

ASX ANNOUNCEMENT

The directors of Palace Resources Ltd (“Palace”, “PXR” or the “Company”) have pleasure in presenting their quarterly report for the period ended 31 December 2013.

Operations Report

December Quarter 2013

Activity

On 16 October Shareholders approval was sought to allow the Company to:

- Change its nature and scale of activity to reflect the potential increase in business activity associated with its intention to form a joint venture company referred to as Kalimantan Mining and Logistics Pte Ltd. Whilst shareholder’s approval was given for this particular acquisition from the vendors, due to the stringent due diligence exercise that the Company is carrying out verifying the proposal, the consummation of the Joint Venture has not been completed. As such, the vendor shares not yet issued. This, and the supplementing of the vendors consideration in compensation for the opportunity foregone by the Company, will be subject to further shareholder’s approval;
- Approval by shareholders for the Company to raise up to \$1,400,000 by way of direct security issued and or capital raised by the issue of convertible note;
- Approval of share previously issued; and
- The issue of securities to Directors and creditors via share based payments, as a means of extinguishing debt and minimising cash outlay.

All resolutions to shareholders were comfortably passed on the show of hands, indicating the shareholders support for the Directors and senior management of the Company.

As a continuation of the approval given by Shareholders, the Company has entered into a separate memorandum of understanding with its Indonesian partner, RBU, to collaborate on the development of a commercial facility for the beneficiation of coal through to an activated carbon product. This process, referred to as Carbon raising, is a coal upgrade process performed by driving off the volatiles in the coal and reducing the moisture content, thus yielding an end-product which has a higher fixed carbon content, combined with minimal ash.

It is the intention of the Company and its partner to conduct trials to determine if the sourced coal, once beneficiated through this process, can be used in the steel industry or treated again to create an activated carbon product.

It is the joint ventures intention to build a pilot plant to test feed stock and to define the process. Upon receipt of successful trial results, the parties intended to then build a commercial plant which will be specifically designed to accept coal from the projects currently controlled by RBU and Palace Resources.

Capital Structure

As at 31 December 2013, the Company had 624,213,745 fully paid ordinary shares on issue plus 89,500,000 options, exercisable at \$0.03 and expiring on 30 November 2014.

Company Profile

Palace is an Australian based Resources Company focused on the acquisition of exploration and near production assets across the international resources sector, in particular coal in Indonesia.

Palace is strategically aligned to secure advanced projects that are located in close proximity to all key infrastructure and support services. This presents Palace with the opportunity to take advantage of both the internal markets of South-East Asia and the export markets.

Roland Berzins
Company Secretary

31 January 2014

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 2013

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for:		
(a) exploration & evaluation	-	(33)
(b) development	-	-
(c) production	-	-
(d) administration	(207)	(225)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	6
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(204)	(252)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(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	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (Unsecured Loans)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(204)	(252)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(204)	(252)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	317	317
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	41	41
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (share issue costs)	(150)	(150)
	Net financing cash flows	208	208
	Net increase (decrease) in cash held	4	(44)
1.20	Cash at beginning of quarter/year to date	1	49
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	5	5

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	12
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 – 1.2

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

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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

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+ See chapter 19 for defined terms.

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	15
4.2 Development	-
4.3 Production	-
4.4 Administration	15
Total	30

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	5	1
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	5	1

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		See Attached Schedule		
6.2 Interests in mining tenements acquired or increased		See Attached Schedule		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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	624,213,745	624,213,945		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	79,296,793 Nil	79,296,793 Nil		
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>	89,500,000	89,500,000	<i>Exercise price</i> \$0.03	<i>Expiry date</i> 30 November 2014
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
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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

 (Company secretary)

Date: 31 January 2014

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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+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Schedule as per *ASX Listing Rule 5.3.3*

Tenement Status

Project	Location	Tenement	Blocks	Holder	Beneficial percentage interest held in farm out arrangements at the end of the quarter	Beneficial percentage interest held in farm out arrangements acquired or disposed of during the quarter
Tanami	Australian Northern Territory	EL25207	244	Palace Resources Ltd	10%	Nil

+ See chapter 19 for defined terms.