associated with the director; • no sales are made to or purchases made from any entity or individual	Complies.

		director or indirectly associated with the director; and • none of the directors' income of an individual or entity directly or indirectly associated with the director is received from a contract with any member of the economic entity other than income which is derived as a director of the entity.	
2.2	The chair should be an independent director.	Palace has adopted this recommendation although interests associated with the chairman hold a percentage of the company's issued securities.	Complies
2.3	The roles of the chair and managing director should not be exercised by the same individual	The Company has appointed the managing director subsequent to year end.	Complies
2.4	The Board should establish a nominations committee	Due to the size of the Board, it was determined that the board will execute the functions of the nominations committee and that a separate nominations committee was not necessary.	The Company does not comply with this principle. The whole board is / would be involved if the situation occurred.
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	The Company did not conduct a formal performance evaluation of the Board and has not adopted a performance evaluation policy.	The Company does not comply. Refer to 1.2 above.
2.6	Provide the information indicated in the *Guide to reporting Principle 2.*	This information has been disclosed (where applicable) in the Directors report attached to the Corporate Governance statement. The Board carries out the functions of the nominations committee. In accordance with the information suggested in the *Guide to reporting on Principle 2,* the Company has disclosed full details of its directors in the Directors report attached to the Corporate Governance Statement. Other disclosure material as suggested in the *Guide to reporting Principle 2* has been made available on the Company's website.	The Company does not fully comply, please see 2.3 above.
Principle 3 – Promote ethical and responsible decision making.			
3.1	Establish a code of conduct and disclose the code or a summary of the code	As part of the Board's commitment to the high standards of conduct, the Company has established operating protocols to deal with various issues including: • conflicts of interest; • employment practices; • fair trading; • health and safety; and • relations with customers and suppliers.	The recommendation to establish and publish a formal code has not been adopted in view of the nature and extent of company operations, the long-standing tenure of directors and the close relationship with the senior management team.

		These are designed to: • clarify the standards of ethical behaviour required of the board, senior managers and employees and encourage compliance with those standards; and • assist the company to comply with its legal obligations and have regard to the reasonable expectations of shareholders.	
3.2	Establish a policy concerning the trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of the policy	The Board has an informal policy to restrict directors and senior managers from acting on material information to trade in the company's securities until such information has been released to the market and adequate time has passed for it to be reflected in the price of those securities. Material information means information concerning the company's financial position, strategy or operations and any other information which a reasonable person might consider, if it were made public, would be likely to have a material impact on a decision to buy or sell the Company's securities.	The recommendation to publish details of the trading policy has not been adopted in view of the limited dealings undertaken by directors and senior managers in the Company's securities and the fact that interests associated with the directors and senior managers hold a significant portion of the Company's issued securities.
3.3	Provide the information indicated in *the Guide to reporting Principle 3*.	The Board Charter containing the Code of Conduct is available on request. The Securities trading policy is summarised in this Corporate Governance Statement and is available on request	Complies.
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit committee	An audit committee has not been established	The Company does not comply. Due to the size of the Board, the directors determine that it will execute the function of an audit committee and that a separate audit committee is not necessary.
4.2	The audit committee should be structured so that it consists of only non executive directors, a majority of independent directors, is chaired by an independent chair person who is not chair person of the board and the committee shall have at least 3 members.	An audit committee has not been established by the Board.	The Company does not comply. Refer to 4.1 above.

4.3	The audit committee should have a formal charter.	An audit committee has not been established. The functions of the audit committee are reserved for the Board and operate under the Board charter.	The Company does not comply. Refer to 4.1 above
4.4	Provide the information indicated in *the Guide to reporting Principle 4*.	The functions associated with the safeguarding the integrity in financial reporting are carried out by the Board; is encompassed within the Board's Charter which is summarised in this Corporate Governance Statement and is available on request.	The Company does not comply. Refer to 4.1 above
Principle 5 – Make timely and balanced disclosure			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.	The company secretary has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirement in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX and the public. The company secretary and/or the chairman jointly ensure that any proposed announcement is drafted in a timely manner, is factual, expressed in a clear and consistent manner and does not omit material information. Except for standard secretarial and procedural matters, all material announcements to the ASX are authorised by the board.	The recommendation to establish and publish written policies regarding compliance with ASX Listing Rule disclosure requirements has not been adopted in view of the nature and extent of company operations.
5.2	Provide the information indicated in *the Guide to reporting Principle 5*.	The Company's continuous disclosure policy is available on request.	Complies.
Principle 6 – Respect the rights if the Shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	The Company has an effective communication and promotion activity and welcomes discussion with its shareholders and encourages participation in general meeting.	The recommendation to establish and publish written policies regarding compliance with ASX Listing Rule disclosure requirements has not been adopted in view of the nature and extent of company operations.

Recommendation 6.2:	Provide the information indicated in the *Guide to reporting on Principle 6.* .	The Company aims to keep shareholders informed of its performance and all major developments in an ongoing manner. Information disclosed to the ASX is available by a link on the Company's website. Additionally, information is communicated to shareholders through: • the annual report which is distributed to all shareholders; • the half annual report which is distributed to all shareholders in an abbreviated form; and • other correspondence regarding matters impacting on shareholders as required.	Complies. Any departure from Recommendations 6.1 and 6.2 is explained under Recommendation 6.1
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	In view of the nature and extent of Company operations, the tenure, experience and understanding of directors, the Company has established informal policies for the oversight and management of material business risks.	The Company does not comply. Formal policies would be inappropriate to the Company's particular circumstances.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. Disclose that management has reported to the board as to the effectiveness of the company's management of its material business risks.	In view of the nature of the Company's investment activities, formal and informal policies for the oversight and management of the various business risks associated with the Company's specific investments are conducted at the full board level, by all of the directors.	The Company does not comply. A formal and documented risk management and internal control system has not been adopted as it is inappropriate to the Company's particular circumstances.

Recommendation 7.3:	Disclose whether the board has received assurance from the chief executive (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The board has received the declaration in accordance with section 295A of the Corporations Act and has had an opportunity to question whether the declaration is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies
7.4	Provide the information indicated in the *Guide to reporting on Principle 7*.	The Board has not established an audit and risk charter, however has identified key risks within the business.	Complies.
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a remunerations committee.	The Board has not established a remunerations committee and has not adopted a remunerations charter.	The Company does not comply. Due to the size of the Board, the directors have determined that it will execute the functions of the remunerations committee and that a separate remunerations committee is not necessary.
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of directors and senior managers.	The Company's remuneration policy for senior managers and non-executive directors is set out in the Remuneration Report.	Complies
8.3	Provide the information indicated in the *Guide to reporting on Principle 8.*	The number of committee / board meetings held during the reporting period and the attendance of each member at those meetings is set out in the Directors' Report. There are no schemes for retirement benefits for non-executive directors. The recommendation to publish information in relation to the role, rights, responsibilities and membership requirements for the remuneration committee has not been	The Company does not comply. Any departure from Recommendations 8.1 to 8.3 is explained under the relevant Recommendation

		adopted in view of the nature and extent of company operations and the relative size of the board and the fact that there is no remunerations board. The Company has not published a summary of the company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme as the directors consider that such a policy is inappropriate to the company's particular circumstances. .	

Fully paid ordinary shares issued by Palace Resources Limited are quoted on the Australian Securities Exchange (under the code PXR).

Further information about the corporate governance and principles of the Australian Securities Exchange may be found on the Australian Securities Exchange website (www.asx.com.au).

DIRECTORS' REPORT

Your directors present their report of the Company and its controlled entity (together the "consolidated entity") for the financial year ended 30 June 2011.

The names of the directors and company secretary in office at any time during or since the end of the year are:

Guy Le Page	Non Executive Director and Chairman	appointed 7 August 2009
Ian Murie	Non Executive Director	appointed 13 April 2011
Nicholas Clark	Managing Director	appointed 22 August 2011
Lloyd Flint	Non Executive Director	appointed 15 June 2010 – resigned 13 April 2011
Roland Berzins	Executive Director	appointed 4 October 2005 – resigned 2 September 2011
Roland Berzins	Company Secretary	appointed 20 May 2005

RESULTS

The operating loss of the consolidated entity after income tax amounted to $2,843,521 (2010: loss of $1,054,609).

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is to identify and acquire interest in and value-add to mineral exploration and mining opportunities both in Australia and overseas.

REVIEW OF OPERATIONS

Tanami (Palace 10% - all minerals)

Palace holds one granted exploration licence and has applications for 4 others between Browns and Supplejack Ranges, 70km north of Tanami and 700kms northwest of Alice Springs in the Northern Territory. The granted licences lie within an area of pastoral leasehold and so access is relatively straightforward and there are no constraints on uranium exploration. The applications on the other hand, overlie land owned by Aboriginal interests, and so a grant is unlikely in the near term. The Company has been scheduled to meet with parties associated with the indigenous land owners, but due to circumstances beyond the control of the Company, these discussions have been delayed to an as yet, undetermined date.

With regard to the Joint venture arrangement that the Company has with Excalibur Mining Corporation Ltd on tenements EL 25207, and following approval by the Northern Territory Department of Regional Development, Primary Industry, Fishing and Resources, in May 2010 the operator commenced the RAB program.

The in-field program has been completed.

A total of 267 holes for 8,760 metres have been undertaken on 9 targets which had been identified from previous airborne geophysics as having potential for unconformity style gold / uranium mineralisation.

At the time of the report, analytical data associated with the drilling results was unfortunately not available.

The consolidated entity is not subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006*, nor the *National Greenhouse and Energy Reporting Act 2007*.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year the Company has issued 141,123,312 shares at $0.03 each to raise $3,979,678 (net of share transaction costs). Additionally the Company has issued a mandate to GBU Capital Pty Ltd in order to identify and to secure a project for the Company. This mandate has identified at project in West Papua, but at the date of this report, no conclusive agreement has been reached between the vendors of the West Papua properties and the Company.

