BALAMARA

RESOURCES LIMITED

Annual Report
30 June 2012

CORPORATE DIRECTORY

Directors

Mike Ralston
Derek Lenartowicz
Milos Bosnjakovic
Michael Hale
Alastair Clayton

Company Secretary

Jerry Monzu

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Stock Exchange Listing

Securities of Balamara Resources Limited are listed on the Australian Securities Exchange (ASX) and the Frankfurt Stock Exchange (FSX)

ASX Code: BMB

FSX Code: A0LFVE

Web site: www.balamara.com.au

ACN: 061 219 985

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MANAGING DIRECTORS REPORT

I am pleased to present Balamara Resources Annual Report for the year ended 30 June 2012.

The financial year ended 30 June 2012 was of particular significance as the Company shifted its focus from being positioned as a small Australian-focused exploration company with only its NSW resource assets, to become a growth orientated international exploration company targeting development of multiple near-to production assets. Balamara's core strategy is to acquire quality assets at low cost with significant upside potential and to develop them quickly to a pre-production status, adding substantial value along the way. Balamara is seeking to consolidate several valuable resource assets all located near to each other in the Central European region, and all containing similar base and precious metals, with a view to rapidly building size and scale and ultimately utilizing all synergies possible to build a substantial production portfolio.

To date the Company has two projects already under this consolidation strategy (Monty Project/Montenegro and Bogdan Project/Poland) and is seeking to add other similar assets in the near term.

In late 2011 the Company completed drilling for metallurgical samples at Brskovo, the main deposit in its flagship Monty Project. These two drill holes unexpectedly returned excellent results of high-grade silver together with further high grade zinc and lead, with the most significant intersection being 5.5m (181.5m to 187m) at 507.7 g/t silver, 4.01% zinc, 2.83% lead and 0.28% copper. The metallurgical holes were drilled to provide samples to determine the optimum concentrate recovery from the zinc, lead, copper and silver at Brskovo. This recovery work is an integral part of the feasibility study and will ultimately determine the optimum plant design and other features and these samples are currently in the laboratories with results expected in early Q4 2012.

Further drilling was initiated at Brskovo in June 2012 in order to determine the extent of the silver deposit, with results expected in mid-September. It is expected that Balamara will continue to drill out Brskovo through to end 2012 in order to provide further information on this silver zone as well as move resources to reserves ready for mine planning in 2013. The Company also commenced a 3000m drilling program at Visnjica and Zuta Prla, the remaining two deposits that make up the existing 9.2mt JORC resource. This program is targeting an extension of the mineralisation, adding both tonnes and grade to the JORC resource, and also to reclassify some of the inferred resource to an indicated category.

In September 2011, the Company acquired an 85% interest in the highly prospective 'Bogdan' base metals Project in Poland. The Bogdan tenement is adjacent to one of Europe's largest copper and silver operators, KGHM Polska Miedz, a listed mining company which produced over 550,000 tonnes of copper and 40 million ounces silver in 2011. All KGHM copper-silver mining is underground and all production stems from the same feeder fault and mineralised system running through its concessions. To date, three diamond holes have been successfully drilled at Bogdan, all intersecting the mineralisation within the Kupferscheifer system, which is the same system as per the KGHM's tenements. The final hole hit a copper dominant zone and this has generated an exciting target area for Balamara to focus its next stage drilling program, which will likely commence in late 2012. The aim from this position will be to identify a significant JORC resource of copper by end of the next financial year.

The Company also continued working on the environmental impact study on its Peelwood (Australian) copper-zinc project, a necessary step required to move this forward to a decision to mine. A second phase diamond drilling program was also undertaken at the nearby Elsienora tenement in late 2011, testing for gold and zinc mineralisation at depth. This program was moderately successful and thus provides Balamara with targets for further exploration ahead, although the Company has stated that its exploration priorities lie in developing its Central European assets ahead of its Australian assets because of their more significant upside potential. Balamara will therefore be seeking a corporate solution for future development of its local Australian assets.

