

ASX ANNOUNCEMENT

The directors of Palace Resources Ltd (“Palace”, “PXR” or the “Company”) have pleasure in presenting their quarterly report for the period ended 30 September 2013.

Operations Report

September Quarter 2013

Activity

In May 2013, Palace Resources Ltd (**Palace**) announced that it had entered into a conditional and non-binding MOU with the JV Partner that held 100% of the coal development project (KCM Project) in South Kalimantan, Indonesia

The KCM Project covered a total licence area of approximately 200 hectares and is part of a large Contract of Work (**CCOW**) approximately 4,000 hectares.

During the quarter, the Company has continued negotiations with the vendors and secured the rights to a further producing coal project in West Sumatra (MBM project).

In order to complete its participation entitlement, the Company has announced its intention to take an 80% interest in Kalimantan Mining and Logistics Pte Ltd, a Singaporean company, which will own 100% interest in the projects. The material terms of the acquisition transaction, including the consideration plus the terms and conditions precedent associated with the acquisition have been outlined in a Notice of Meeting to shareholders. This Notice of Meeting seeks their approval for the actions and their approval concerning the change in nature and scale of the Company’s operation, plus other matters.

This meeting was scheduled for 16 October 2013.

Subsequent to the Company’s announcement, the Company has commenced testing batches of coal from the KCM and MBM projects in a carbon beneficiation process. The results of these trials will be announced when available.

Corporate

In addition to the above, incorporated in the Notice of meeting scheduled for 16 October 2013, the directors also sought shareholders’ approval for:

- The raising of \$1.4M by way of share placement of securities and / or issuing of convertible notes;
- Ratification of prior issue of shares;
- Issuing of securities for debt financing fees and consultant fees, and
- Issuing securities in lieu of directors' fees.

Capital Structure

As at 30 September 2013, the Company had 544,916,952 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 October 2013

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")

30 September 2013

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 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)	(33)
(b) development	-	-
(c) production	-	-
(d) administration	(18)	(18)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	3
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	(48)	(48)
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)	(48)	(48)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(48)	(48)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
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 (share issue costs)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(48)	(48)
1.20	Cash at beginning of quarter/year to date	49	49
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1	1

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	25
4.2 Development	-
4.3 Production	-
4.4 Administration	35
Total	60

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	1	47
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1	47

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			

+ 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	544,916,952	544,916,952		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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				
.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

