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PALACE RESOURCES LIMITED

(formerly Padang Resources Limited)

ABN 74 106 240 475

CONSOLIDATED FINANCIAL REPORT FOR THE HALF-YEAR ENDED

31 DECEMBER 2012

Contents

DIRECTORS' REPORT

Your directors present their report on Padang Resources Limited (formerly Palace Resources Limited) and its controlled entity ("the consolidated entity or group") for the half-year ended 31 December 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

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

Mr Guy Le Page	Non Executive Director	Appointed 7 August 2009
Mr Ian Murie	Non Executive Director	Appointed 13 April 2011
Mr Roland Berzins	Company Secretary	Appointed 20 May 2005 Resigned 11 November 2011 Reappointed 27 January 2012
Mr Peter Woods	Non Executive Chairman	Appointed 11 July 2012

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

DIVIDENDS

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

REVIEW AND RESULTS OF OPERATIONS

The net loss of the consolidated entity after income tax attributable to members for the half-year ended 31 December 2012 amounted to $1,079,021. (Half year ended 31 December 2011 a loss of $1,281,255).

During the period the Company received Shareholder approval to proceed with the acquisition of a 70% interest in the Paser Project, East Kalimantan and moved to settlement. With the necessary approvals in place, Palace commenced the exploration program designed to confirm coal quality and depth, thickness and spread of coal seams below surface. On 11 October, 2012 PXR announced the completion of the sampling program across the 43 ha location and the submission of approximately 150kg of coal samples to a laboratory in Samarinda for coal quality and processing analysis. The coal samples were collected along strike and down dip of the coal seams within the 43 ha location to ensure a representative sampling program.

On 14 November 2012, PXR announced the start of its initial ten (10) hole drilling program at the Paser Project in East Kalimantan. The drill rigs were coring fresh samples from the coal seams down dip from the outcrops. To ensure reliable analytical results, the Company's in country experienced geologists measured core recovery, sealed the samples at the drill rig and sent the samples by courier to an international laboratory in for a comprehensive suite of coal analyses Samarinda.

The Company was targeting completion of the drill program by end of December, 2012 to be followed by a coal quality report and subject to results, with a mine plan.

Subsequent to the end of the reporting period the Company announced that it's majority owned subsidiary, Paser Pte Ltd entered into a MOU for exclusive rights to explore, mine and market coal from highly prospective coal concession in East Kalimantan, Indonesia (Petangis Project). The Petangis Project comprises of a 100 hectare general survey licence (Izin Ushua Pertambangan Produksi or "IUP") with developed roads and good access to export infrastructure. Furthermore, the Company advised shareholders of the temporary suspension of the proposed mining at the Paser Project due to high sulphur content at depth. Refer to the ASX release, "Palace acquires rights to an additional highly prospective coal project, East Kalimantan" dated 21 January, 2013 for further information.

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

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SUBSEQUENT EVENTS

Other than those events outlined under the Review of Results and Operations, there are no matters or circumstances that have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Somes Cooke, to provide the directors of the consolidated entity with an Independence Declaration in relation to the review of the half-year report. This Independence Declaration is set out on page 18 and forms part of this directors' report for the half-year ended 31 December 2012.

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

Ian Murie - Director

Dated this 14th day of March 2013, Perth, Western Australia.

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

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Continuing operations	NOTE	Half Year Ended 31 DECEMBER 2012 $	Half Year Ended 31 DECEMBER 2011 $
Other revenue	2	11,789	40,344
Repayment of loan previously impaired		-	68,660
Employee benefit expenses	2	(2,460)	(21,795)
Consulting fees	2	(284,877)	(575,946)
Compliance and regulatory expenses		(67,921)	(59,923)
Exploration expenses		(326,769)	(8,305)
Due diligence expenses		(275,526)	-
Impairment of deferred exploration expenses		-	(53,032)
Impairment of available-for-sale financial assets		(27,195)	(73,839)
Depreciation expense		(690)	(475)
Director fees		(25,750)	(25,000)
Finance costs		-	(790)
Travel and accommodation expenses	2	(29,550)	(298,172)
Occupancy expenses	2	(55,000)	(120,936)
Other expenses	2	(58,425)	(152,046)
Loss from continuing operations before income tax expense		(1,142,374)	(1,281,255)
Income tax expense		-	-
Loss for the period		(1,142,374)	(1,281,255)
Other comprehensive income			
Net changes in the fair value of available-for-sale financial assets		-	(85,076)
Net changes in the fair value of available for sale financial assets transferred to the loss from continuing operations as an impairment loss		-	73,839
Total other comprehensive income for the period		-	(11,237)
Total comprehensive income for the period		(1,142,374)	(1,292,492)
Total comprehensive income for the period attributable to:			
- Members of the parent entity		(1,079,021)	(1,292,492)
- Non-controlling interest		(63,353)	-
		(1,142,374)	(1,292,492)
Basic and diluted loss per share (cents)		(0.25)	(0.41)