EVENTS SUBSEQUENT TO BALANCE DATE

Mr Nicholas Clark was appointed to the position of Managing Director of the Company on 22 August 2011.

On 23 August 2011, the Company announced that it had acquired exclusive rights to undertake a drilling program in West Sumatra with regards to potential coal fields. If the associated due diligence process is positive for the Company, it is the Company's intention to negotiate a Joint Venture agreement with the vendor.

On 6 September 2011, the Company announced that it had appointed Lebrecht Group, APLC, Salt Lake City, Utah to be its Principal American Liaison with regard to the Company's intention to participate in OTCQX market place. The OTCQX is the premier tier of the U.S. over the counter market. Investor – focused companies use the quality – controlled OTCQX marketplace to offer investors transparent trading, superior information and easy access through their U.S. broker – dealers.

Mr Roland Berzins resigned as Executive Director on 2 September 2011 but continues as Company Secretary.

There has not been any matter or circumstance other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has 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 years.

DIVIDENDS

There were no dividends paid or declared during or since the end of the financial year.

LIKELY DEVELOPMENTS

The consolidated entity will continue mineral exploration activity on its exploration projects with the objective of identifying commercial resources.

The ultimate aim is to increase shareholders' wealth by succeeding in the discovery of major mineral deposits.

ENVIRONMENTAL REGULATIONS

The consolidated entity has a policy of at least complying, but in most cases exceeding its environmental performance obligations. No environmental breaches have been notified by any government agency during the year ended 30 June 2011. The Board believes that the consolidated entity has adequate systems in place for the management of its environmental regulations.

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

Mr Guy Le Page Non – Executive Director
Appointed 7 August 2009
DOB 4 May 1965

Mr. Guy Le Page was appointed a Director of the Company on 7 August 2009.

Qualifications: B.A., BSc (Hons), MBA, MAusIMM, FFIN.

Mr. Guy Le Page (continued)

Experience
Mr Le Page is currently a Director & Corporate Adviser of RM Corporate Finance specialising in resources. He is actively involved in a range of corporate initiatives from mergers and acquisitions, initial public offerings to valuations, consulting and corporate advisory roles.

Mr Le Page was Head of Research at Morgan Stockbroking Limited (Perth) prior to joining Tolhurst Noall as a Corporate Advisor in July of 1998. As Head of Research, Mr Le Page was responsible for the supervision of all Industrial and Resources Research. As a Resources Analyst, Mr Le Page published detailed research on various mineral exploration and mining companies listed on the Australian Stock Exchange. The majority of this research involved valuations of both exploration and production assets.

Prior to entering the stockbroking industry, he spent 10 years as an exploration and mining geologist in Australia, Canada and the United States. His experience spans gold and base metal exploration and mining geology, and he has acted as a consultant to private and public companies. This professional experience included the production of both technical and valuation reports for resource companies.

Mr Le Page holds a Bachelor of Arts, a Bachelor of Science and a Masters' Degree in Business Administration from the University of Adelaide, a Bachelor of Applied Science (Hons) from the Curtin University of Technology and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

Interest in Shares and Options
Nil

Directorships held in other listed companies over the last 3 years:

Red Sky Energy Limited	appointed 5 Feb 2009 to present
AAQ Holdings Limited	appointed 29 October 2010 – resigned 14 March 2011
Tasman Resources Limited	appointed 2 June 2001 to present
Enerji Limited	appointed 2 March 2009 – resigned 12 March 2010
Soil Sub Technologies Limited	appointed 7 January 2010 to present
Eden Energy Limited	appointed 3 February 2006 to present

Mr Ian Murie Non – Executive Director
Appointed 13 April 2011
DOB 25 May 1953

Mr. Murie was appointed a Director of the Company on 13 April 2011.

Qualifications: B Juris LL.B

Experience
Mr Murie has 30 years of experience as a commercial lawyer providing services to various clients including ASX listed and unlisted companies. His area of speciality is property and commercial law and has expertise in the area of corporate governance and particularly advisory roles to managed investment schemes.

Interest in Shares and options
Mr Murie has a direct and an indirect interest in 2,920,000 shares and 106,666 options exercisable at 6 cents on or before 30 June 2012.

Directorships held in listed companies over the last 3 years:

Olea Australis Limited	appointed 31 December 2009 to present
Acuvax Limited	appointed 21 October 2010 to present
Excalibur Mining Corporation Ltd	appointed 30 November 2004 – resigned 8 June 2009

Mr. Roland Berzins– Executive Director and Company Secretary
Appointed director 4 October 2005 –Resigned 2 September 2011
DOB 18 February 1953

Mr. Roland Berzins was appointed an Executive Director and Company Secretary of the Company on 4 October 2005. He has resigned as an Executive Director on 2 September 2011 but will continue as Company Secretary.

Qualifications: B. COMM. ACPA FFIN TA

Experience
Mr. Berzins graduated from the University of Western Australia with a Bachelor of Commerce degree majoring in accounting and finance. He has over 21 years' experience in the mining industry and was previously Chief Accountant for 6 years at the Kalgoorlie Consolidated Gold Mines Pty Ltd ("Kalgoorlie Super Pit"). Since 1996 Mr Berzins has been Company Secretary for a variety of ASX Listed Companies, and has also had experience in retail, merchant banking, venture capital and SME business advisory.

Interest in Shares and Options
Roland Berzins has a direct and indirect interest in 3,016,200 ordinary shares plus 1,131,075 options exercisable at 20 cents on or before 30 June 2012 and 502,698 options exercisable at 6 cents on or before 30 June 2012.

Directorships held in other listed companies over the last 3 years:

AXG Mining Limited	appointed 16 February 2005 to present
Odin Energy Limited	appointed 23 February 2009 to present
Vector Resources Limited	appointed 20 May 2005 – resigned 23 February 2009
Red Sky Energy Limited	appointed 24 May 2009 – resigned 25 May 2010

MR LLOYD FLINT- NON – EXECUTIVE DIRECTOR
APPOINTED 15 JUNE 2010 – RESIGNED 13 APRIL 2011
DOB 10 DECEMBER 1960

Qualifications: B. ACCOUNTS, MBA, ICAA, FFIN

Experience
Mr Flint is a chartered accountant with over 20 years' experience in corporate and financial services.

He has held a number of management and senior administrative positions as well as providing corporate advisory services as a consultant to corporate clients.

Interest in Shares and Options
Nil

Directorships held in other listed companies over the last 3 years:

Acuvax Limited	appointed 19 November 2010

MR NICHOLAS CLARK - MANAGING DIRECTOR
APPOINTED 22 AUGUST 2011
DOB 23 MAY 1975

Qualifications: Bec, LLB, MBA, CAP(AI), FFin, AFAIM

Experience
Mr Clark has over 18 years' experience in the business arena, including extensive periods in the USA, China and Indonesia. His experience is primarily in the field of institutional relations and investor relations position and has held senior and executive leader positions.

Mr Clark does not hold any shares or options, either directly or indirectly, in Palace Resources Limited.

Interest in Shares and Options
Nil

Directorships held in other listed companies over the last 3 years:
Nil

MEETINGS OF DIRECTORS

During the financial year, 16 meetings of directors were held. Attendances by each Director during the year were:

	DIRECTORS' MEETINGS	
	Number eligible to attend	**Number attended**
Guy Le Page	16	16
Ian Murie	3	2
Roland Berzins	16	16
Lloyd Flint	13	13

NON-AUDIT SERVICES

The board has considered the non audit services provided by MGI Perth Audit services Pty Ltd ("MGI Perth") and is satisfied that these services are compatible with, and did not compromise, the auditor's independence requirements of the *Corporation Act 2001* for the following reasons:

- All non audit services were subject to the corporate governance procedures adopted by the consolidated entity and have been reviewed by the Board to ensure they do not impact on the integrity and objectives of the auditor;
- The non audit services provided do not undermine the general principles relating to the auditor's independence as set out in APES 110: Code of Ethics for professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting as an advocate for the consolidated entity or jointly sharing risk and reward.

Details of the amount paid or accrued to the auditor of the consolidated entity, MGI Perth, and its related practices for audit and non audit services provided during the year are set out below:

	2011 $	2010 $
Audit Services		
Audit and review of financial reports	34,622	32,019
Other Services		
Tax Compliance services	1,926	4,877
Total	36,548	36,896

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the court under section 237 of the *Corporations Act 2001* for leave to bring proceedings against the company, or to intervene in any proceedings to which the consolidated entity is a party, for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the consolidated entity under section 237 of the *Corporations Act 2001*.

REMUNERATION REPORT (AUDITED)

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION (AUDITED)

The board of Palace Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the directors to run and manage the consolidated entity, as well as create goal congruence between directors and shareholders.

The board's policy for determining the nature and amount of remuneration for board members of the consolidated entity is as follows:

> The remuneration policy, setting the terms and conditions for the executive directors, was developed by the board after seeking professional advice from independent external consultants. The board reviews director packages annually by comparing information from industry sectors and other listed companies in similar industries.

The policy is designed to attract the highest calibre of directors and reward them for performance that results in long-term growth in shareholder wealth.

The nature and amount of compensation, as detailed in this report, reflects the remuneration policy above. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. Further remuneration including fringe benefits, options and performance incentives may be paid dependent upon individual performance, company performance, and the discretion of the board.

Directors and top executive remuneration is detailed below in this directors' report.

All remuneration paid to directors is valued at the cost to the company and expensed.

Non-executive Directors

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of directors' fees that can be paid to non- executive directors is subject to approval by shareholders at the Annual General Meeting.

Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the consolidated entity. The Company does not have a policy on the Directors and their interests in the Company other than that stipulated in the Company's Corporate Governance report.

