The Company Announcements Officer
Australian Securities Exchange Ltd
via electronic lodgement

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

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In this interview, Mike Ralston provides an update on Balamara Resources (ASX: BMB) (market capitalisation ~16.5 million; 357.3M shares on issue), an emerging European coal company. Highlights of this interview include:

- *Recent developments within Balamara's Mariola Thermal Coal Project, including the recent announcement of a maiden JORC resource and an agreement to move to 100% ownership of this significant asset;*
- *The planned divestment of the Company's non-core assets, including the sale of Balkan Mining Pty Ltd;*
- *The strategic outlook for the coal market and Balamara's views on why the Company is ideally positioned to take advantage of the turnaround which is widely expected from next year; and*
- *The Company's current cash position and financing options to take its first coal Project into production in 2016, including an overview of the key drivers which are likely to deliver value over the short and medium term.*

Inside Briefing: Balamara has recently announced its intention to move to 100% ownership of the advanced Mariola Thermal Coal Project in southern Poland. At the same time, a maiden JORC resource was announced for the project. Can you explain the recent progress at Mariola and your strategy to develop this project into production over the next two years?

Mike Ralston: When Balamara acquired an initial 15% cornerstone stake in Mariola in July we underlined the many attributes of this Project which make it such a compelling near-term development proposition, including size and scale, coal quality and location. We also stated that the Company would move to 100% ownership as soon as possible, subject to completing a technical review that would include delivering a maiden JORC standard resource to provide third-party verification as to the overall quality of the asset.

Both the initial JORC resource and the subsequent signed letter of intent to acquire 100% of Mariola have now been announced to ASX. We are confident that we have secured a world-class coal asset at the bottom of the resource cycle. Mariola is an advanced Project which has the potential to deliver a long and profitable mine life for Balamara.

It will likely sit at the low end of the operating cost curve by international comparisons; and, benchmarked against other similar Polish underground coal mines being operated today, we believe that it could deliver substantial profits, even at current coal prices.

In addition to this, the CAPEX for Mariola is expected to be low – which is very desirable for our first development project. Demand for thermal coal of this quality remains strong in Poland and we will certainly be looking to sell all Mariola coal locally in order to keep logistical costs down, especially as we have a thermal power station located only 2km from the Concession that has indicated a requirement to acquire coal of the quality we will be selling.

From a commercial perspective, Mariola looks highly attractive and the next step for Balamara is to deliver a Pre-Feasibility Study ("PFS") that provides third party verification. As announced last week, Balamara has mandated HDR Salva to deliver a PFS and we expect this to be completed in Q1 2015. The estimated cost for this PFS is around $150,000 and we will pay for that out of our current cash resources.

The maiden JORC resource for Mariola as announced to the ASX on 15 October 2014 delivered 77Mt* of high quality thermal coal, made up of 43.6Mt as an indicated resource and 33.5Mt in the inferred category. We believe that we can grow this considerably for minimal cost, as the Polish geological estimates show that there is considerably more coal in the Concession. However, with 44Mt already defined in the Indicated Resource category, we have a large quantity of coal that may be considered for the PFS.

Our target is to complete the PFS in Q1 2015, submit an application for a license to mine in Q2 2015, and to complete all Definitive Feasibility Studies necessary to raise project finance while we wait for the award of the license. Assuming positive outcomes for all these events, we will be looking to develop infrastructure in 2016 and commence mining from Mariola before end of that year. We are moving forward as quickly as possible at the moment towards that objective.

Mariola has therefore become our priority focus in terms of moving into production, although we will continue to develop our other two Polish coal assets, Nowa Ruda and Sawin, in parallel.

Inside Briefing: Balamara has stated its intention to divest of non-core assets and recently announced a deal to sell Balkan Mining Pty Ltd. Can you explain this deal within the context of the overall strategy and the reversal of a previously signed cash sale for this asset?