The accompanying notes form part of these financial statements`

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	NOTE	31 DECEMBER 2012 $	30 JUNE 2012 $
CURRENT ASSETS			
Cash and cash equivalents		228,689	701,764
Trade & other receivables		46,629	50,168
TOTAL CURRENT ASSETS		275,318	751,932
NON-CURRENT ASSETS			
Other assets	5	230,629	859,913
Plant and equipment		1,013	1,704
Exploration expenditure	6	2,394,112	112,312
TOTAL NON-CURRENT ASSETS		2,625,754	973,929
TOTAL ASSETS		2,901,072	1,725,861
CURRENT LIABILITIES			
Trade and other payables		125,067	258,543
Provisions		4,182	1,994
TOTAL CURRENT LIABILITIES		129,249	260,537
TOTAL LIABILITIES		129,249	260,537
NET ASSETS		2,771,823	1,465,324
EQUITY			
Contributed equity	7	12,544,672	10,780,340
Reserves		9,449	9,449
Accumulated losses		(10,403,486)	(9,324,465)
Parent entity interest		2,150,635	1,465,324
Non-controlling interest		621,188	-
TOTAL EQUITY		2,771,823	1,465,324

The accompanying notes form part of these financial statements

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Parent interest				
	Issued Capital $	Available for Sale Asset Reserve	Accumulated Losses $	Non-controlling Interest $	Total $
Consolidated 31 December 2012					
Balance at 1 July 2012	10,780,340	9,449	(9,324,465)	-	1,465,324
Total comprehensive income for the period					
Loss for the period	-	-	(1,079,021)	(63,353)	(1,142,374)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	(1,079,021)	(63,353)	(1,142,374)
Transactions with owners, recorded directly as equity					
Acquiston of subsidiary (Note 8)	1,250,000	-	-	-	1,250,000
Other shares issued	542,084	-	-	-	542,084
Costs of capital	(27,752)	-	-	-	(27,752)
Recognition of non-controlling interest (Note 8)	-	-	-	684,541	684,541
Total transactions with owners	1,764,332	-	-	684,541	2,448,873
Balance as at 31 Dec 2012	12,544,672	9,449	(10,403,486)	621,188	2,771,823

The accompanying notes form part of these financial statements

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (CONT.)

	Issued Capital	Option Premium Reserve	Available for Sale Asset Reserve	Accumulated Losses	Total
	$	$	$	$	$
Consolidated					
31 December 2011					
Balance at 1 July 2011	9,368,289	471,838	20,687	(7,724,674)	2,136,140
Total comprehensive income for the period					
Loss for the period	-	-	-	(1,281,255)	(1,281,255)
Other comprehensive income					
Net changes in fair value of available-for-sale assets	-	-	(85,076)	-	(85,076)
Impairment of available-for-sale financial assets	-	-	73,839	-	73,839
Total comprehensive income for the period	-	-	(11,237)	(1,281,255)	(1,292,492)
Transactions with owners, recorded directly as equity					
Shares issued in the period	1,443,155	-	-	-	1,443,155
Shares transaction costs	(25,799)	-	-	-	(25,799)
Total transactions with owners	1,417,356	-	-	-	1,417,356
Balance as at 31 Dec 2011	10,785,645	471,838	9,450	(9,005,929)	2,261,004