B. DETAILS OF REMUNERATION (AUDITED)

Name and position of directors in office at any time during the financial year are:

Mr Guy Le Page	Non Executive Director and Chairman
Mr Ian Murie	Non Executive Director
Mr. Roland Berzins	Executive Director / Company Secretary
Mr Lloyd Flint	Non Executive Director

Components of remunerations:
Remuneration packages consist of:

(i) Short term employee benefits – directors fees and consulting fees; and
(ii) Post employee benefits – superannuation.

During the year, directors of the consolidated entity have received or become entitled to receive the following benefits:

(a) Emoluments

2011	Short-term employee benefits				Post – Employment benefits		Share-based payments	
Name	Cash salary and fees	Cash bonus	Non monetary benefits	Other	Super-annuation	Termination benefits	Options	Total
	$	$	$	$	$	$	$	$
Non-executive directors								
Guy Le Page	26,200	-	-	-	-	-	-	26,200
Ian Murie	4,167	-	-	-	-	-	-	4,167
Total non- executive directors	**30,367**	**-**	**-**	**-**	**-**	**-**	**-**	**30,367**
Executive directors								
Roland Berzins	20,000	-	-	1,333	1,800	-	-	23,133
Total Executive directors	**20,000**	**-**	**-**	**1,333**	**1,800**	**-**	**-**	**23,133**
Directors who resigned during the year								
Lloyd Flint	15,833	-	-	-	-	-	-	15,833
Total – Directors who resigned during the year	**15,833**	**-**	**-**	**-**	**-**	**-**	**-**	**15,833**
Total key management personnel	**66,200**	**-**	**-**	**1,333**	**1,800**	**-**	**-**	**69,333**

No remuneration in the above table was performance related and no options were issued to directors.

2010	Short-term employee benefits				Post – Employment benefits		Share-based payments	
Name	Cash salary and fees	Cash bonus	Non monetary benefits	Other	Super-annuation	Termination benefits	Options	Total
	$	$	$	$	$	$	$	$
Non-executive directors								
Guy Le Page	23,548	-	-	-	-	-	-	23,548
Lloyd Flint	833	-	-	-	-	-	-	833
Total non - executive directors	**24,381**	**-**	**-**	**-**	**-**	**-**	**-**	**24,381**
Executive directors								
Roland Berzins*	41,217	-	-	36,666	7,009	-	-	84,892
Total Executive directors	**41,217**	**-**	**-**	**36,666**	**7,009**	**-**	**-**	**84,892**
Directors who resigned during the year								
Anthony Short	8,750	-	-	20,417	-	-	-	29,167
Robert Hyndes	10,793	-	-	-	-	-	-	10,793
Matthew Sullivan	12,249	-	-	-	802	-	-	13,051
Total – Directors who resigned during the year	**31,792**	**-**	**-**	**20,417**	**802**	**-**	**-**	**53,011**
Total key management personnel	**97,390**	**-**	**-**	**57,083**	**7,811**	**-**	**-**	**162,284**

No remuneration in the above table was performance related and no options were issued to directors.

* In addition, $135,000 was paid for Mr Berzins serving as a Company Secretary to GBU Capital which employs Mr Berzins as a consultant.

C. SERVICE AGREEMENTS (AUDITED)

There are no specific key management personnel contracts with the individual directors and directors' fees and consulting fees are based on shareholder approved directors' fee structures and corporate governance procedures.

EQUITY INSTRUMENTS

2011

Shares

	Balance 01/07/10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/11
Guy Le Page	-	-	-	-	-
Ian Murie **	-	-	-	2,920,000	2,920,000
Roland Berzins	3,016,200	-	-	-	3,016,200
Lloyd Flint***	-	-	-	-	-
Total	**3,016,200**	**-**	**-**	**2,920,000**	**5,936,200**

* Net change other refers to shares purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Murie was appointed a director of the Company during the year
*** Mr Flint resigned as a director of the Company during the year

Options expire 30 June 2012 and exercisable at 20 cents

Directors and Specified Executives	Balance 30/06/10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/11	Vested and exercisable	Vested and unexercisable
Guy Le Page	-	-	-	-	-	-	-
Ian Murie**	-	-	-	-	-	-	-
Roland Berzins	1,131,075	-	-	-	1,131,075	1,131,075	-
Lloyd Flint ***	-	-	-	-	-	-	-
Total	**1,131,075**	**-**	**-**	**-**	**1,131,075**	**1,131,075**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Murie was appointed a director of the Company during the year
*** Mr Flint resigned as a director of the Company during the year

Options expire 30 June 2012 and exercisable at 6 cents

Directors and Specified Executives	Balance 30/06/10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/11	Vested and exercisable	Vested and unexercisable
Guy Le Page	-	-	-	-	-	-	-
Ian Murie**	-	-	-	106,666	106,666	106,666	-
Roland Berzins	502,698	-	-	-	502,698	502,698	-
Lloyd Flint***	-	-	-	-	-	-	-
Total	**502,698**	**-**	**-**	**106,666**	**609,364**	**609,364**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Murie was appointed a director of the Company during the year
*** Mr Flint resigned as a director of the Company during the year

2010

Shares

	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/10
Guy Le Page	-	-	-	-	-
Lloyd Flint	-	-	-	-	-
Roland Berzins	1,508,100	-	-	1,508,100	3,016,200
Robert Hyndes**	-	-	-	-	-
Matthew Sullivan**	3,100,001	-	-	(3,100,001)	-
Anthony Short **	2,569,751	-	-	(2,569,751)	-
Total	**7,177,852**	**-**	**-**	**(4,161,652)**	**3,016,200**

* Net change other refers to shares purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Short, Mr Hyndes and Mr Sullivan resigned as directors of the Company during the year

Options expire 30 June 2012 and exercisable at 20 cents

Directors and Specified Executives	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/10	Vested and exercisable	Vested and unexercisable
Anthony Short **	1,927,312	-	-	(1,927,312)	-	-	-
Guy Le Page	-	-	-	-	-	-	-
Roland Berzins	1,131,075	-	-	-	1,131,075	1,131,075	-
Lloyd Flint	-	-	-	-	-	-	-
Matthew Sullivan**	-	-	-	-	-	-	-
Robert Hyndes**	-	-	-	-	-	-	-
Total	**3,058,387**	**-**	**-**	**(1,927,312)**	**1,131,075**	**1,131,075**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Short, Mr Hyndes and Mr Sullivan resigned as directors of the Company during the year

Options expire 30 June 2012 and exercisable at 6 cents

Directors and Specified Executives	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/10	Vested and exercisable	Vested and unexercisable
Anthony Short	-	-	-	-	-	-	-
Guy Le Page	-	-	-	-	-	-	-
Roland Berzins	-	-	-	502,698	502,698	502,698	-
Matthew Sullivan	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**502,698**	**502,698**	**502,698**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.

INDEMNIFYING AND INSURANCE OF DIRECTORS AND OFFICERS

During the current financial year, the consolidated entity did not pay any premium to insure the directors and officers of the Consolidated Entity against liabilities of costs and expenses incurred by them in defending and legal proceedings arising out of their conduct whilst acting in the capacity of directors or officers of the consolidated entity.

SHARE OPTIONS

At 30 June 2011, the following options were outstanding:

Options expire 30 June 2012 and exercisable at 20 cents 37,283,858 (2010: 37,283,858)
Options expire 30 June 2012 and exercisable at 6 cents 123,057,951 (2010: 123,057,951)

There have been no issue of ordinary shares as a result of the exercise of options during or since the end of the financial year.

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

The auditor's independence declaration is set out on page 52 and forms part of the Directors' report for the year ended 30 June 2011.

This report is made with a resolution of the directors.

Guy Le Page

G LE PAGE
CHAIRMAN

DATED at PERTH this 30th day of September 2011

DIRECTORS' DECLARATION

The directors of the Palace Resources Limited declare that:

1. in the directors' opinion, the financial statements and accompanying notes are in accordance with the *Corporations Act 2001* and:

    a. comply with Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

    b. give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

3. the financial statements and notes thereto are in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB); and

4. the remuneration disclosures included in section A to C of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

G LE PAGE
CHAIRMAN

DATED at PERTH this 30th day of September 2011

PALACE RESOURCES LIMITED AND CONTROLLED ENTITY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	CONSOLIDATED YEAR ENDED 30 JUNE 2011 $	YEAR ENDED 30 JUNE 2010 $
Other revenue	6	69,073	25,573
Repayment of loan previously completely impaired	7	377,562	222,534
Employee benefit expenses		(889)	(68,432)
Consulting fees		(2,435,959)	(332,591)
Compliance and regulatory expenses		(81,610)	(71,752)
Exploration expenditure expensed as incurred		-	(7,596)
Impairment of exploration expenditure		-	(9,576)
Impairment of available-for-sale financial asset	7	(78,000)	(33,378)
Impairment of related party loan	7	-	(294,065)
Depreciation	14	(3)	(2,039)
Director fees		(69,333)	(162,284)
Travel and accommodation expenses		(327,633)	(212,987)
Occupancy expenses		(236,801)	(103,003)
Other expenses		(59,928)	(5,013)
Loss from continuing operations before income tax expense		(2,843,521)	(1,054,609)
Income tax expense	8	-	-
Net loss for the period		(2,843,521)	(1,054,609)
Other comprehensive income			
Net changes in the fair value of financial assets		(3,313)	(87,378)
Amount transferred to statement of comprehensive income		78,000	33,378
Other comprehensive income net of tax		**74,687**	**(54,000)**
Total comprehensive loss for the period attributable to the shareholders of the parent		**(2,768,834)**	**(1,108,609)**
Basic and diluted loss per share (cents)	24	(1.2)	(1.3)

The accompanying notes form part of these financial statements.