Mike Ralston: Since we embarked on a European coal strategy over 12 months ago with our first Polish asset, Balamara has consistently underlined its intention to divest its base metal assets in the Balkans region as these are considered non-core to Balamara's value proposition and require considerable cash to maintain and explore.

To put this in context, Balamara would have to spend considerably more capital to develop the Monty base metals project into production than it would the Mariola coal project, and it will take longer to achieve that outcome plus it will carry more risk. Given its smaller size and scale and lower production levels, the likely economic returns from Monty would also be considerably lower. Given our focus on developing a world-class Polish coal business, it does not make sense as a junior company to expend cash, management time or focus on advancing these base metal assets at the same time as the coal.

We therefore moved to divest Balkan Mining Pty Ltd in 2014 for the best deal possible, and we were offered a substantial cash sale early in the year – which we accepted on the basis of committed funds being available to the buyer's consortium. Since signing that deal, the buyer could not pay the proceeds as one of its funds pulled out. We accommodated the buyer to the extent that we could while the consortium attempted to find an alternative solution that would provide them with the necessary funds to complete the deal.

However, we since learned that the buyer was not able to secure necessary funding to acquire Balkan Mining Pty Ltd on the contracted terms. We therefore moved to secure the next best divestment option as quickly as possible, which provides for a smaller upfront cash payment but a valuable $10 million royalty in the future when any of the three assets move into production. This royalty would naturally survive any on-selling of the asset into perpetuity. Continuing to spend $2 million-a-year in the Balkans developing these assets does not make sense and our board therefore made the decision to take the best deal on offer and move on. We now have nearly two billion tonnes of coal within our overall inventory which has instantly elevated Balamara into a major new force in Polish coal and we want to focus all our resources on delivering that to market as soon as possible.

Inside Briefing: Coal prices are at historical lows but some analysts are predicting a recovery from as early as next year. What is your outlook for the coal market and does being located in Poland give you any advantages from a pricing and market perspective?

Mike Ralston: International coal prices have fallen substantially since their peak in 2011 to current price levels. Coking coal has moved from as high as ~$300/t to ~$110/t today and thermal coal has moved from ~$125/t to ~$75/t. These falling prices have obviously had a big impact on coal producers worldwide. The first parties to feel the pinch of any major price correction are always the highest cost producers and Australia, in general, is one of the highest cost producers of all types of coal, owing to the higher wage levels, higher power costs and longer distances to move product to market.

However, world coal demand is increasing year-on-year – particularly thermal coal, which is used for energy production. The world cannot supply enough non-fossil fuel energy to meet overall demand, and will likely not do be able to do so for a significant period into the future under almost every forecast. Nuclear energy has its own issues, mainly price and safety, and while LNG is emerging as a cleaner alternative to coal, it remains viable only for those countries that can afford to on-sell energy at higher prices or subsidize.

International demand for coal therefore remains strong, and the two largest importers of coal are China and the European Union. Balamara's three Projects are located in Poland, ideally situated to fulfil the vast local and wider EU demand, and we are targeting production at a lower cost to most competitors. Poland remains a net importer of coal and forecasts suggest it will import more coal in the future as its overall energy requirement increases. Balamara will be looking to fulfill this demand.

We are bullish on coal because the provision of energy is a necessity for every country, and more particularly because we have high quality coal in a unique strategic location and we will be targeting delivery within the lowest percentile of operating costs. Coal may not be considered a red-hot commodity today, but we believe it will be very attractive over the next few years and we are strategically positioned to take advantage of any upturn.

Inside Briefing: How much cash do you have right now and how will you fund ongoing activities and commitments for the next 12 months, plus development of your first mine into production thereafter?

Mike Ralston: We have just under $3.0 million in the Company following our major shareholder placement, announced on 19 August, and we will manage this cash carefully going forward.

