

22 October 2014

UPDATE ON SALE OF BALKAN MINING PTY LTD

Balamara Resources Limited (“Balamara” or the “Company”) provides the following update on the sale process for its non-core base metal assets in the Balkans region, held within its 100% subsidiary company Balkan Mining Pty Ltd.

Earlier this year, Balamara announced that it had entered into an agreement to sell these assets for ~\$15 million, however the sale had not completed due to the buyer’s inability to pay the agreed price. The completion of the agreement was further delayed while the buyer attempted to secure alternative funding to fulfil its obligations.

Balamara has updated the market at regular intervals over this period while it remained confident that the buyer could secure this alternative funding.

The Company has now received written communication from the buyer that the sale will not be completed as it has not been able to secure funding to pay for Balkan Mining under the terms of this original Agreement, and hence this deal is now closed. Balamara will consider its options with regard to legal recourse for the costs incurred over this period.

Consistent with its strategy of divesting its non-core assets in order to focus on its emerging European coal portfolio, Balamara has been working on an alternative sale plan to provide another divestment option if this initial sale did not occur.

The Company is pleased to advise that it has now signed a binding offer with another unrelated party, representing a consortium of resource investors, for the sale of Balkan Mining Pty Ltd. The key terms of the agreement are:

- Binding offer, subject to following key terms and conditions:
 - \$50,000 non-refundable payment to Balamara for 30 days exclusivity, commencing 21 October 2014; and
 - Completion of final due diligence plus a Sale and Purchase Agreement (“SPA”) within that same 30-day period.
- Consideration is as follows:
 - Royalty of 2% net smelter returns (“NSR”) of all three existing operations undertaken within Balkan Mining Pty Ltd up to a maximum payment to Balamara of \$10 million; and
 - A one-off payment of \$225,000 to Balamara upon completion of the SPA.



Balamara believes that this deal is in the best interests of all shareholders as it wishes to focus all its resources ahead on the evaluation and development of its substantial portfolio of Polish coal assets.

The buyer has indicated that it plans to develop Balkan Mining Pty Ltd within a private vehicle moving forward; Balamara is confident this consortium has the capacity to invest the necessary funds and expertise to provide an opportunity for substantial returns to Balamara under the terms of the Net Smelter Royalty. This royalty will be paid upon revenues generated by any of the three existing projects within Balkan Mining and represents a strong potential cash flow ahead without Balamara taking any of the risk or providing the capital required to deliver that value.

Balamara's Managing Director, Mike Ralston, said the Company was pleased to have secured an alternative sale option representing considerable potential value within the current challenging market, enabling it to complete the divestment of its non-core base metal assets and sharpen its focus as an emerging European coal producer.

"We are obviously disappointed with the original buyer for their failure to deliver on the cash deal and the resultant exposure Balamara has carried." Mr Ralston said. "The alternative transaction we have secured has the potential to deliver substantial value of over \$10 million to the Company over time and we are confident that this deal will now be completed in the near term.

"The value proposition for Balamara moving forward lies with the significant quantity of high quality thermal and coking coal that we now control within our emerging Polish coal portfolio, and it is important that we advance the first of these Projects into production as effectively and cost-efficiently as possible.

"We have an enormous opportunity to unlock significant returns for our shareholders if we do this properly, and we do not want to lose focus by developing other assets at the same time," he added.

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