

**PALACE RESOURCES LIMITED**  
**ABN 74 106 240 475**  
**AND ITS CONTROLLED ENTITY**  
**HALF-YEAR REPORT**  
**FOR THE HALF YEAR ENDED**  
**31 DECEMBER 2008**

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

<b>Contents</b>	<b>Page</b>
<b>DIRECTORS' REPORT</b>	<b>3</b>
<b>AUDITORS' INDEPENDENCE DECLARATION</b>	<b>4</b>
<b>CONDENSED CONSOLIDATED INCOME STATEMENT</b>	<b>5</b>
<b>CONDENSED CONSOLIDATED BALANCE SHEET</b>	<b>6</b>
<b>CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>	<b>7</b>
<b>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>8</b>
<b>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>9</b>
<b>DIRECTORS' DECLARATION</b>	<b>14</b>
<b>AUDITOR'S INDEPENDENT REVIEW REPORT</b>	<b>15</b>

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

**DIRECTORS' REPORT**

Your directors present their report on Palace Resources Limited and its controlled entity ("the consolidated entity or group") for the half-year ended 31 December 2008. 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 Anthony Short

Mr Matthew Sullivan

Mr Roland Berzins

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 Group after income tax for the half-year ended 31 December 2008 amounted to \$733,568. (Half year ended 31 December 2007 a loss of \$363,602).

**SUBSEQUENT EVENTS**

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 Group, the results of those operations, or the state of affairs of the Group in future financial periods.

**AUDITOR'S INDEPENDENCE DECLARATION**

Section 307C of the Corporations Act 2001 requires our auditors, Ord Partners, 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 4 and forms part of this directors' report for the half-year ended 31 December 2008.

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.

  
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R Berzins

Director

Dated this 16<sup>th</sup> day of March 2009,

Perth, Western Australia.

16 March 2009

To the Board of Directors of Palace Resources Limited

Dear Sirs

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

I declare that, to the best of my knowledge and belief, in relation to the review of the financial report for the half-year ended 31 December 2008, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully  
**ORD PARTNERS**



Robert Parker  
Partner

*Ian K Macpherson CA*

*Robert W Parker CA*

*Craig A Vivian CA*

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Chartered Accountants

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

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	<b>Half Year Ended 31 DECEMBER 2008</b>	<b>Half Year Ended 31 DECEMBER 2007</b>
	<b>\$</b>	<b>\$</b>
Revenue from ordinary activities	33,010	61,377
Employee benefit expenses	(51,469)	(53,334)
Consulting fees	(105,208)	(119,167)
Compliance and regulatory expenses	(41,730)	(61,336)
Business development expenses	(8,512)	-
Impairment of available – for-sale financial assets	(184,000)	-
Impairment of other financial assets	(200,000)	-
Depreciation	(4,718)	(4,720)
Director fees	(35,000)	(35,000)
Finance costs	(1,123)	(384)
Occupancy costs	(65,412)	(22,453)
Administration	(69,406)	(128,585)
	<hr/>	<hr/>
Loss before income tax expense	(733,568)	(363,602)
Income tax expense	-	-
	<hr/>	<hr/>
Loss for the period	(733,568)	(363,602)
	<hr/>	<hr/>
Basic and diluted loss per share (cents)	0.02	0.79
	<hr/>	<hr/>

The accompanying notes form part of these financial statements.

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

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2008**

	31 DECEMBER 2008	30 JUNE 2008
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	961,837	1,490,572
Trade & other receivables	29,946	142,933
Other current assets	3,902	11,308
Other financial assets	60,000	-
<b>TOTAL CURRENT ASSETS</b>	<u>1,055,685</u>	<u>1,644,813</u>
<b>NON-CURRENT ASSETS</b>		
Other financial assets	81,000	186,000
Plant and equipment	6,680	11,398
Deferred exploration expenditure	867,310	821,097
<b>TOTAL NON-CURRENT ASSETS</b>	<u>954,990</u>	<u>1,018,495</u>
<b>TOTAL ASSETS</b>	<u><u>2,010,675</u></u>	<u><u>2,663,308</u></u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	57,469	54,809
Provisions	22,269	22,994
<b>TOTAL CURRENT LIABILITIES</b>	<u>79,738</u>	<u>77,803</u>
<b>TOTAL LIABILITIES</b>	<u>79,738</u>	<u>77,803</u>
<b>NET ASSETS</b>	<u><u>1,930,937</u></u>	<u><u>2,585,505</u></u>
<b>EQUITY</b>		
Issued capital	4,118,452	4,118,452
Reserves	372,838	293,838
Accumulated losses	(2,560,353)	(1,826,785)
<b>TOTAL EQUITY</b>	<u><u>1,930,937</u></u>	<u><u>2,585,505</u></u>

