INSIDE BRIEFING

The Company Announcements Officer
Australian Securities Exchange Ltd
*via electronic lodgement*

# The following is an *Inside Briefing* interview with Balamara Resources Limited Managing Director, Mr Mike Ralston

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**In this interview, Mike Ralston provides an update on Balamara Resources (ASX: BMB) (market capitalisation ~$30 million), an emerging European-focused coal company. Highlights of this interview include:**

- ***Recent additions to Balamara's emerging coal portfolio in Poland including the acquisition of an initial strategic stake in the advanced Mariola Thermal Coal Project and the award of the Sawin Thermal Coal Concession, located near the highly successful operating Bogdanka Coal Mine, and Prairie Mining's vast Lublin Coal Project;***

- ***The Company's rapidly advancing Polish coal development strategy including the ongoing Pre-Feasibility Study at the Nowa Ruda Coking Coal Project and its plans to realize synergies across its expanded project portfolio and bring all three assets into production in a staged manner;***

- ***Upcoming milestones as Balamara aims to become "The New Force in Polish Coal" and the likely cash requirement to achieve its key corporate objectives.***

***Inside Briefing: Balamara has recently acquired an initial 15% cornerstone position in the advanced Mariola Thermal Coal Project in southern Poland. What are the key attributes of this Project and can you explain the structure under which you have secured this initial interest? What is your strategy to develop this asset?***

**Mike Ralston:** Mariola has several unique attributes that elevate it above all the other Polish coal projects we have reviewed. Firstly, it's an advanced project which is likely to be in production 12-18 months ahead of Nowa Ruda – which would mean earlier cash flow and the potential to use this to help fund the Nowa Ruda development. Secondly, the deposit is shallow and has thick, continuous coal seams, which may ultimately result in a strong conversion to mineable tonnes as well as a lower capital cost and quicker timeframe to production.

Thirdly, we believe Mariola will be one of the lowest CAPEX mines into production of any underground coal mine in Poland and could ultimately have very low operating costs given that first coal lies just 100m below surface. Finally, there is an operating power station adjacent to the concession which has already indicated an interest in acquiring Mariola thermal coal, and there are significant advantages to such a proposition.

Balamara has taken an initial 15% equity position in Carbon Investment, the local Polish company that owns Mariola, and the majority of cash we paid for this initial stake will go towards project development, including delivering the first JORC resource statement followed by a Scoping Study. Once we have the JORC resource – and assuming it indicates the tonnage and quality of coal we expect – Balamara will be looking to secure the remaining 85% of Mariola (*subject to regulatory approvals*), so that our shareholders can ultimately benefit from all of the Project attributes I have outlined. Our strategy to develop Mariola will, quite simply, be to assist Carbon Investment in every way possible to drive this Project towards production as soon as possible, targeting 2016.

***Inside Briefing: The Company has also recently been awarded the Concession covering the world-class Sawin North Coal Project in south-east Poland. How did you come to secure this project and what are your funding obligations to retain this concession? Can you briefly outline the key attributes of this project?***

**Mike Ralston:** It is ironic that, having spent more than 12 months waiting for the results of applications we submitted for several other large coal concessions in 2013, we received confirmation of the award of Sawin almost simultaneously with securing our entry position into Mariola. Nevertheless, we see these two thermal coal projects as being very complementary, as together they give us exposure into the two largest hard coal regions in Poland – the Upper Silesian Basin and the Lublin Basin. Mariola is far more advanced than Sawin and is likely to be the first of Balamara's coal projects to move into production. Sawin will take more time as we develop the enormous coal deposit contained within the large 132km$^2$ concession area.

Our licence at Sawin affords us exploration rights for a 3.5-year period, and we have indicated we will drill up to five holes in that time to confirm the coal deposits. We will aim to commence this programme in 2015 with the goal of completing it by the end of next year or early 2016. In that time, we will also commence Scoping Study works in parallel, as we have done at Nowa Ruda.

Sawin is located in the same coal basin as the vast thermal coal projects owned by Lubelski Wegeil Bogdanka SA ("Bogdanka") and Prairie Mining Limited. It is considered likely that Sawin coal will be very similar to the high grade, high-quality thermal coal seen at both of those projects, and we are therefore now in control of a substantial thermal coal asset which provides excellent synergistic value to the coal within our other two Polish Projects.

Sawin's key attributes include its size and scale – *refer to the Foreign Estimate (Polish standard) per Balamara's ASX announcement dated 21 July 2014* – and its strategic location in the heart of the Lublin Coal Basin, regarded by many as the fastest growing region for Polish thermal coal. Furthermore, we have secured an asset that has considerable historical drilling and other technical data – all of which will assist greatly in enhancing the value of the Project as we move it forward.