We selected all three Polish coal projects because they are advanced assets with considerable historical drilling and we do not need significant further cash to develop them through to decision to mine, with most of the exploration drilling having already been completed and paid for by the Government of Poland, being the previous owners. We acquired their extensive database for a fraction of the total exploration cost and we are currently using it to develop the assets through the Pre-Feasibility Stage.

Moving forward to the end of 2015, we estimate that Mariola will cost us around US$50 million to bring into production as our first operating mine based on discussions with experts; however, this has not yet been verified, and our PFS will give us a better indication of this CAPEX when completed in early 2015. We believe that funding parties will be supportive of Mariola once we show the commercial returns available and we expect to lock in full project funding in 2H 2015 once the Definitive Feasibility Study is completed.

Our production funnel targets Mariola producing and selling coal first, and then utilizing free cash from Mariola to fund Nowa Ruda into production, with Sawin North following last of all, staggered accordingly. By managing our Projects this way we believe we will minimize dilution by bringing all three mines into production in staged approach, assuming successful feasibility studies and decisions to mine. Together, these projects could deliver substantial earnings streams that would ensure Balamara joins the ranks of significant Polish coal producers.

Inside Briefing: As you position Balamara as the next substantial European coal producer do you see further acquisitions ahead for other coal assets? How does the Togo phosphate tender fit into this strategy if you are awarded that project?

Mike Ralston: We have spent the past 12 months repositioning Balamara as an emerging force in Polish coal. As I noted earlier, we are divesting of all non-core assets we held previously in order to focus on these coal assets as we believe they are unique in the value they present for the Company going forward. As we move through feasibility stage in 2015 we believe the market will better understand and appreciate the value of Balamara's assets, particularly once we provide third party verification of commercial project returns.

We will not be actively looking to add in anything new unless it was of particular tactical value, such as another high quality coal concession immediately adjacent to one of our existing assets. Our role from here is to focus on value enhancement, and in particular to drive the Mariola Project through feasibility, licensing and into production.

The phosphate project in Togo has been a five year journey for us and we have tried every means possible to find a solution to deliver this asset into Balamara over that period, including four separate tender proposals and assembling a world-class consortium to deliver this project for Togo. The decision to award the tender ultimately has to be made by the Government of Togo and we will await their decision.

It has never been our intention to become both a phosphate and coal producer spanning two different continents, and as we further develop our coal strategy we will ultimately have to make the decision as to whether we want to remain part of a Togo tender process that has included many delays.

Inside Briefing: Thank you, Mike.

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Competent Person Requirements

* The Company confirms that it is not aware of any new information or data that would materially affect the information included in the prior announcement dated 15 October 2014, and that all material assumptions and technical parameters underpinning the estimates in the prior announcement continue to apply and have not materially changed.

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This Inside Briefing includes "forward-looking statements" as that term within the meaning of securities laws of applicable jurisdictions. Forward-looking statements involve known and unknown risks, uncertainties and other factors that are in some cases beyond Balamara's control. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this presentation, including, without limitation, those regarding Balamara's future expectations. Readers can identify forward-looking statements by terminology such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "potential," "predict," "project," "risk," "should," "will" or "would" and other similar expressions. Risks, uncertainties and other factors may cause Balamara's actual results, performance, production or achievements to differ materially from those expressed or implied by the forward-looking statements (and from past results, performance or achievements).

These factors include, but are not limited to, the failure to complete and commission the mine facilities, processing plant and related infrastructure in the time frame and within estimated costs currently planned; variations in global demand and price for gold and base metal materials; fluctuations in exchange rates between the U.S. Dollar, the Euro, other European currencies and the Australian dollar; failure to recover the resource and reserve estimates of the Project; the failure of Balamara's suppliers, service providers and partners to fulfill their obligations under construction, supply and other agreements; unforeseen geological, physical or meteorological conditions, natural disasters or cyclones; changes in the regulatory environment, industrial disputes, labour shortages, political and other factors; the inability to obtain additional financing, if required, on commercially suitable terms; and global and regional economic conditions.

Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information. 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.