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 CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	<b>Issued capital</b>	<b>Option Premium Reserve</b>	<b>Asset revaluation reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance at 1 July 2008	4,118,452	372,838	(79,000)	(1,826,785)	2,585,505
Loss for the period				(733,568)	(733,568)
Net change in fair value of available – for – sale financial assets transferred to profit and loss	-	-	79,000	-	79,000
Balance as at 31 Dec 2008	4,118,452	372,838	-	(2,560,353)	(1,930,937)

	<b>Issued capital</b>	<b>Option Premium Reserves</b>	<b>Asset revaluation reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance at 1 July 2007	4,118,452	371,463	-	(1,304,362)	3,185,553
Loss for the period	-	-		(363,602)	(363,602)
Options issued during the period	-	1,375	-	-	1,375
Balance as at 31 Dec 2007	4,118,452	372,838	-	(1,667,964)	2,823,326

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 CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	HALF YEAR ENDED 31 DECEMBER 2008 \$	HALF YEAR ENDED 31 DECEMBER 2007 \$
<b>Cash Flow from Operating Activities</b>		
Interest received	33,010	71,347
Payments to suppliers and employees	(288,787)	(315,840)
Financing costs	(1,123)	(384)
Net cash used in operating activities	<u>(256,900)</u>	<u>(244,877)</u>
<b>Cash Flow from Investing Activities</b>		
Payment for other financial assets	-	(50,000)
Payment for mining tenements	(46,213)	(43,236)
Net cash used in investing activities	<u>(46,213)</u>	<u>(93,236)</u>
<b>Cash Flow from Financing Activities</b>		
Loan to related parties	(230,000)	-
Proceeds from issue of options	-	1,375
Proceeds from loan repayment by related party	4,378	25,436
Net cash provided by/ (used in) financing activities	<u>(225,622)</u>	<u>26,811</u>
Net (decrease) in cash held	<u>(528,735)</u>	<u>(311,302)</u>
Cash and cash equivalents at the beginning of the period	<u>1,490,572</u>	<u>2,396,701</u>
Cash and cash equivalents at the end of the period	<u><u>961,837</u></u>	<u><u>2,085,399</u></u>

The accompanying notes form part of these financial statements.



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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

**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 and Accounting Standard AASB 134 "Interim Financial Reporting". 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 in 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 2008 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 derivative 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.

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

**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.

In preparing this half-year report, the significant judgements made by management in applying the Consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2008.

**Going concern**

This 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 has incurred a net loss after tax for the year ended 31 December 2008 of \$733,568 (2007: \$363,602) and experienced net cash outflows from operations of \$256,900 (2008: \$244,877). As at 31 December 2008, the Consolidated Entity had net current assets of \$1,055,685 (30 June 2008: \$1,644,813). As at 31 December 2008, the Consolidated Entity had a net asset position of \$1,930,937 (2008: \$2,585,505).

The Directors believe that there are sufficient funds to meet the Consolidated Entity's working capital requirements.

**PALACE RESOURCES LIMITED AND ITS CONTROLLED ENTITY**  
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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

However, the Directors recognise that the ability of the Company to continue as a going concern and to pay its debts as and when they fall due may be dependent on the ability of the Company to secure additional funding through either the issue of further shares, options and or convertible notes.

In relation to the expenditure commitment for the Australian granted licenses, the directors

- will pursue potential farm out activities on the company's exploration assets;
- will seek, where appropriate, to obtain exemptions on exploration and mining tenements where minimum expenditure commitments have previously been met or where resources have been defined and are awaiting mining leases approval;
- expect that major shareholders of the Company will support fund raising as has been demonstrated in past share issues to the existing shareholder base.

Based on the above, the Company is confident that it will successfully raise additional funds, if required, to meet its financial obligation in future period.

Additionally, the directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will achieve the matters set out above. As such, the directors believe that they will continue to be successful in securing additional funds through debt or equity issues as and when the need to raise working capital arises.

Notwithstanding this, there is uncertainty whether the Company will be able to continue as a going concern.

Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

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

**Adoption of a new and revised Accounting Standards**

In the half-year ended 31 December 2008, the Consolidated entity has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting period beginning on or after 1 July 2008.

It has been determined by the Consolidated entity 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 the Consolidated entity's accounting policies.