***Inside Briefing: Balamara is already undertaking a Pre-Feasibility Study on the large Nowa Ruda Coking Coal Project, which was acquired last year. Can you provide a brief comparison of the three projects in terms of coal type, potential size and scale, development timelines, infrastructure and order-of-magnitude capital development requirements based on similar scale projects in Poland.***

**Mike Ralston:** We believe that Balamara now has a diverse and valuable portfolio of Polish coal assets, incorporating both high-grade thermal and hard coking coal. In addition, we are now represented in all three of the major hard coal basins in Poland, and there are many advantages to this as natural off-takers are strategically located close to each deposit, plus there is considerable infrastructure already within these regions.

While Nowa Ruda may ultimately be slightly smaller than our other two Projects in terms of overall tonnage, the higher margins associated with coking coal make this asset very attractive, and ultimately selling both thermal and coking coal would provide a natural hedge in the market.

Strategically, our conceptual development timetable has Mariola in production first, followed by Nowa Ruda 12-18 months later, and then Sawin. This development sequence will allow us to focus on each asset and enhance value in different ways over the medium term. We envisage that Mariola will be the cheapest and easiest mine to advance into production, enabling us to generate cash flows that we can use to assist in funding the development of Nowa Ruda and ultimately Sawin. Compared with other coal projects in Poland, both Mariola and Nowa Ruda have the advantage of having considerably lower capital development costs, although this will need to be confirmed through feasibility studies.

Many other Polish coal projects are moving into the latter part of their mine life and/or mining at great depths, with less efficiency, higher operating costs and other disadvantages. By contrast, Mariola's first coal seams are only ~100m below surface and Nowa Ruda's first coal seams are ~650m and we believe they will both represent considerable value to Balamara going forward.

***Inside Briefing: How much will you need to spend across these three projects over the next 12 months to advance them? How will you fund these activities?***

**Mike Ralston:** We are aware that large scale coal projects require considerable cash to move into development, and we have always structured our entry in a way that minimizes the upfront funding requirement. The Directors are all major shareholders in the Company and dislike excessive dilution as much as any other stakeholder.

We estimate that we will require approximately $3 million to complete all drilling and feasibility studies at Nowa Ruda over the next 12 months, laying the foundations to apply for a license to mine. In consultation with Carbon Investments, we estimate the overall Mariola requirement at approximately $1.5 million to arrive at the same position – that is, completion of feasibility studies and application for a license to mine by mid-2015. At present, Balamara only owns 15% of Carbon Investment/Mariola so this cost is not ours to finance in totality unless we acquire the remaining 85% of the Project.

Finally, we estimate the cost of drilling the five holes at Sawin to be around $1.5 million based on the cost to drill similar style holes at Nowa Ruda. While the exploration license at Sawin allows us 3.5 years to complete this programme we would want to target completion by the end of 2015 if possible. The total spend at project level should be around $6.0 million, assuming Balamara eventually acquires 100% of Mariola, plus corporate costs.

For this outlay we will have three Tier One quality coal projects in Poland which are all significantly advanced towards a decision to mine by the end of 2015.

To meet these funding requirements, we are currently in the final stages of bringing in US$5 million ($5.5 million) via a 15% placement at the Coal Holding subsidiary level (Nowa Ruda Project) to our major shareholder, and these funds will provide the backbone of our cash requirement for the medium term, with proceeds still expected from the sale of the Balkans Assets. If necessary, Balamara will seek further funding but we have always managed this prudently and we will never unduly dilute shareholders without achieving further value enhancement in return.

We do not envisage that Balamara will acquire any further assets in the near future, as the three coal Projects we already have within our portfolio are enough for us to build a substantial company moving forward, so there will be no further project acquisition costs. If Balamara acquires the remaining 85% of Carbon Investment/Mariola, this will be done as an all-shares deal.

We are also still directly involved in the process to complete the divestment of our Balkans assets via an Agreement signed in February 2014 and we are still hoping to realise that cash ($15 million) in the near term to support the ongoing development of our Polish coal assets.

***Inside Briefing: Given Balamara's strong focus on coal, can you provide a brief comment on the broader market outlook for both thermal and coking coal? Can you comment specifically on the market dynamics for coal in Europe?***

**Mike Ralston:** We have re-built Balamara over the past 12 months around the delivery of several quality coal projects in Poland – which we believe to be a top destination for foreign investment due to its low sovereign risk combined with a low operating cost environment. In that time, we have undertaken considerable due diligence on several projects and introduced the three we consider to be the best opportunities for Balamara – two of them for zero acquisition cost.