	NOTE	CONSOLIDATED AT 30 JUNE 2011 $	 AT 30 JUNE 2010 $
CURRENT ASSETS			
Cash and cash equivalents	10	1,527,086	607,063
Trade and other receivables	11	228,933	94,210
Total current assets		1,756,019	701,273
NON-CURRENT ASSETS			
Available for sale assets	12	303,362	274,770
Plant and equipment	14	1,896	-
Exploration and evaluation assets	13	112,312	112,312
TOTAL NON-CURRENT ASSETS		417,570	387,082
TOTAL ASSETS		2,173,589	1,088,355
CURRENT LIABILITIES			
Trade and other payables	15	31,532	158,475
Provisions	16	5,917	4,584
TOTAL CURRENT LIABILITIES		37,449	163,059
TOTAL LIABILITIES		37,449	163,059
NET ASSETS		2,136,140	925,296
EQUITY			
Contributed equity	17	9,368,289	5,388,611
Reserves	17	492,525	417,838
Accumulated losses	18	(7,724,674)	(4,881,153)
TOTAL EQUITY		2,136,140	925,296

The accompanying notes form part of these financial statements

PALACE RESOURCES LIMITED AND CONTROLLED ENTITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

Consolidated Entity	**Issued Capital**	**Option Premium Reserve**	**Available For Sale Asset Reserve**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2010	**5,388,611**	**471,838**	**(54,000)**	**(4,881,153)**	**925,296**
Total comprehensive loss for the year					
Loss for the year	-	-	-	(2,843,521)	(2,843,521)
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	-	-	(3,313)	-	(3,313)
Impairment of available-for-sale financial assets	-	-	78,000	-	78,000
	-	-	74,687	(2,843,521)	(2,768,834)
Transactions with owners of the Company recognised directly in equity					
Issue of shares	4,233,700	-	-	-	4,233,700
Share issue costs	(254,022)	-	-	-	(254,022)
Balance as at 30 June 2011	**9,368,289**	**471,838**	**20,687**	**(7,724,674)**	**2,136,140**

Consolidated Entity	**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**
Total comprehensive loss for the year					
Loss for the year	-	-	-	(1,054,609)	(1,054,609)
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	-	-	(87,378)	-	(87,378)
Impairment of available-for-sale financial assets	-	-	33,378	-	33,378
	-	-	(54,000)	(1,054,609)	(1,108,609)
Transactions with owners of the Company recognised directly in equity					
Issue of shares	1,370,084	-	-	-	1,370,084
Share issue costs	(99,925)	-	-	-	(99,925)
Issue of options	-	99,000	-	-	99,000
Balance as at 30 June 2010	**5,388,611**	**471,838**	**(54,000)**	**(4,881,153)**	**925,296**

The accompanying notes form part of these financial statements

	NOTE	CONSOLIDATED YEAR ENDED 30 JUNE 2011 $	 YEAR ENDED 30 JUNE 2010 $
Cash Flow from Operating Activities			
Interest Received		69,073	24,383
Receipts from Customers		-	1,190
Payments to Suppliers and Employees		(3,502,920)	(979,732)
Payment for exploration expenditures		-	(7,596)
Financing costs		(4,022)	(985)
Net cash used in operating activities	21 (ii)	(3,437,869)	(962,740)
Cash Flow from Investing Activities			
Proceeds from loan repayment by related party		34,456	100,000
Repayment of loan previously completely impaired		377,562	-
Payment for available-for-sale financial assets		(31,905)	(75,000)
Payment for plant and equipment		(1,899)	-
Loan to other related parties		-	(250,000)
Net cash provided by / (used in) investing activities		378,214	(225,000)
Cash Flow from Financing Activities			
Proceeds from issue of shares		4,233,700	1,370,084
Proceeds from issue of options		-	99,000
Costs of issue of securities		(254,022)	(29,596)
Net cash provided by financing activities		3,979,678	1,439,488
Net increase in cash held		920,023	251,748
Cash at the beginning of the year		607,063	355,315
CASH AT THE END OF THE YEAR	21 (i)	1,527,086	607,063

The accompanying notes form part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

Palace Resources Limited ("the Company") is a Company incorporated in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange.

The consolidated financial statements of the Company for the financial year ended 30 June 2011 comprise the Company and its subsidiary (together referred to as the "consolidated entity" or the "Group").

The principal activity of the consolidated entity is to identify and acquire interest in and add value to mineral exploration and mining opportunities both in Australia and overseas.

The address of the registered office is Suite 4, 16 Ord Street West Perth WA 6005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards board and Australian Accounting Interpretations. The presentation currency is Australian dollars, which is the Company's functional currency.

b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

e) Going concern

The consolidated entity reported a net loss of $2,843,521 for the financial year ended 30 June 2011 (2010: $1,054,609) and had a working capital balance of $1,718,570 at 30 June 2011 (2010: $538,214). Management has prepared a cash flow forecast for the 12 months ending 30 September 2012 which shows a surplus based on the issue of new equity for cash. Based on the forecast expenditure, if the capital raising did not occur, a small cash deficit is forecast.

Management believes it is appropriate to prepare the financial report on a going concern basis based on:

- its success in raising capital in the past; and
- the ability and intention to reduce expenditure, as required.

In the event the consolidated entity is not successful in raising funds from the issue of new equity or cannot reduce expenditure sufficiently, there exists uncertainty as to whether the consolidated entity will be able to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Basis of consolidation

A controlled entity is any entity over which Palace Resources Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Details of the controlled entity are contained in Note 19 to the financial statements.

As at reporting date, the assets and liabilities of the controlled entity has incorporated into the consolidated financial statements as well as their results for the year then ended. Where any controlled entity has entered (left) the consolidated group during the year, its operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiary have been changed where necessary to ensure consistency with those adopted by the parent entity.

g) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of Palace Resources Limited.

h) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value.

Costs include expenditures that are directly attributable to the acquisition of the asset.

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 3 to 5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

i) New accounting standards and interpretations

In the year ended 30 June 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business.

The group has not elected to early adopt any new Standards or Interpretations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Exploration and evaluation asset

Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward at cost where rights to tenure of the area of interest are current and;

i) it is expected that expenditure will be recouped through successful development and exploitation of the area of interest or alternatively by its sale or;

ii) exploration and evaluation activities are continuing in an area of interest but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas, the value of the area of interest is written off to the income statement or provided against.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash-generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

k) Impairment of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount of plant and equipment and exploration and evaluation expenditure is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the assets belongs, unless the asset’s value in use can be estimated to be close to its fair value.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in statement of comprehensive income unless the asset is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

l) Cash and cash equivalents

Cash and cash equivalents in the Statements of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in the current liabilities on the Statement of Financial Position.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Trade and other receivables

Trade and other receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

n) Non-derivative financial assets

The consolidated entity has the following non- derivative financial assets:

(a) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets, such as marketable equity securities, that are either designated as available-for-sale or are not classified in any of the other categories, identified in AASB 139 *Financial Instrument Recognition and Measurement*.

Subsequent to the initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to statement of comprehensive income.

The fair value of quoted financial assets is based on their bid price at the balance date, however in the case of financial assets without active markets, fair value is established using relevant valuation techniques.

(b) Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus transaction costs directly attributable to the acquisition.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment loss.

o) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and usually paid within 30 days of recognition.

p) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

q) Finance income

Interest income
Income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Contributed equity

Issued and paid-up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

s) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, after adjusted for any bonus share element.

Diluted earnings per share is calculated as net profit attributable to members of the parent adjusted for:

- cost of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discriminatory changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.
Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Income tax (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows, on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of amounts of GST recoverable from, or payable to, the taxation authority.

v) Employee benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Contributions made by the consolidated entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In applying the consolidated entity's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the consolidated entity. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Impairment

The carrying amounts of the consolidated entity's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

i) Impairment of Exploration and evaluation asset

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the consolidated entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that would impact the future recoverability include the level of reserves and resources, future technological changes, which would impact on the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if the activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

ii) Impairment of available-for-sale financial assets

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying value of goodwill (if any) allocated to the cash-generating unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group or unit) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit and loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit and loss is the difference between the acquisition costs and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

iii) Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised costs is calculated at the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

An impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

The recoverable amount of other assets is greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value in using a pre – tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash – generating unit to which the asset belongs.

iv) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

v) Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss is recognised.

An impairment loss in respect of an investment in an equity instrument classified as available – for - sale financial asset in not reversed through the profit and loss. If the fair value of the debt instrument classified as available – for – sale financial asset increases and the increase can be objectively related to an event occurring after the impairment loss has been recognised in the profit and loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit and loss.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The consolidated entity’s principal financial instruments comprise loans and receivables, payables, cash short-term deposits and available-for-sale financial assets. The consolidated entity manages its exposure to key financial risks in accordance with the consolidated entity’s financial risk management policy. The objective of the policy is to support the delivery of the consolidated entity’s financial targets while protecting future financial security.

The main risks arising from the consolidated entity’s financial instruments are market risk including, interest rate risk and price risk, credit risk and liquidity risk.

The consolidated entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analysis of and monitoring of receivables are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing each of these risks, as summarised below.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including for interest rate risk, credit allowances and cash flow forecast projections.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	Consolidated 2011 $	Consolidated 2010 $
Financial assets		
Cash and cash equivalents	1,527,086	607,063
Trade and other receivables	179,777	43,923
Available-for-sale financial assets	303,362	274,770
	2,010,225	925,756
Financial liabilities		
Trade and other payables	(31,532)	(158,475)
	(31,532)	(158,475)

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 2 to the financial statements.

(a) Market Risk

(i) Interest rate risk exposure

The consolidated entity's exposure to risks of changes in market interest rates relates primarily to the consolidated entity's cash balances. The consolidated entity constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date.