Consistent with the Company's strategy of targeting the acquisition of low cost and high quality assets with the potential to underpin the Company's growth as a mid-tier producer, a second tender document was submitted in January 2012 for a substantial phosphate project in Togo, West Africa. This project has all the necessary elements for a top tier international resource project, namely significant size and scale, high grade product, shallow depths for easy, low cost mining and location near to existing infrastructure and a port facility.

In April 2012 Balamara was formally advised by the Togolese Government that the Company had been placed on a short-list of bidders to become their partner for the Togo Phosphate Project and Balamara

MANAGING DIRECTORS REPORT (Continued)

expects to complete the final round tender submission and associated negotiation by the end of 2012 calendar year.

At the corporate level, Balamara made some key changes to strengthen the board. Firstly, in August 2011, Mike Ralston moved from a non-executive Director to Managing Director, with Derek Lenartowicz moving to the position of Executive Chairman. With their diverse skill set both parties complement each other's workload and this will allow Balamara to build its strategy more rapidly and successfully. Later in the year, the board appointed a second non-executive UK-based Director, Alastair Clayton. These changes were considered important with regard to Balamara's core strategy and the foundations have now been built for a strong growth phase ahead. Further information can be found on each of the directors on pages 18 to 20.

Balamara also successfully secured a strategic cornerstone Singaporean investor, who input an initial $3m into the company via two tranches in April and May 2012 for a holding of 8%. Post year-end, this same investor has committed to increase his holding to 19.9% via a commitment for $2.97m in two tranches of cash coming into the Company in October and December 2012. These funds, together with other funds as input post year-end, will be used to accelerate the exploration and development of Balamara's Central European resource assets, to bring in new assets as part of the overall consolidation strategy.

Finally, Balamara moved to change its name (from Sultan Corporation Limited) in January 2012 in order to manage socio-political considerations in the key Balkans region, and the share capital of the Company was restructured in a 1 for 10 consolidation in June 2012 in order deliver a more appealing product to a wider range of institutional investors.

In conclusion, I would like to thank all shareholders for their support in what has been a challenging year within the resources industry, and I underline your board's commitment to building Balamara into a rising star within the ranks of mid-tier mining companies.

Mike Ralston

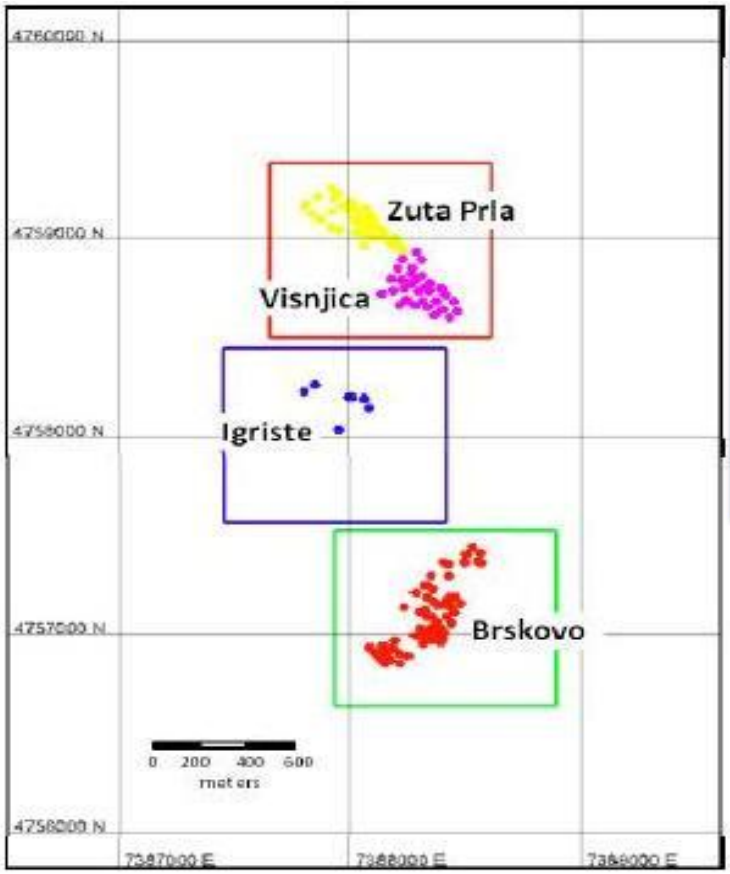
Managing Director
Balamara Resources Limited

