

ASX ANNOUNCEMENT

31 January 2011

The directors of Palace Resources Ltd (“Palace” or the “Company”) have pleasure in presenting their quarterly report for the period ended 31 December 2010.

Company Profile

Palace is an Australian based resources company focused on exploration and investment opportunities across the resources sector.

Operations

As alluded to in the September 2010 quarterly report, the directors formally announced their intention to acquire an Indonesian coal asset.

The details of the proposed acquisition, which is subject to shareholders approval, are as follows:

- By way of acquisition of a 100% interest in Primecity Holdings Pty Ltd (“Primecity”), Palace is set to acquire a 75 per cent stake in extensive coal exploration projects in the West Papua province of Indonesia;
- The tenements cover approximately 1,970km² in an under-explored region and which extend right up to an existing natural deep water port currently used for timber exports
- Numerous coal outcrops can be seen on the leases to be acquired by Palace
- A team of geologist have been on site to collect samples for metallurgical test work
- The transaction is subject to due diligence at the absolute discretion of Palace as well as shareholder and relevant regulatory approvals to be considered at a General Meeting. The due diligence on the tenements, title and the respective target companies has been initiated and is currently ongoing.

Palace has also announced that it has been informed by Primecity that Primecity has:

- Entered into a Memorandum of Understanding (“the MOU”) with the Regional Government of Manokwari on the 28th of November 2010;
- The MoU secures the Regional government’s support for Primecity to exclusively develop a dedicated coal terminal at the port of Mumiwaren;

- A Scoping Study on the port at Mumiwaren highlights its suitability for a beach/barge/ship operation. This location holds the most promising potential to provide safe mooring for the vessels necessary for the export of coal, as well as commercial and recreational fleets in the Manokwari Regency.
- The Scoping Study concluded that a conceptual port design of a coal handling terminal for export, including the necessary support facilities, utilising approved port-marine infrastructure is capable of being developed. This conceptual port is to consist of an integrated world-class open access port ultimately capable of exporting a minimum of 10Mtpa of coal products, together with the option of investigating ramp-up options of 2Mtpa moving to 5Mtpa and then to 10Mtpa.
- The MoU was executed jointly by the Bupati of Manokwari, Inspectorate of the Regional Government, Head of Transportation, Communication and Informatics, Head of the Department of Forestry and Head of Environmental Affairs Agency. Discussions are underway with West Papuan authorities to upgrade the port to a bulk-loading port that has an unimpeded navigational lane to the Pacific Ocean.

Tanami

The company has not received any notification from its Joint venture partner, Excalibur Mining Corporation Ltd, with regard to the assay results taken from samples in the Tanami region.

As soon as these results come to hand the market will be informed.

Corporate

As at the 30th of September 2010, the Company had the following share capital structure:

| | |
|----------------------------|-------------|
| Fully paid ordinary shares | 160,347,706 |
|----------------------------|-------------|

Options

| | |
|---|------------|
| Expire on 30 June 2012, at an exercise price of 20 cents each | 37,283,858 |
|---|------------|

| | |
|--|-------------|
| Expire on 30 June 2012, at an exercise price of 6 cents each | 123,057,896 |
|--|-------------|

During the quarter the following fully paid ordinary shares were issued

| | |
|-----------------|-----------|
| 4 November 2010 | 6,666,667 |
|-----------------|-----------|

| | |
|-----------------|------------|
| 9 November 2010 | 10,218,822 |
|-----------------|------------|

| | |
|------------------|-----------|
| 17 November 2010 | 7,166,666 |
|------------------|-----------|

| | |
|------------------|------------|
| 24 December 2010 | 39,972,680 |
|------------------|------------|

As at the 31st December 2010, the share capital structure is:

| | |
|----------------------------|-------------|
| Fully paid ordinary shares | 224,372,541 |
|----------------------------|-------------|

Options

| | |
|---|-------------|
| Expire on 30 June 2012, at an exercise price of 20 cents each | 37,283,858 |
| Expire on 30 June 2012, at an exercise price of 6 cents each | 123,057,896 |

For completeness, for the period post 31 December 2010 and today's date, the following securities have been issued:

| | |
|-----------------|------------|
| 13 January 2011 | 60,027,320 |
| 13 January 2011 | 15,196,010 |
| 24 January 2011 | 1,875,147 |

Roland Berzins
Company Secretary

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

PALACE RESOURCES LIMITED

ABN

74 106 240 475

Quarter ended ("current quarter")

31 December 2010

Consolidated statement of cash flows

| Cash flows related to operating activities | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|--|----------------------------|---------------------------------------|
| 1.1 | Receipts from product sales and related debtors | - | - |
| 1.2 | Payments for (a) exploration & evaluation | (2) | (16) |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) administration | (425) | (780) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | - | 3 |
| 1.5 | Interest and other costs of finance paid | (1) | (1) |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | - | - |
| | Net Operating Cash Flows | (428) | (794) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | (32) |
| | (c) other fixed assets | - | - |
| 1.9 | Proceeds from sale of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.10 | Loans to other entities | (918) | (918) |
| 1.11 | Loans repaid by other entities | 100 | 100 |
| 1.12 | Other (provide details if material) | - | - |
| | Net investing cash flows | (818) | (850) |
| 1.13 | Total operating and investing cash flows (carried forward) | (1,246) | (1,644) |

| | | | |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (1,246) | (1,644) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 1,921 | 1,921 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (proceeds from shares not yet issued) | 1,254 | 1,254 |
| | Net financing cash flows | 3,175 | 3,175 |
| | Net increase (decrease) in cash held | 1,929 | 1,531 |
| 1.20 | Cash at beginning of quarter/year to date | 209 | 607 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 2,138 | 2,138 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 11 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

| |
|---|
| Payment of directors' fees, salaries and superannuation during the quarter. |
|---|

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

| |
|-----|
| N/A |
|-----|

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

| |
|-----|
| N/A |
|-----|

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|------------|
| 4.1 Exploration and evaluation | 100 |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration | 400 |
| Total | 500 |

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 2,138 | 209 |
| 5.2 Deposits at call | - | - |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 2,138 | 209 |

Changes in interests in mining tenements

| Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|--------------------|---|----------------------------------|----------------------------|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | | |

6.2 Interests in mining tenements acquired or increased

| | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|---------------------------|---------------------------|---|--|
| 7.1 Preference securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 224,372,541 | 224,372,541 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 64,024,835 | 64,024,835 | 3 cents | 3 cents |
| 7.5 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | 37,283,858 123,057,896 | 37,283,858 123,057,896 | <i>Exercise price</i> 20 cents 6 cents | <i>Expiry date</i> 30/06/2012 30/06/2012 |
| 7.8 Issued during quarter | | | | |
| 7.9 Exercised during quarter | | | | |

| | | | | | |
|------|---|--|--|--|--|
| 7.10 | Expired during quarter | | | | |
| 7.11 | Debentures <i>(totals only)</i> | | | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | | | | |

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here:Roland Berzins..... Date: 31 January 2011
(Director)

Print name: Roland Berzins

Notes

1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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