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, before tax losses and equity would have been affected as follows:

Judgements of reasonably possible movements

Loss before income tax	Consolidated 2011 $	Consolidated 2010 $
Loss before Income tax (actual)		
+1.0% (100 basis points)	15,271	6,071
-1.0% (100 basis points)	(15,271)	(6,071)
Equity		
Equity (actual)		
+1.0% (100 basis points)	15,271	6,071
-1.0% (100 basis points)	(15,271)	(6,071)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Although the consolidated entity has only a small exposure to interest rate movements (interest revenue and interest expense) the movements in losses due to possible higher or lower interest income from cash balances is calculated.

The consolidated entity's exposure to interest rate risk for classes of financial assets and financial liabilities at 30 June 2011 and 30 June 2010 are set out below:

	2011 Floating Interest Rate $	2010 Floating Interest Rate $	2011 Fixed Interest Rate	2010 Fixed Interest Rate	2011 Non Interest Bearing $	2010 Non Interest Bearing $	2011 Total $	2010 Total $
Financial Assets								
Cash	1,527,086	607,063	-	-	-	-	1,527,086	607,063
Receivables	-	-	-	-	179,777	43,923	179,777	43,923
Available for sale financial assets	-	-	-	-	303,362	274,770	303,362	274,770
	1,527,086	607,063	-	-	483,139	318,693	2,010,225	925,756
Weighted average interest rate	5.14%	0.02%	-	-	-	-	-	-
Financial Liabilities								
Payables	-	-	-	-	(31,532)	(158,475)	(31,532)	(158,475)
	-	-	-	-	(31,532)	(158,475)	(31,532)	(158,475)

(ii) **Price risk**

The Group is exposed to equity securities' price risk. This arises from investments held by the Group and classified on the statement of financial position either as available-for-sale or at fair value through profit or loss.

(b) Credit risk exposure

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents and trade and other receivables. The Company's exposure to credit risk arises from potential default of the counter party with the maximum exposure equal to the carrying amount of the instruments. The carrying amounts of financial assets included in the statement of financial position represent the Company's maximum exposure to credit risk in relation to those assets.

Credit risk is managed on a group basis and reviewed regularly by the Board.

Credit risk is managed through maintaining procedures and ensuring, to the maximum extent possible, that parties to transactions are of sound credit worthiness and includes the utilisation of the systems for the approval, granting and renewal of credit limits and monitoring the financial stability of significant parties.

The Company trades only with recognised creditworthy third parties and as such collateral is not requested nor is it the Company's policy to securitise its trades and other securities.

Receivable balances are monitored on an ongoing basis. The consolidated entity has recognised impairment charges for loans to related parties of $0 (2010: $294,065) and the inter company loans of $24,218 (2010: $84,212).

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Impairment of an asset occurs when the carrying value of the asset exceeds the recoverable value of the asset at the record date. The recoverable value of the asset is based on the recoverability of the assets.

Movement in the amount due by related entities that are determined to be impaired as at the reporting date:

	Consolidated	
	2011	**2010**
	$	**$**
Balance at the beginning of the financial year	30,000	90,000
Addition	-	250,000
Reversal of amount impaired in previous year	-	222,534
Conversion of loan to available-for-sale investment	-	(135,000)
Repayment of amount due by related entities	-	(103,469)
Impairment of related party loan during the year	-	(294,065)
Balance at the end of the financial year	30,000	30,000

Refer to Note 23 with regard to the interest income earned that is associated with the impaired asset.

There are no significant concentrations of credit risk within the Company, apart from its cash balance at bank.

Refer to Note 23 for analysis of Related Party exposure.

(c) Liquidity risk

The Company manages liquidity risk by continually:

- preparing forward-looking cash flow analyses in relation to its operational, investing and financing activites;
- managing credit risk related to financial assets; and
- only investing surplus cash with major financial institutions.

To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the Company monitors its expected settlement of financial assets and liabilities on an ongoing basis.

Refer to the Movement for Maturity Analysis Schedule on page 36.

(d) Fair value of financial assets and financial liabilities

Cash and cash equivalents due to their liquid nature the carrying amount is the fair value.

Receivables and payables due to the short term nature the carrying amount reflect the fair value.

Available-for-sale assets are fair valued at closing market price at 30 June 2011.

Consolidated - 2011

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Available-for-sale financial assets	303,362	-	-	303,362
	303,362	-	-	303,362

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Fair value of financial assets and financial liabilities (continue)

Consolidated - 2010

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Available-for-sale financial assets	274,770	-	-	274,770
	274,770	-	-	274,770

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the closing price at the reporting date. These instruments are included in level 1.

(e) Movement for maturity analysis schedule

		Within 1 Year		1 to 5 Years		Over 5 Years		Total	
Financial liabilities due for payment		**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Trade and other payables	-	31,532	158,475	-	-	-	-	31,532	158,475
Total expected outflows		31,532	158,475	-	-	-	-	31,532	158,475

(f) Capital Management

The Company's capital risk management objectives are to safeguard the Group's ability to continue as a going concern, in order to provide for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital (being equity and corporate debt).

The Company has a policy of maintaining a flexible capital structure so as to be able to take advantage of investment opportunities when they arise.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets.

5 KEY MANAGEMENT PERSONNEL

(a) Summary of emoluments for key management personnel

	Consolidated	
	2011	**2010**
	$	**$**
Short-term employee benefits	67,533	154,473
Post-employment benefits	1,800	7,811
	69,333	162,284

5 KEY MANAGEMENT PERSONNEL (CONTINUED)

(b) Equity holdings of key management personnel

2011

Shares

	Balance 01/07/10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/11
Guy Le Page	-	-	-	-	-
Ian Murie **	-	-	-	2,920,000	2,920,000
Roland Berzins	3,016,200	-	-	-	3,016,200
Lloyd Flint***	-	-	-	-	-
Total	**3,016,200**	**-**	**-**	**2,920,000**	**5,936,200**

* Net change other refers to shares purchased, sold or allocated during the financial year.
** Mr Murie was appointed a director of the Company during the year
*** Mr Flint resigned as a director of the Company during the year

Options expire 30 June 2012 and exercisable at 20 cents

Directors and Specified Executives	Balance 30/06/10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/11	Vested and exercisable	Vested and unexercisable
Guy Le Page	-	-	-	-	-	-	-
Ian Murie**	-	-	-	-	-	-	-
Roland Berzins	1,131,075	-	-	-	1,131,075	1,131,075	-
Lloyd Flint ***	-	-	-	-	-	-	-
Total	**1,131,075**	**-**	**-**	**-**	**1,131,075**	**1,131,075**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year.
** Mr Murie was appointed a director of the Company during the year
*** Mr Flint resigned as a director of the Company during the year

Options expire 30 June 2012 and exercisable at 6 cents

Directors and Specified Executives	Balance 30/06/10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/11	Vested and exercisable	Vested and unexercisable
Guy Le Page	-	-	-	-	-	-	-
Ian Murie**	-	-	-	106,666	106,666	106,666	-
Roland Berzins	502,698	-	-	-	502,698	502,698	-
Lloyd Flint***	-	-	-	-	-	-	-
Total	**502,698**	**-**	**-**	**106,666**	**609,364**	**609,364**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year.
** Mr Murie was appointed a director of the Company during the year
*** Mr Flint resigned as a director of the Company during the year

5 KEY MANAGEMENT PERSONNEL (CONTINUED)

(b) Equity holdings of key management personnel (continued)

2010

Shares

	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/10
Guy Le Page	-	-	-	-	-
Lloyd Flint	-	-	-	-	-
Roland Berzins	1,508,100	-	-	1,508,100	3,016,200
Robert Hyndes**	-	-	-	-	-
Matthew Sullivan**	3,100,001	-	-	(3,100,001)	-
Anthony Short **	2,569,751	-	-	(2,569,751)	-
Total	**7,177,852**	**-**	**-**	**(4,161,652)**	**3,016,200**

* Net change other refers to shares purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Short, Mr Hyndes and Mr Sullivan resigned as directors of the Company during the year

Options expire 30 June 2012 and exercisable at 20 cents

Directors and Specified Executives	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/10	Vested and exercisable	Vested and unexercisable
Anthony Short **	1,927,312	-	-	(1,927,312)	-	-	-
Guy Le Page	-	-	-	-	-	-	-
Roland Berzins	1,131,075	-	-	-	1,131,075	1,131,075	-
Lloyd Flint	-	-	-	-	-	-	-
Matthew Sullivan**	-	-	-	-	-	-	-
Robert Hyndes**	-	-	-	-	-	-	-
Total	**3,058,387**	**-**	**-**	**(1,927,312)**	**1,131,075**	**1,131,075**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.
** Mr Short, Mr Hyndes and Mr Sullivan resigned as directors of the Company during the year.

Options expire 30 June 2012 and exercisable at 6 cents

Directors and Specified Executives	Balance 01/07/09	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30/06/10	Vested and exercisable	Vested and unexercisable
Anthony Short	-	-	-	-	-	-	-
Guy Le Page	-	-	-	-	-	-	-
Roland Berzins	-	-	-	502,698	502,698	502,698	-
Matthew Sullivan	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**502,698**	**502,698**	**502,698**	**-**

* Net change other refers to options purchased, sold or allocated during the financial year including securities acquired through the rights issue taken up.

Transactions with directors personally related entities

There were no other transactions with specified directors and executives and their personally related entities other than those already disclosed in Note 23.