OPERATIONS REPORT

Monty Project: zinc/lead/copper/silver project (100% owned; Montenegro)

The Monty Project is in the eastern part of Montenegro located near to the town of Mojkovac and approximately 100km from the capital city of Podgorica. Mojkovac is linked by rail and road between Podgorica and Belgrade, Serbia.

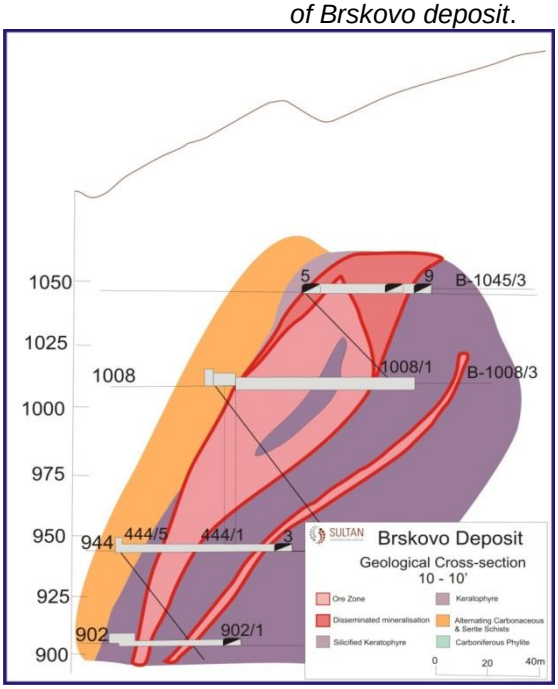
Balamara received a 25 year exploration and mining lease of the Monty Project in late 2010 on favorable acquisition terms, and has since developed a JORC defined resource. Further drilling was undertaken in 2011 for metallurgical samples, and work is progressing on the feasibility study in parallel. The Company is targeting to bring Monty into production in 2014 subject to completion of this feasibility study and funding.



The Monty Project comprises 5 deposits being Brskovo, Visnjica, Zuta Prla, Igriste and Razvrsje. Razvrsje and Igriste have little historical data and for that reason the company's primary focus for now remains with Brskovo, Visnjica and Zuta Prla.

Diagrams above: *Map of main three Montenegrin deposits held by Balamara.*

Diagram below: *Geological cross section of Brskovo deposit.*



Brskovo deposit

There are a variety of ore types and the major mineralised zones are the massive stratiform sulphides of ore body No.1 and ore body No.2. These are interpreted as being precipitations directly onto a sea floor.

Additionally there is disseminated and stockwork-disseminated mineralisation believed to be related to fault structures, while at the base of the major massive sulphides there is a variable amount of infill of fractures and fissures and these are interpreted as the feeders to the massive sulphide zones.

Some mineralisation also occurs as disseminated Pb-Zn sulphides within the matrix of detritus and tuffaceous materials. The major sulphides are pyrite, marcasite, sphalerite and galena. The minor sulphides are chalcopyrite, tetrahedrite, cinnabar and arsenopyrite. Gangue minerals are quartz and pyrite in the massive ores and sericite and chlorite in the altered rocks.

** Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

In May 2012 Balamara released results from two holes drilled in late 2011 at Brskovo.

The most significant intersection on the first hole (DH1-11) was:*

- 5.5m (181.5m to 187m) at 507.7 g/t silver, 4.01% zinc, 2.83% lead and 0.28% copper.

The intersections from this hole, which came from approximately 110m below the pit floor of the Brskovo deposit are the first silver assays generated at the project and they highlight the significant potential for silver mineralisation to boost the economics of a mining operation there.