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	NOTE	HALF YEAR ENDED 31 DECEMBER 2012 $	HALF YEAR ENDED 31 DECEMBER 2011 $
Cash Flow from Operating Activities			
Interest received		11,789	40,344
Payments to suppliers and employees		(648,363)	(1,143,242)
Payment for exploration expenditure		(325,833)	(61,337)
Financing costs		-	(790)
Net cash used in operating activities		(962,407)	(1,165,025)
Cash Flow from Investing Activities			
Repayment of loan previously impaired		-	68,660
Net cash provided by investing activities		-	68,660
Cash Flow from Financing Activities			
Proceeds from issue of shares		517,084	1,443,155
Cost of issuing shares		(27,752)	(25,799)
Net cash provided by financing activities		489,332	1,417,356
Net (decrease)/increase in cash held		(473,075)	320,991
Cash and cash equivalents at the beginning of the period		701,764	1,527,086
Cash and cash equivalents at the end of the period		228,689	1,848,077

The accompanying notes form part of these financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2012 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

Basis of preparation

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

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as outlined below.

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

Going concern

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

The consolidated entity had a working capital balance of $146,069 at 31 December 2012, incurred a net loss after tax for the six months ended 31 December 2012 of $1,142,374 (six months to 31 December 2011: $1,281,255) and experienced net cash outflows from operating and exploration activities of $962,407 (six months to 31 December 2011: $1,165,025).

The ability of the company to continue as a going concern is dependent upon the company raising further capital sufficient to meet the company's debts as and when they fall due or the successful sale or exploitation of its assets.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Significant Accounting Judgements and Key Estimates

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

Adoption of new and revised Accounting Standards

The consolidated entity has reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2012. The consolidated entity has decided against early adoption of any new Standards and Interpretations. As a result of this review the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to consolidated entity accounting policies.

Change in Accounting Policy

The consolidated entity has changed its accounting policy relating to the treatments of exploration and evaluation costs for the financial year ending 30 June 2013. Exploration and evaluation costs were previously capitalised, provided the rights to tenure of the area of interest were current and either;

- the exploration and evaluation costs were expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest had not, at the reporting date, reached a stage that permitted a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relation to, the areas of interest was continuing.

The consolidated entity has now elected to expense as incurred all exploration and evaluation costs on areas of interest except for the costs of acquiring leases and other rights of tenure, which are capitalised to areas of interest and carried forward where right of tenure of the area of interest is current and either:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relation to, the areas of interest are continuing.

This change to the accounting policy has been implemented as management is of the opinion this will provide more relevant information, and result in more accurate report at the end of the reporting period.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following accounting policy was not disclosed in the financial report for the year ended 30 June 2012 and is relevent to these financial statements:

Business Combinations

Business combinations occur when an acquirer obtains control over one or more businesses. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not measured and its subsequent settlement is accounted for within equity.

Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognition any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase price.

NOTE 2: LOSS FOR THE PERIOD

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

	31 December 2012 $	31 December 2011 $
Interest received	11,789	40,344

The company incurred the following significant transactions with the following entities:

For the period ended 31 December 2012	**Fay Holdings Pty Ltd** **$**	**GBU Capital Pty Ltd** **$**	**AAG Management Pty Ltd** **$**
Reimbursement of Padang coordinated and approved travel and accommodation expenses	38,178	-	-
Consulting fees	-	45,000	225,500

For the period ended 31 December 2011	**Fay Holdings Pty Ltd** **$**	**GBU Capital Pty Ltd** **$**	**AAG Management Pty Ltd** **$**
Reimbursement of Padang coordinated and approved travel and accommodation expenses	171,421	-	-
Consulting fees	5,000	30,000	24,999
Occupancy expenses	-	-	109,667
Other expenses	-	-	12,000
Employee benefits expense	-	495	-

For details on the relation of the above listed entities to the consolidated group, please refer to the 30 June 2012 annual financial report.

Key management personnel continue to receive compensation in the form of short-term employee benefits and post employment benefits.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 3: 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 business segment, namely the mineral exploration industry, and two geographical segments, namely Australia and Indonesia.