6. OTHER REVENUE

	CONSOLIDATED 2011 $	2010 $
Interest income	69,073	24,383
Other Income	-	1,190
	69,073	25,573

7. LOSS FROM ORDINARY ACTIVITIES

	CONSOLIDATED 2011 $	2010 $
Repayment of loan previously completely impaired*	377,562	222,534
Impairment of available-for-sale financial assets	(78,000)	(33,378)
Impairment of amount due by related entities**	-	(294,065)

* This amount related to the recovery of amount due by related party which was impaired in previous year.
** The consolidated entity has assessed at balance date that the amount due by related entities is considered doubtful and, therefore, impaired the amount.

8. INCOME TAXES

Recognised in the Statement of Comprehensive Income	CONSOLIDATED 2011 $	2010 $
The major components of the tax expense/(income) are:		
Current tax expense	-	-
Differences	-	-
Deferred tax – overprovision in prior year	-	-
Total tax expense/(income)	-	-

The prima facie income tax expense/(benefit) on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2011	2010
Loss before income tax expense from operations	(2,853,521)	(1,054,609)
Income tax benefit calculated at 30%	(853,056)	(316,383)
Section 40-880 Expenses	-	28,513
Overprovision prior year	-	-
Temporary Differences	-	2,873
Impairment of loans	-	31,473
Effect of expenses that are not deductable in determining taxable profit	730,788	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	122,268	253,524
	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

8. INCOME TAXES (CONTINUED)

Unrecognised deferred tax assets/(liabilities)

	CONSOLIDATED	
	2011 $	**2010 $**
The following deferred tax assets/(liabilities) have not been brought to account:		
Tax losses – revenue	1,304,585	1,182,317
Temporary differences	68,104	(33,694)
	1,372,689	1,155,998

9. AUDITOR'S REMUNERATION

	CONSOLIDATED	
	2011 $	**2010 $**
Amounts received or due and receivable by the auditors for:		
Audit and review of the financial reports	34,622	32,019
Other services	1,926	4,877
	36,548	36,896

10. CASH & CASH EQUIVALENTS

	CONSOLIDATED	
	2011 $	**2010 $**
Cash at bank and on hand	227,086	607,063
Short term deposits	1,300,000	-
	1,527,086	607,063

11. TRADE & OTHER RECEIVABLES

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Amount due by related entities	18,660	250,000
Less : Provision for impairment	(18,660)	(250,000)
	-	-
Sundry debtors	149,777	13,922
GST Receivables	26,375	38,084
Office bond	30,000	30,000
Prepayments	22,781	12,204
	228,933	94,210

12. OTHER FINANCIAL ASSETS

NON-CURRENT	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Available-for-sale assets	303,362	274,770

MOVEMENT OF INVESTMENT IN LISTED ENTITIES	CONSOLIDATED 2010 $	CONSOLIDATED 2010 $
Fair value at beginning of the year	274,770	152,148
Additions	31,905	75,000
Conversion of related party loans into shares (Note 23)	-	135,000
Net change in the value recognised in equity	(3,313)	(87,378)
Fair value at the end of the year	303,362	274,770

13. EXPLORATION & EVALUATION EXPENDITURE

NON - CURRENT	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Capitalised Exploration Expenditure, at cost	112,312	112,312
Exploration Expenditure movement		
Brought forward at the beginning of year	112,312	121,888
Exploration expenditure capitalised during the year	-	-
Exploration expenditure impaired	-	(9,576)
Carried forward exploration expenditure	112,312	112,312

The value of the consolidated entity’s interest in exploration and evaluation expenditure is dependent upon;

- The continuance of the consolidated entity’s right of tenure of the areas of interest;
- The results of future exploration
- The recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale; and
- In accordance with AASB 6, exploration and evaluation tenement assets must only be recognised in relation to an area of interest if the rights to tenure of the area of interest are current. Application status as opposed to Granted status is not considered current and was impaired, as were the Marla tenements which the board considered to be restricted in access.

14. PLANT & EQUIPMENT

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Plant and equipment, at cost	28,011	25,749
Less: accumulated depreciation	(26,115)	(25,749)
	1,896	-

Movement in carrying amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and end of the current financial year:

	2011 $	2010 $
Balance at the beginning of the financial year	-	2,039
Additions	1,899	-
Depreciation expense	(3)	(2,039)
Carrying amount at the end of the financial year	1,896	-

15. TRADE & OTHER PAYABLES

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
CURRENT		
Trade payables	23,376	154,206
Amounts payable to related entities	-	3,325
Other payables and accruals	8,156	944
	31,532	158,475

16. PROVISIONS

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Employee benefits	5,917	4,584

17. CONTRIBUTED EQUITY AND RESERVES

		2011 $	2010 $
CONTRIBUTED EQUITY			
Issued Share Capital			
301,471,018 (2010 160,347,706) fully paid ordinary shares	(a)	9,368,289	5,388,611
RESERVES			
Options premium reserve	(b)	471,839	417,839
Available-for-sale reserve	(c)	20,686	(54,000)
		492,525	363,839

17. CONTRIBUTED EQUITY AND RESERVES (CONTINUED)

	2011 $	2010 $
(a) Ordinary Shares		
At the beginning of the year	5,388,611	4,118,452
Fully Paid Ordinary Shares issued during the year	4,233,700	1,370,084
Share transaction costs	(254,022)	(99,925)
At the end of the year	9,368,289	5,388,611

	NO. OF SHARES 2011	NO. OF SHARES 2010
Fully Paid Ordinary Shares		
At the beginning of the year	160,347,706	46,173,853
Placement @$0.012 each	-	6,900,000
Placement @$0.012 each	-	10,100,000
Placement @$0.012 each	-	9,000,000
1 for 1 Rights issue @$0.012 each plus free attaching option for every 3 shares held	-	72,173,853
Placement @$0.012 each	-	16,000,000
Placement @$0.03 each	6,666,667	-
Placement @$0.03 each	7,166,666	-
Placement @$0.03 each	10,218,822	-
Placement @$0.03 each	39,972,680	-
Placement @$0.03 each	60,027,320	-
Placement @$0.03 each	15,196,010	-
Placement @$0.03 each	1,875,147	-
At the end of the year	301,471,018	160,347,706

Ordinary shares participate in dividends and the proceeds on winding up of the consolidated entity in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options Premium Reserve

	2011 $	2010 $
At the beginning of the year	471,838	372,838
Options issued during the year		
- Options issued @$0.001	-	99,000
At the end of the year	471,838	471,838

17. CONTRIBUTED EQUITY AND RESERVES (CONTINUED)

OPTIONS EXERCISEABLE AT $0.20 AND EXPIRING ON 30 JUNE 2012

	NO. OF OPTIONS 2011	NO. OF OPTIONS 2010
At the beginning of the year	37,283,858	37,283,858
Options issued during the year	-	-
At the end of the year	37,283,858	37,283,858

OPTIONS EXERCISEABLE AT $0.06 AND EXPIRING ON 30 JUNE 2012

	NO. OF OPTIONS 2011	NO. OF OPTIONS 2010
At the beginning of the year	123,057,951	-
Options issued during the year		
1 for 1 Rights issue to FPO plus a free 1 option for every 3 shares held – Options exercisable at $0.06 each and expire on 30 June 2012	-	24,057,951
- Entitlement issue of options at $0.001 - Options exercisable at $0.06 each and expire on 30 June 2012	-	99,000,000
At the end of the year	123,057,951	123,057,951

<u>Nature and purpose of reserve:</u>
The options reserve is used to recognise the fair value of options granted but not exercised. Total options on issue are 160,341,809 (2010: 160,341,809)

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
(c) Available-for-sale reserve		
At the beginning of the year	(54,000)	-
Net change in fair value of available-for-sale financial assets	(3,314)	(87,378)
Net change in fair value of available-for-sale financial assets transferred to statement of comprehensive income	78,000	33,378
At the end of the year	20,686	(54,000)

<u>Nature and purpose of reserve:</u>
The assets classified as available-for-sale reserve comprise the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

18. ACCUMULATED LOSSES

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Accumulated losses at the beginning of the year	(4,881,153)	(3,826,544)
Loss attributable to members of the parent entity	(2,843,521)	(1,054,609)
Accumulated losses at the end of the year	(7,724,674)	(4,881,153)

19. CONTROLLED ENTITY

Controlled entity included in the consolidated financial statements is listed below. The financial year end for the controlled entity is the same as the parent entity.

			OWNERSHIP INTERESTS		**CARRYING AMOUNT OF INVESTMENT**	
			2011	**2010**	**2011**	**2010**
			%	**%**	**$**	**$**
NAME	**PRINCIPAL ACTIVITY**	**COUNTRY OF INCORPORATION**				
John Minerals Pty Ltd	Investment	Australia	100	100	1	1
			100	100	1	1

20. SEGMENT REPORTING

AASB 8: *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The consolidated entity'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 consolidated entity's operations and allocation of working capital.

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

The consolidated entity operates in one segment, namely mineral exploration industry. 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 the mineral exploration industry.

The revenues and results of this segment are those of the consolidated entity 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 consolidated entity and are set out in the statement of financial position.

21. CASH FLOW INFORMATION

(i) Reconciliation of cash

Cash at the end of the year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows

	CONSOLIDATED	
	2011 $	2010 $
Cash and cash equivalents		
Cash at bank and cash equivalents	1,527,086	607,063

	2011 $	2010 $
(ii) Reconciliation of loss after income tax to net cash inflow from operating activities	(2,843,521)	(1,054,609)
Depreciation	3	2,039
Impairment of available-for-sale financial assets	78,000	33,378
Impairment of amount due by related entities	-	294,065
Repayment of loan previously completely impaired	(377,562)	(222,534)
Changes in assets and liabilities:		
(Increase) /decrease in trade and other receivables	(134,723)	(6,548)
Increase/(decrease) in payables	(161,399)	13,586
Increase/(decrease) in provisions	1,333	(22,117)
Net cash used in operating activities	(3,437,869)	(962,740)

iii) Significant non cash transactions

During the year ended 30 June 2011, there was no significant non cash transaction.

iv) Credit facilities

There were no unused credit facilities or credit standby arrangements available to the consolidated entity at balance date.

22. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

(a) Tenements

	2011 $	2010 $
Tenements Commitment		
No later than one year	80,000	75,590
Longer than one year, but no longer than five years	200,000	452,360
Longer than five years	-	-
	280,000	527,950

22. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Native Title Claims

Legislation developments and judicial decision (in particular the uncertainty created in the area of Aboriginal land rights by the High Court decision in the "Mabo" and "Wik" cases and Native Title legislation) may have an adverse impact on the consolidated entity's ability to fund those activities. It is impossible at the time to quantify the impact (if any) that these developments may have on the consolidated entity's operations.

The consolidated entity is aware of Native Title claims in respect of ground in which the consolidated entity has an interest. It is possible that further claims could be made in the future. However, the consolidated entity cannot determine whether any current claims, if made, will succeed and, if so, what the implications would be to the consolidated entity.

23. RELATED PARTY TRANSACTIONS

a) Equity interests in related entities

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 19.

b) Key management personnel remunerations and equity holdings

Details of key remunerations and equity holdings are discussed in Note 5.

c) Transactions with related parties

(i) Outstanding balance due from/(to) arising from provision of services:

	30 June 2011 $	30 June 2010 $
Trade and other receivables		
Amount receivable from:		
- AAG Management Pty Ltd	30,000	30,000
Trade and other payables:		
Amount payable to:		
- Fay Holdings Pty Ltd	(16,881)	-
- GBU Capital Pty Ltd	-	(1,125)
- GT Le Page and Associates	(2,200)	(2,200)
- Roland H Berzins and Associates	(1,667)	-
- Muries Lawyers	(3,666)	-
- Flint Family Trust	(1,833)	-
Balance at 30 June 2011	**(26,247)**	**(3,325)**

All the amounts payable from the consolidated entity were made as an unsecured loan and are payable on demand.

Fay Holdings Pty Ltd is a related party because it has a 5.7% shareholding, directly or indirectly, which is the second largest shareholding in Palace Resources Limited, and is therefore, deemed to have significant influence. GBU Capital is a related party because Fay Holdings Limited has a 33.3% interest in GBU Capital Pty Ltd. Mr Roland Berzins who was a director during the financial year and is company secretary of the consolidated entity, is engaged by GBU Capital Pty Ltd as a consultant to provide company secretary services to the consolidated entity.

The loan to AAG Management Pty Ltd is unsecured and interest free. AAG Management Pty Ltd manages the office facilities that Palace Resources Limited's registered office occupies. AAG Management Pty Ltd charges Palace Resources Limited rent and ongoing services on commercial cost recovery only terms. Mr Short is the sole director of AAG Management Pty Ltd.

GT Le Page and Associates, Roland H Berzins and Associates, Muries Lawyers and the Flint Family Trust are all director related entities.

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(ii) Services provided by a shareholder who has significant influence

	Fay Holdings Pty Ltd	**GBU Capital Pty Ltd**
Consulting fees	-	2,105,023
Travel and accommodation expenses	129,952	-

(iii) Services provided and other charges by director related entities for the year ended 30 June 2011

	30 June 2011 $	**30 June 2010 $**
Advance Energy Limited*	18,659	832
Kilgore Oil & Gas Limited*	6,259	2,715
AXG Mining Limited**	10,096	-
	35,014	3,547

* Mr. Short was a director of these companies during the financial year ended 30 June 2010. He resigned as a director of Palace Resources Limited on 14 October 2009.
** Mr Roland Berzins is a director of AXG Mining Limited.

Details of related party transactions

The consolidated entity entered into an agreement with GBU Capital Pty Ltd (GBU) on 1 July 2010 whereby GBU provides the following services to the consolidated entity:

- company secretarial services;
- financial and management accounting services;
- back office services; and
- any other additional corporate services that are required by Palace.

GBU charged a fixed monthly fee of $16,667 (exclusive of GST and out of pocket expenses) to provide the above services to the consolidated entity. Additionally, the consolidated entity has engaged GBU to find a new project as well as to assist with raising additional capital to fund the project for the consolidated entity. GBU, in turn, has engaged Primecity Holdings Pty Ltd (Primecity) to coordinate the fieldwork for the project.

The shareholders of GBU, each with equal shares, are:

- Fay Holdings Pty Ltd;
- Formaine Pty Ltd; and
- Spartan Nominees Pty Ltd.

Fay Holdings Pty Ltd (Fay) also has a 16.7% interest in Primecity. One of the shareholders (with a 50% interest in Fay) and director of Fay is Mr Anthony Short. He was a director of Palace Resources Limited until his resignation on 14 October 2009. At resignation date, Mr Anthony Short had a 4.6% interest in Palace Resources Limited. His shareholding, however, had increased to 5.7% by 30 September 2011. Mr Anthony Short is also a director of GBU and Primecity when acting for Palace Resources Limited.

Mr Roland Berzins, an Executive Director and Company Secretary of the Company, is engaged by GBU as a consultant to provide company secretarial services to the consolidated entity. Therefore, the company secretarial fees are paid to GBU, while the director's fees are paid directly to Mr Roland Berzins. Mr Roland Berzins resigned as an Executive Director of the Company on 2 September 2011 but continues as Company Secretary.

(iv) During the year Palace Resources Limited made and received the following unsecured loans to related parties:

23. RELATED PARTY TRANSACTIONS (CONTINUED)

	CONSOLIDATED	
	2011	2010
	$	$
AXG Mining Ltd	-	250,000
Less: Provision for impairment*	-	(250,000)
Reversal of impairment loss	250,000	-
Repayment of loan	(250,000)	-
	-	-

* The Company impaired $250,000 during the financial year ended 30 June 2010. This amount was recovered during the financial year ended 30 June 2011 and was included in the Consolidated Statement of Comprehensive income as repayment of loan previously completely impaired.

The above balances reflect the highest indebtedness during the year.

(v) Other Transactions and Balances

	CONSOLIDATED	
	2011	2010
	$	$
Current Assets	-	30,000
Current Liabilities	(26,247)	(3,325)

(vi) Interest Revenue

AXG Mining Ltd	10,096	-

The Company charged interest on the unsecured loans provided to AXG Mining Ltd at 6.25% for loans provided. The loan balances were fully impaired for 30 June 2010, and the loans were fully repaid on 15 March 2011. The impairment raised as at 30 June 2010 was reversed during the year ended 30 June 2011.

24. LOSS PER SHARE

The loss and weighted number of ordinary shares used in the calculation of basic loss per share is as follows:

Reconciliation of earnings per share to net loss	2011 $	2010 $
Net Loss	(2,843,521)	(1,054,609)
Weighted average number of ordinary shares outstanding during the year used in calculation of loss per share	231,587,477	80,280,483
Basic loss per share– cents	1.2	1.3

The options outstanding are not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended 30 June 2011 and 2010.

25 PARENT ENTITY DISCLOSURES

Financial position
The parent entity of the Palace Resources Consolidated Group is Palace Resources Limited.

	PARENT 2011 $	PARENT 2010 $
Assets		
Current Assets	1,792,020	761,274
Non- current assets	381,571	327,081
Total Assets	2,173,591	1,088,355
Liabilities		
Current Liabilities	37,451	163,059
Non-current liabilities	-	-
Total Liabilities	37,451	163,059
Net Assets	2,136,140	925,296
Equity		
Issued capital	9,368,289	5,388,611
Retained earnings	(7,724,674)	(4,935,153)
Reserves		
Options reserve	492,525	471,838
Financial assets reserve	-	-
Total reserves	492,525	471,838
Total equity	2,136,140	925,296

	PARENT 2011 $	PARENT 2010 $
Loss for the year of the parent company	(2,789,521)	(1,108,609)
Other comprehensive income	-	-
Total comprehensive income for the financial year	(2,789,521)	(1,108,609)

Palace Resources Ltd has not entered into any guarantees in relations to the debts of its subsidiaries and has no material contingencies or commitment, other than those referred to in other parts of this report.

26. EVENTS SUBSEQUENT TO BALANCE DATE

Mr Nicholas Clark was appointed to the position of Managing Director of the Company on 22 August 2011.

Qualifications BEc LLB MBA CPA(AI) FFin FAIM
Mr Clark is a graduate of University of Sydney and holds degrees in law and commerce. Mr Clark has also completed an MBA (Duke University) and is a CPA (American Institute) and Fellow of the Financial Services Institute of Australia and an Associate Fellow of the Australian Institute of Management.

Experience
Mr Clark has over 18 years' experience in the business arena, including extensive periods in the USA, China and Indonesia. His experience is primarily in the field of institutional relations and investor relations position and has held senior and executive leader positions.

Mr Clark does not hold any shares or options, either directly or indirectly, in Palace Resources Ltd.

26. EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)

On 23 August 2011, the Company announced that it had acquired exclusive rights to undertake a drilling program in West Sumatra with regards to potential coal fields. If the associated due diligence process is positive for the Company, it is the Company's intention to negotiate a Joint Venture agreement with the vendor.

On 6 September 2011, the Company announced that it had appointed Lebrecht Group, APLC, Salt Lake City, Utah to be its Principal American Liaison with regard to the Company's intention to participate in OTCQX market place. The OTCQX is the premier tier of the U.S. over the counter market. Investor – focused companies use the quality – controlled OTCQX marketplace to offer investors transparent trading, superior information and easy access through their U.S. broker – dealers.

Mr Roland Berzins resigned as an Executive Director on 2 September 2011 but continues as Company Secretary.

There has not been any matter or circumstance other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has 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 years.

27. DIVIDEND

There were no dividends paid or declared during or since the end of the financial year.