The second hole (DH2-11) drilled along strike from the first hole also intersected high grade silver within the zinc, lead and copper, with the most significant intersections being:*

- 8m (147m to 155m) at 129.7 g/t silver, 2.45% zinc, 1.50% lead and 0.29% copper which included 3m (147m to 150m) at 337 g/t silver, 4.05% zinc, 2.74% lead and 0.61% copper; and
- 18.5m (94.5m to 113m) at 14.0 g/t silver, 4.64% zinc, 3.67% lead and 0.29% copper.

These high-grade results have prompted Balamara to initiate a further drill program in July to identify the size of the silver deposit. Results of the most significant intersections from the first 2 holes of this second drill program are summarised below:

Hole DH4-12:*

- 9m at 340.4g/t Ag, 2.43% Zn, 1.74% Pb, and 0.25% Cu from 161m, including:
  - 4m at 731.2g/t Ag, 4.58% Zn, 3.19% Pb, and 0.47% Cu from 163m
- 11m at 10.g/t Ag, 3.83% Zn, 2.86% Pb, and 0.06% Cu from 115m, including:
  - 7m at 15.7g/t Ag, 5.47% Zn, 4.05% Pb, and 0.09% Cu from 115m
- 18m at 12.5g/t Ag, 3.75% Zn, 2.71% Pb, and 0.19% Cu from 134m, including:
  - 8m at 17.6g/t Ag, 6.23% Zn, 4.25% Pb, and 0.29% Cu from 137m

Hole DH10-12:*

- 21m at 10.2g/t Ag, 3.04% Zn, 2.59% Pb, and 0.18% Cu from 109m, including:
  - 8m at 13g/t Ag, 3.81% Zn, 3.65% Pb, and 0.13% Cu from 110m, and,
  - 5m at 15.7g/t Ag, 4.49% Zn, 3.58% Pb, and 0.41% Cu from 124m

Balamara is also currently working a Feasibility Study on Brskovo which will be completed in 2013. Metallurgical test work results from the Brskovo core are expected in Q4 2012 and will determine the optimum concentrate recovery of the zinc, lead, copper and silver.

Picture: *Drilling underway at Brskovo deposit.*

***** *Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

Zuta Prla deposit

This deposit is located in the northern part of the ore field and occurs within the Middle Triassic Anisian dolomitic limestone and volcanics. There is considerable intercalation of carbonates within the volcanic material and a major part of the mineralisation is hosted by the dolomitic limestone. Unlike Brskovo a significant proportion of the ore apparently formed by replacement of carbonate by locally massive crystalline ore adjacent to fractures and fissures in the dolomitic limestone. There are also massive sulphide bodies and these are hosted by tuffaceous sediments and are interpreted as forming directly on the sea floor. These massive sulphides are variable in thickness but generally small and discontinuous and locally form fragmented zones due to post ore-deposition activity.

There are zones of stringers, short veins and stockworks that occur locally in the stratigraphic footwall and these are regarded as feeder zones to the more massive sulphide material. Ore-bearing conglomerate is a specific ore type at Zuta Prla and is formed by the accumulation of sub-rounded blocks of massive sulphide ore mixed with blocks of limestone and tuffaceous material in a matrix of limey and tuffaceous sediments.

This ore type is interpreted as having formed when primary ore blocks were mechanically disturbed and rolled down submarine slopes to mix with the limestone and tuffaceous material.

Zuta Prla contains a similar range of sulphide species to Brskovo but generally has higher concentration of sphalerite and lesser galena. All deposits in the Brskovo field have some association with mercury but this is particularly so with Zuta Prla. Locally it has high concentrations of mercury in the form of cinnabar bands.

The company expects to commence its 5-drill-hole program of 1940m in Q4 2012. This program is to both target increased tonnage and grade, and to reclassify some inferred tonnes into the indicated category.