We have a strong belief that the market for coal will remain strong longer term, and we draw reference particularly to Poland in making this judgment as we anticipate selling the vast majority of our coal locally and to neighboring countries, where there is also significant demand.

Coking coal is used almost exclusively for steel production and demand is therefore closely linked to steel demand. While global demand has fallen over the past 18 months, experts are predicting an increase in steel demand from India in particular. Currently, Germany and other nearby countries are importing the vast majority of their thermal coal and Poland is a substantial user of thermal coal in its own right, with in-country demand forecast to grow further ahead. It is also anticipated that several regional coal mines may be closed by 2018, due to high operating costs and Government subsidies drying up. This will all continue to create a strong demand for thermal coal out of Poland.

Poland remains one of the low cost manufacturing hubs for Western Europe, and the close proximity to Germany in particular plus the excellent rail infrastructure makes movement of product easier than from other locations. Furthermore, as a member of both the European Union and NATO, Poland is seen as a low risk destination ahead of other Eastern European competitors and long-term stability is very important.

Balamara is aware of four operating coking plants within 150km of Nowa Ruda that could each ultimately take our product, although nothing is taken for granted and other options will also be considered. Naturally, the shorter the distance to move a bulk commodity such as coal to market, the easier and cheaper the logistical challenge.

With regard to thermal coal, Poland has a large and growing demand for this product for both electricity generation as well as heating. Official statistics show that Poland is a net importer of thermal coal and, while demand is anticipated to rise in the next decade, supply of locally produced coal may actually fall due to older mines closing. Balamara anticipates a demand for newer, more efficient and cost-effective mines such as Mariola and Sawin in the future, and Bogdanka's recent success and expansion proves this point.

Mariola has the additional advantage of being situated in amongst the vast majority of existing thermal power stations in Upper Silesia, and immediately adjacent to the large Tauron-Sierzca power plant; this close proximity to market is highly beneficial to end users compared with coal acquired externally.

There is always international supply to contend with and Balamara is well aware of the availability of substantial coking and thermal coal from countries such as Australia, United States and South Africa. However, the logistical cost of buying coal further away and moving it to Poland poses significant disadvantages versus buying locally, and as long as Balamara remains commercially competitive in its sale process, it is likely to appeal to local buyers ahead of more costly coal imported from elsewhere.

This same logic applies to other countries in Western Europe where there is still strong (and in many cases growing) demand for both types of coal. Balamara will definitely consider all possibilities for off-take as it moves forward into production over the next few years.

***Inside Briefing: Balamara has developed a clear strategy to become a major new force in the European coal sector. What is the status of the planned divestment of your Balkans base metal assets? What is the status of your bid for the large Togo Phosphate Project? How do these projects fit within your overall strategy?***

**Mike Ralston:** Our core Company strategy is to now develop and deliver on the three tier one coal assets currently within our portfolio. We do not want or need any further coal assets as we now have a sufficient portfolio to deliver on all our objectives. We are still working to complete the sale of our non-core Balkans base metals Projects.

These Projects do not have the size and scale of the Polish coal assets, but if Balamara can close this sale and inject $15 million into Company in the near term, this will provide a unique platform to progress our growth strategy.

The tender for the Togo Phosphate Project continues and Balamara is meeting with representatives of the Togo Government shortly for final stage discussions, which, according to the official timetable, will then lead to Togo choosing a Preferred Bidder to conduct final negotiations and award the tender. Balamara has been directly and indirectly involved with this project for five years and remains an interested finalist in the tender process, but we are naturally cautious to advise of any further progress until we can see a clear path to completion.

Over the past few years Balamara has sought at least one company-making project that it could build its overall strategy upon and Togo phosphate was seen as having that size and scale. However, in the past 12 months Balamara has delivered three top quality tier one Polish coal Projects in a safe location that each provide similar if not greater opportunity in the future.

***Inside Briefing: Thank you, Mike.***

**ENDS**

***Further information:***
**Balamara Resources Limited**
**Mike Ralston**
**Managing Director**
**T: +61 8 6365 4519**
**W: www.balamara.com.au**

***Investor Relations:***
**Read Corporate**
**Nicholas Read / Paul Armstrong**
**T: +61-8 9388 1474**
**E: nicholas@readcorporate.com.au**



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*The information concerning production targets in this announcement are not intended to be forecasts. They are internally generated goals set by the board of directors of Balamara. The ability of the company to achieve these targets will be largely determined by the company's ability to*

*secure adequate funding, implement mining plans, resolve logistical issues associated with mining and enter into off take arrangements with reputable third parties.*

*It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information above relating to any exploration target should not be misunderstood or misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature, since there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.*