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Lead auditor's independent declaration under section 307C of the Corporations Act 2001

To the directors Palace Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

(i) no contraventions of the auditors independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

MGIPAS

MGI Perth Audit Services Pty Ltd

Amar Nathwani

AMAR NATHWANI CA, B.Eng
Director

30 September 2011
Perth

- Audit & assurance
- Due diligence
- Fraud investigation
- Forensic services
- Litigation support
- Corporate governance

BUSINESS SOLUTIONS WORLDWIDE

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Independent auditor's report to the members of Palace Resources Limited

Report on the financial report

We have audited the accompanying financial report of Palace Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note 2(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Opinion

In our opinion:

(a) the financial report of Palace Resources Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001.*

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(e) in the financial report, which indicates that the consolidated entity incurred a net loss of $2,843,521 and will require further funding within the next twelve months from the date of this report to fund its planned exploration program. These conditions, along with other matters as set forth in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the remuneration report included of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the remuneration report of Palace Resources Limited for the year ended 30 June 2011, complies with Section 300A of the Corporations Act 2001.

MG IPAS

MGI Perth Audit Services Pty Ltd

Amar Nathwani

Amar Nathwani CA, B.Eng
Director
30 September 2011
Perth

ADDITIONAL SHAREHOLDERS INFORMATION

Additional information required by the Australian Stock Exchange (ASX) listing rules as at 19 September 2011.

List of 20 largest shareholders - PXR

Ranking	Name	Shares Held	% of total shares
1	Spartan Nominees Pty Ltd	19,666,666	6.524
2	Fay Holdings Pty Ltd	17,270,000	5.729
3	Formaine Pty Ltd	11,096,000	3.681
4	Ossart holdings Pty ltd	10,000,000	3.317
5	John Wardman and Associates Pty Ltd	8,661,280	2.873
6	Bluebase Pty Ltd	7,226,923	2.397
7	David Gordon Carey and Maria Carey – Dominguez	6,650,000	2.206
8	Goldwells Pty Ltd	5,000,000	6.659
9	Portinfer Capital Ltd	5,000,000	1.659
10	Penson Australia Nominees Pty Ltd	4,750,000	1.576
11	Glory Run Pty Ltd	4,136,899	1.372
12	ACT2 Pty Ltd	3,814,201	1.265
13	Westvale Enterprises Pty Ltd	3,400,000	1.128
14	McGee Construction Pty Ltd	3,000,000	0.995
15	Queensway Investments Pty ltd	3,000,000	0.995
16	Arena Offshore Investment Fund Ltd	2,783,333	0.923
17	Grazian Pty Ltd	2,720,000	0.902
18	Dobco Superannuation Pty Ltd	2,600,000	0.862
19	Wayne King Corporation Limited	2,500,000	0.829
20	Glenn Justin Farrant & Katherine Jane Farrant	2,500,000	0.829
Total of top 20 Shareholders		**125,775,302**	**46.721**

Substantial Shareholders

Name	Shares held	% of total shares
Spartan Nominees Pty Ltd	19,666,666	6.524
Fay Holdings Pty Ltd	17,270,000	5.729

Distribution of shareholder's holdings

Ordinary shares held	Number of shareholders	Number of shares
1 – 1,000	16	1,575
1,001 – 5,000	35	123,224
5,001 – 10,000	94	900,997
10,001 – 100,000	336	15,195,737
100,001 and over	353	285,249,484
Total	**834**	**301,471,017**

Additional information required by the Australian Stock Exchange (ASX) listing rules as at 19 September 2011

List of 20 largest option holders – PXRO options Expire on 30 June 2012 and exercisable at $0.20 each

Ranking	Name	Shares Held	% of total shares
1	American Holding Pty Ltd	2,500,000	6.705
2	JP Morgan Nominees Australia < Cash Income A/C>	2,025,000	5.431
3	Ossart Holdings Pty Ltd	2,000,000	5.364
4	Fay Holdings Pty Ltd	1,601,250	4.295
5	Ying Zhao	1,582,787	4.245
6	Robert Gemelli	1,282,095	3.439
7	Linestar Pty Ltd	1,125,000	3.017
8	Ah Cheng Loh	1,100,000	2.950
9	Pinewood Holdings Pty Ltd	1,000,000	2.682
10	Tribune Resources NL	750,000	2.012
11	Rand Mining NL	750,000	2.012
12	RH and CM Berzins	750,000	2.012
13	Linestar Pty Ltd	647,000	1.735
14	Mr J J Young and Mrs P A T Young	550,000	1.475
15	Mr Nicholas Hepworth	500,000	1.341
16	Cong Pham	483,280	1.296
17	Dawesville Nominees Pty Ltd	480,000	1.287
18	Vincenzo Brizzi & Rita Lucia Brizzi	400,000	1.073
19	International Business Network (services) Pty Ltd	400,000	1.073
20	Bin Liu	400,000	1.073
Total of top 20 option holders		**20,326,412**	**54.518**

Substantial Optionholders

Name	Shares held	% of total shares
American Holding Pty Ltd	2,500,000	6.705
JP Morgan < Cash Income A/C>	2,025,000	5.431
Ossart Holdings Pty Ltd	2,000,000	5.364

Distribution of shareholder's holdings

Ordinary shares held	Number of shareholders	Number of shares
1 – 1,000	2	840
1,001 – 5,000	28	77,827
5,001 – 10,000	87	659,501
10,001 – 100,000	216	7,197,569
100,001 and over	68	29,348,121
Total	**401**	**37,283,858**

Additional information required by the Australian Stock Exchange (ASX) listing rules as at 19 September 2011.

List of 20 largest option holders – PXROA options Expire on 30 June 2012 and exercisable at $0.06 each

Ranking	Name	Shares Held	% of total shares
	Formaine Pty Ltd	22,266,666	18.094
	Penson Australia Nominees Pty Ltd	21,500,000	17.471
	Spartan Nominees Pty Ltd	17,755,554	14.429
	Fay Holdings Pty Ltd	13,544,998	11.007
	Westvale Enterprises Pty Ltd	6,133,333	4.984
	Eizus Holdings Pty Ltd	5,083,333	4.131
	CBZ (WA) Pty Ltd	5,000,000	4.063
	Aspiritual Pty Ltd	5,000,000	4.063
	Mr Robert Gemelli	3,399,999	2.763
	Impressive Racing Pty Ltd	2,500,000	2.032
	Adrian Edwards	2,500,000	2.032
	Goldwells Pty Ltd	1,666,666	1.354
	Glory Run Pty Ltd	1,545,633	1.256
	Ying Zhao	1,342,725	1.091
	Ossart Holdings Pty ltd	1,033,333	0.840
	Fernland Pty Ltd	1,000,000	0.813
	Michael James Spencer	1,000,000	0.813
	Bluebase Pty Ltd	866,666	0.704
	Portinfer Capital Limited	833,333	0.677
	Joseph Benjamin Andary	750,000	0.609
Total of top 20 option holders		**114,722,239**	**93.226**

Substantial Optionholders

Name	Shares held	% of total shares
Formaine Pty Ltd	22,266,666	18.094
Penson Australia Nominees Pty Ltd	21,500,000	17.471
Spartan Nominees Pty Ltd	17,755,554	14.429
Fay Holdings Pty Ltd	13,544,998	11.007

Distribution of shareholder's holdings

Ordinary shares held	Number of shareholders	Number of shares
1 – 1,000	4	2,999
1,001 – 5,000	21	70,266
5,001 – 10,000	21	162,991
10,001 – 100,000	54	2,304,159
100,001 and over	45	120,517,481
Total	**145**	**123,057,896**

Enquiries

Shareholders with any enquiries about any aspect of their shareholding should contact the Consolidated Entity's share registry as follows:

Advanced Share Registry Services Pty Ltd

Tel: +61 8 9389 8033
Fax: +61 8 9389 7871
Web: www.advancedshare.com.au

Electronic Announcements and Report;

Shareholders who wish to receive announcements made to the ASX, as well as electronic copies of the Annual Report and Half Yearly Report, are invited to provide their email address to the Company. This can be done in writing to the Company Secretary.

Removal from the Printed Annual Report mailing list

Shareholders who do not wish to receive the Annual report should advise the Share Registry in writing to remove their names from the mailing list. Those shareholders will continue to receive all shareholder information.

Change of name / address

Shareholders who are Issue Sponsored should advise the Share registry promptly of any changes of name and / or address so that correspondence with them does not go astray. All such changes must be advised in writing and cannot be accepted via telephone. Forms can be found on the share Registry website or obtained by contacting the Share registry.

Shareholders who are in CHESS and Brokered Sponsored should instruct their sponsoring brokers in writing to notify the Share Registry of any changes of name and / or address.

In the case of a name change, the written advice must be supported by documentary evidence.

Consolidation of Shareholdings

Shareholders who wish to consolidate their separate shareholdings into one account should write to the Share Registry or their sponsoring broker, whichever is applicable.

Stock Exchange Listing

The Consolidated Entity's shares are listed on the Australian Securities Exchange. Details of share transactions and prices published in the financial papers of the daily capital city newspapers under the code PXR.

Registered Office

The registered office of the Consolidated Entity is:	Palace Resources Limited Suite 4, 16 Ord Street WEST PERTH WA 6005
Telephone:	+61 8 9429 2900
Fax :	+61 8 9486 1011
E mail :	info@palaceresources.com.au
Website :	www.palaceresources.com.au
Company Secretary:	Roland Berzins

Tenement Schedule

Project	Tenement	Blocks	Holders
Tanami			
	EL26698	5	Palace Resources Ltd
	EL26699	17	Palace Resources Ltd
	ELA25123		Palace Resources Ltd
	ELA25124		Palace Resources Ltd
	ELA25178		Palace Resources Ltd
	ELA25179		Palace Resources Ltd
	ELA25207		Palace Resources Ltd