Picture: *Photo of the Zuta Prla deposit.*

***** *Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

Visnjica deposit

Visnjica is located within 2km of Zuta Prla and is considered its south-eastern extension. Mineralisation is associated with two alkalized keratophyric strata separated by a volcano-sedimentary series of mostly sericite schists. A keratophyre is an extrusive volcanic of intermediate composition that has been extensively altered to albite.

Unlike at Zuta Prla there is no association of mineralisation with the dolomitic limestone. The upper volcanic extrusive hosts economic mineralisation whereas the lower volcanic is only sporadically mineralised. The main mineralised keratophyre strata are over 300m long, 200m down dip (essentially width) and ranges from 20 to 60m in thickness.

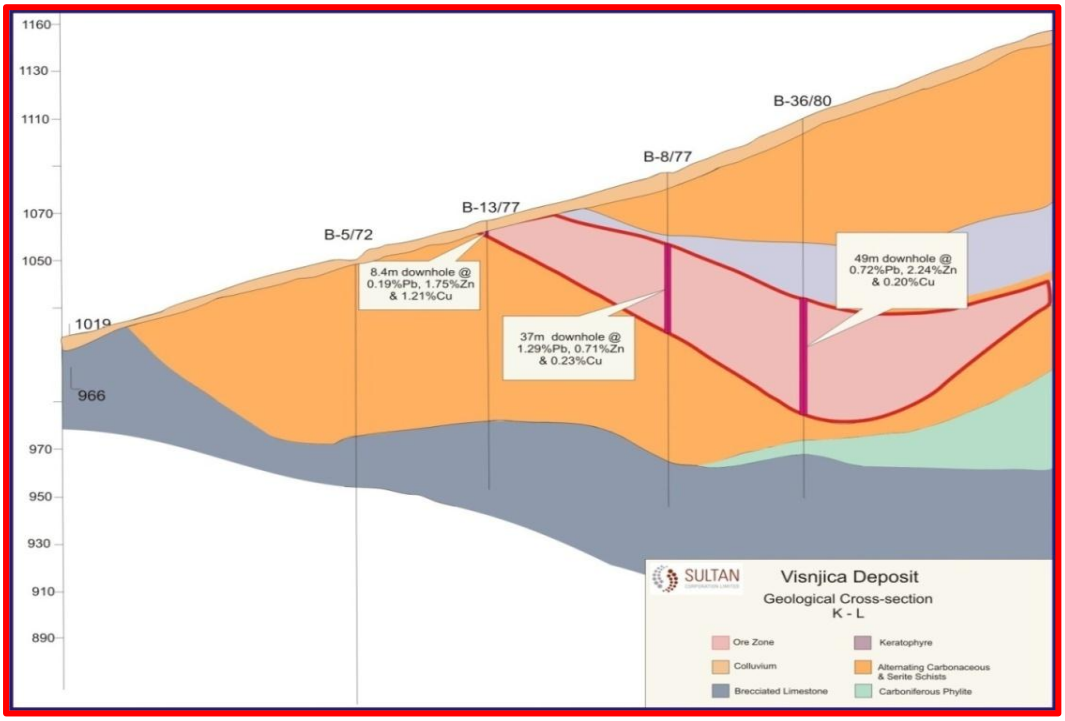


Diagram: *Visnjica deposit cross section K-L.*

In May 2012 drilling commenced for an 11 hole program totaling an estimated 1005m. The objective is to test the accuracy of previous drill holes and to extend the mineralization, as well as to reclassify some of the indicated resource to inferred. The drill rig was moved to Brskovo after the second hole due to the unexpected findings of the silver as noted above.

Picture on the left: *Chief geologist, Kevin Alexander, checking the core samples from drilling performed at the Visnjica deposit.*

Picture on the right: *Drill rig set up at the Visnjica deposit.*

****** Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

Razvrsje
This target lies within two kilometres of Zuta Prla and is considered the north-western extension. From historical information, the setting and style of the mineralisation is similar to Zuta Prla with mineralisation being hosted by both the keratophyre and the dolomitic limestone. The stratigraphic sequence consists of dolomitic limestone in the footwall overlain by a highly variable thickness of keratophyre (20m to 130m), followed by sericitic and siliceous schists and intercalated carbonate rocks in the hanging wall. The ore bodies are mostly irregular in shape and are generally concentrated near the contact between the footwall dolomitic limestone and the volcanics. The lower part of the volcanics contains a number of small irregular ore bodies within generally low grade disseminated mineralisation.