	Continuing Operations			
FOR THE PERIOD ENDED 31 DECEMBER 2012	**Australia $**	**Indonesia $**	**Corporate $**	**Consolidated $**
Segment revenue	-	-	11,789	11,789
Segment result	(2,800)	(211,177)	(928,395)	(1,142,372)
AS AT 31 DECEMBER 2012				
Segment assets	121,512	2,298,883	480,677	2,901,072
Segment liabilities	-	937	128,312	129,249

	Continuing Operations			
FOR THE PERIOD ENDED 31 DECEMBER 2011	**Australia $**	**Indonesia $**	**Corporate $**	**Consolidated $**
Segment revenue	-	-	109,004	109,004
Segment result	(121,608)	(634,505)	(525,142)	(1,281,255)
AS AT 30 JUNE 2012				
Segment assets	124,312	-	1,601,549	1,725,861
Segment liabilities	-	-	260,537	260,537

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 4: COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

The consolidated entity's commitments continue to be in place. For details of the nature of these commitments, please refer to the 30 June 2012 annual financial report.

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

NOTE 5: OTHER ASSETS

	31 December 2012 $	30 June 2012 $
Available for sale assets	183,546	207,128
Other assets (i)	47,083	377,259
Loan to other entity (ii)	-	275,526
	230,629	859,913

(i) Balance as at 30 June 2012 mostly relates to a prepayment for the acquisition of Paser Pte Ltd (Note 8)
(ii) Balance as at 30 June 2012 relates to a loan to Paser Pte Ltd.

NOTE 6: EXPLORATION & EVALUATION EXPENDITURE

	$
Balance as at 30 June 2012	112,312
Acquisition of subsidiary (Note 8)	2,281,800
Balance as at 31 December 2012	2,394,112

NOTE 7: ISSUED CAPITAL

Fully paid ordinary shares	$	No. of shares
Balance as at 30 June 2012	10,780,340	346,691,670
Shares issued for services received (i)	25,000	1,516,899
Acquisition of subsidiary (Note 8)	1,250,000	125,000,000
Shares issued at 1 cent per share	517,084	51,708,384
Cost of capital raising	(27,752)	-
Balance as at 31 December 2012	12,544,672	524,916,953

(i) Issued to Alpha Securities Ltd in lieu of payment for services provided.

NOTE 8: ACQUISITION OF SUBSIDIARY

During the period to 31 December 2012, the Company acquired a 70% interest in Paser Pte Ltd.

	Fair Value $
Purchase Consideration	
Ordinary Shares (Note 7)	1,250,000
Cash payment (paid in the year to 30 June 2012 – Note 5)	347,259
	1,597,259
Fair value of non-controlling interest	684,541
Total fair value of subsidiary at date of acquisition	2,281,800
Fair value of net assets acquired on date of acquisition	
Exploration project interests	2,281,799
	2,281,799

NOTE 9: SUBSEQUENT EVENTS

Subsequent to the end of the reporting period the Company announced that it's majority owned subsidiary, Paser Pte Ltd entered into a MOU for exclusive rights to explore, mine and market coal from highly prospective coal concession in East Kalimantan, Indonesia (Petangis Project). The Petangis Project comprises of a 100 hectare general survey licence (Izin Ushua Pertambangan Produksi or "IUP") with developed roads and good access to export infrastructure. Furthermore, the Company advised shareholders of the temporary suspension of the proposed mining at the Paser Project due to high sulphur content at depth. Refer to the ASX release, "Palace acquires rights to an additional highly prospective coal project, East Kalimantan" dated 21 January, 2013 for further information.

Other than the above, there are no matters or circumstances that have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

DIRECTORS' DECLARATION

In the opinion of the directors:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and the performance for the half-year ended on that date of the consolidated entity; and

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

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

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

On behalf of the Directors

Ian Murie - Director
Chairman
Dated this 14th day of March 2013

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Business Consultants
Financial Advisors

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Palace Resources Limited

As auditor for the review of Palace Resources Limited for the period ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
b) No contraventions of any applicable code of professional conduct in relation to the review.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens
Perth
14 March 2013

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Business Consultants
Financial Advisors

Independent Auditor's Review Report

To the members of Palace Resources Limited

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Palace Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Palace Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Palace Resources Limited's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Palace Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Palace Resources Limited 's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

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

Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 1, which outlines that the ability of the company to continue as a going concern is dependent upon the company raising further capital sufficient to meet the company's debts as and when they fall due or the successful sale or exploitation of its assets.

As a result there is material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and therefore whether it will realise its asset and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens

14 March 2013

Perth
Western Australia