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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

**NOTE 2: PROFIT FOR THE PERIOD**

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

	31 December 2008	31 December 2007
	\$	\$
Interest received	33,010	61,377

**NOTE 3: SEGMENT INFORMATION**

**Geographical Segment**

All operational activities are located in Australia.

**Business Segment**

The Consolidated entity operates predominately in mining exploration and more than 95% of revenue, operating and segment assets relate to operations in this industry.

**NOTE 4. COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES**

The Consolidated entity commitments are continued to be in place. For details of these commitments, please refer to 30 June 2008 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. EXPLORATION & EVALUATION EXPENDITURE**

	31 December 2008	30 June 2008
	\$	\$
<b>NON-CURRENT</b>		
Deferred Exploration Expenditure, at cost	867,310	821,097
<i>Exploration Expenditure movement</i>		
Brought forward at the beginning of period	821,097	562,382
Exploration expenditure capitalised during the period	46,213	258,715
Carried forward exploration expenditure	867,310	821,097

The value of the Company's interest in exploration and evaluation expenditure is dependent upon;

- The continuance of the Company's right of tenure of the areas of interest;
- The results of future exploration; and
- The recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

**NOTE 6: RELATED PARTY TRANSACTIONS**

Arrangements with related parties continue to be in place. For details of these arrangements, please refer to 30 June 2008 annual financial report. Other related party arrangements that took place during the half year are disclosed below.

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

	<b>31 December 2008</b>	<b>30 June 2008</b>
	<b>\$</b>	<b>\$</b>
(i) Balances receivable/(payable) as at the end of the period (unsecured Loans)		
AAG Management Pty Ltd	(14,453)	-
Advanced Energy Ltd	-	-
The Company loaned \$200,000 to Advanced Energy and this whole amount has been impaired.		
(i) Balances receivable/(payable) as at the end of the period (unsecured bonds)		
AAG Management Pty Ltd	60,000	30,000
	<b>31 December 2008</b>	<b>31 December 2008</b>
	<b>\$</b>	<b>\$</b>
(ii) Services provided to/(from) related entities		
AAG Management Pty Ltd	(113,567)	-
(iii) During the year the Company received and paid the following loans (to) related parties:		
Advance Energy Limited	(200,000)	-
All transactions are no fixed terms for the repayment of loans between the parties and the average interest rate on the loans are RBA cash call rate plus 2%. Outstanding balances are unsecured and repayable in cash		
During the year the Company received and paid the following bond (to) related parties:		
AAG Management Pty Ltd	(30,000)	(30,000)

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

AAG Management Pty Ltd (AAG) provides services to a number of listed companies that share costs and office space. The Company has entered into an agreement to have AAG provide the following services:

- Telephonic and computer service facilities
- Secretarial and administrative support, office accommodation and meeting room facilities
- Promotion and technical equipment and facilities support

Additionally, under the terms of the agreement, Palace is required to pay AAG a bond of \$60,000 to assist AAG to acquire the equipment and fixtures and fittings. This bond is refundable to Palace upon the termination of the agreement or when the premises are vacated.

Mr. Anthony Short, who is a director of Palace, is the sole director of AAG.

**NOTE 7: SUBSEQUENT EVENTS**

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 Consolidate entity, the results of those operations, or the state of affairs of the Consolidated entity in future financial periods.

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

**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 December 2008 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
- (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



R Berzins  
Director

Dated this 16<sup>th</sup> day of March 2009



**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF PALACE RESOURCES LIMITED**

**ORD**  
**PARTNERS**  
CHARTERED ACCOUNTANTS

***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Palace Resources Limited, which comprises the condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year period.

***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

***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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of Interim 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 the consolidated entity's financial position as at 31 December 2008 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 review of the interim financial report.

A review of 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Palace Resources Limited on 16 March 2009.

*Ian K Macpherson CA*

*Robert W Parker CA*

*Craig A Vivian CA*

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Chartered Accountants

### 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:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Inherent uncertainty regarding going concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of matters referred to in Note 1 "Going Concern" to the financial statements, the ability of the Consolidated Entity to continue as a going concern and meet its planned and committed expenditures including exploration expenditures is dependent upon the Consolidated Entity raising further working capital. In the event that the Consolidated Entity cannot raise further working capital, the Consolidated Entity may not be able to pay its debts as and when they become due and payable. Should the Consolidated Entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets nor to the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

### ORD PARTNERS

Chartered Accountants



Robert Parker

Perth, 16 March 2009