Igriste Deposit
The stratigraphic sequence is similar to Razvrsje with a lower sequence of dolomitic limestone overlain by keratophyre and volcano-sedimentary rocks. Mineralisation is located at the contact between the footwall keratophyre and the hanging wall volcaniclastics. The major mineralisation is 'stringer zone' mineralisation and consists of pipe-like mineralised bodies that are relatively low in grade. Massive sulphide occurs as relatively elongated lenses that are interbedded with cherts and tuffs. Only relatively preliminary exploration has been conducted at Igriste.

The JORC inferred resource at Monty is as follows:*

	Tonnes	Zn %	Pb %	Cu %	Cut-Off's
Brskovo	2,539,086	3.82	3.03	0.53	2% Zn or 2% Pb
Zuta Prla	4,744,869	4.06	0.11	0.30	3% Zn
Visniica	1,896,020	2.98	1.51	0.26	2% Zn
Total Weighted Average	**9,179,975**	**3.77**	**1.21**	**0.36**	

Bogdan Project: copper/zinc/lead/silver (85% owned; Poland)

Located in the Upper Silesia region of South-Western Poland, close to the town of Lubin, Bogdan is a tenement of approximately 42km^2, immediately adjacent to one of Europe's largest copper and silver mines "KGHM Polska Miedz".

The project was acquired in September 2011 via an 85% ownership in "Polmetal" a local polish company holding the Bogdan tenement. The purchase was in accordance with an investment agreement, summarised as follows:

- USD $100,000 payable upon completion of a USD $300,000 drill program. (Completed April 2012)
- USD $400,000 payable 12 months from the first payment (April 2013).
- USD $800,000 payable 36 months from the second payment (April 2016).

As these payments are at Balamara's discretion (and will only be paid upon successful development of the project), and 75% of the initial costs are to be spent on exploration, this makes Bogdan a low-entry cost asset with significant upside potential, two of the main criteria chosen by Balamara in assessing new resource projects.

Historically this area sits in a region that has produced over 20 million tonnes of copper over the past 40 years, most of it produced by KGHM. The area is defined by a large fault system that runs south-east and a vast tabular mineralised zone is associated with this fault, covering an area of some 200-300 km^2. KGHM have developed a mature, end-to-end mining and smelting operation in this region since the 1960's that has built it into one of the largest listed companies on the Warsaw Stock Exchange.

KGHM has resources reported at 1.16 billion tonnes grading 2.08% Cu and 59g/t Ag for a total of 24.1 million tonnes of copper and 63,740 tonnes of silver. KGHM produced over 550,000 tonnes of copper and over 40 million ounces of silver in 2011 for a reported operating profit of US$3.7 billion (source: KGHM website; marketing report 2011).

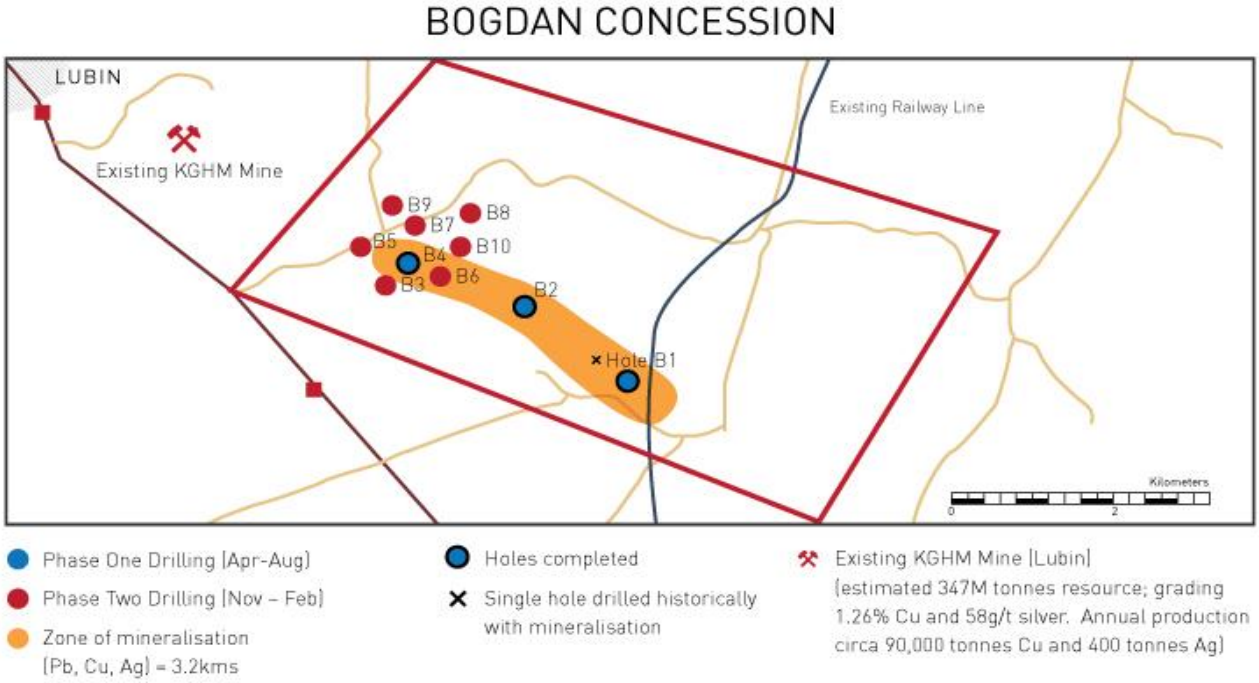
** Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

Current Status

In March 2012 Balamara commenced the maiden drilling program at its Bogdan copper exploration project. The diamond drilling program has successfully provided the first definitive test of the potential of the 42km^2 Bogdan project to host extensions of the KGHM's very large mineralised system.

Balamara has previously examined results of a single historic drill hole in the Bogdan tenement which intersected very encouraging base metal mineralisation including 2.9m at 2.7% Pb, 81g/t Ag, and 0.16% Cu from 298m beneath the upper layers of brown coal mineralisation.*



Balamara has completed its phase one drilling program comprising three diamond drill holes as outlined below. The first hole was designed to twin the single historic drill hole that intersected the very encouraging base metal mineralisation mentioned above.
Diagram: *Bogdan concession map showing schematic further 7 exploration drill holes designed for phase two, targeting a maiden JORC resource.*

The Company's focus will now be to target the copper-dominant zone around Hole B4, which may provide the foundations for a maiden JORC resource estimate for Bogdan.

Balamara's Managing Director Mike Ralston stated that "We are well aware the KGHM has isolated pods of high-grade copper in particular zones over its tenements and we will be exploring around Hole B4 to see if the copper system we have identified can develop into a higher grade system. We have only drilled three holes in this tenement to date and we believe we are getting closer to our goal with each result".

Subject to permitting and drill rig availability, the next phase of drilling will be expected to commence in late Q4 2012.

Picture: *Drill rig at Bogdan project*

***** *Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

Results

Hole B1:*

- Assay results from the first hole returned 2m at 2.39% lead (Pb), 0.42% copper (Cu) and 18.9 g/t silver (Ag) from 284 to 286m. Immediately below this intersection from 286 to 291m the sequence was also highly anomalous in copper and retuned 0.11% copper (Cu) over this 5m interval.

Hole B2:*

- Assay results for Hole B2 returned lead-copper-silver mineralisation, with and intersection of 1m at 2.05% lead (Pb), 0.28% copper (Cu) and 10.6g/t silver (Ag). Approximately 10m of disseminated Pb (lead) mineralisation and 2m of disseminated sulphide mineralisation were intersected.

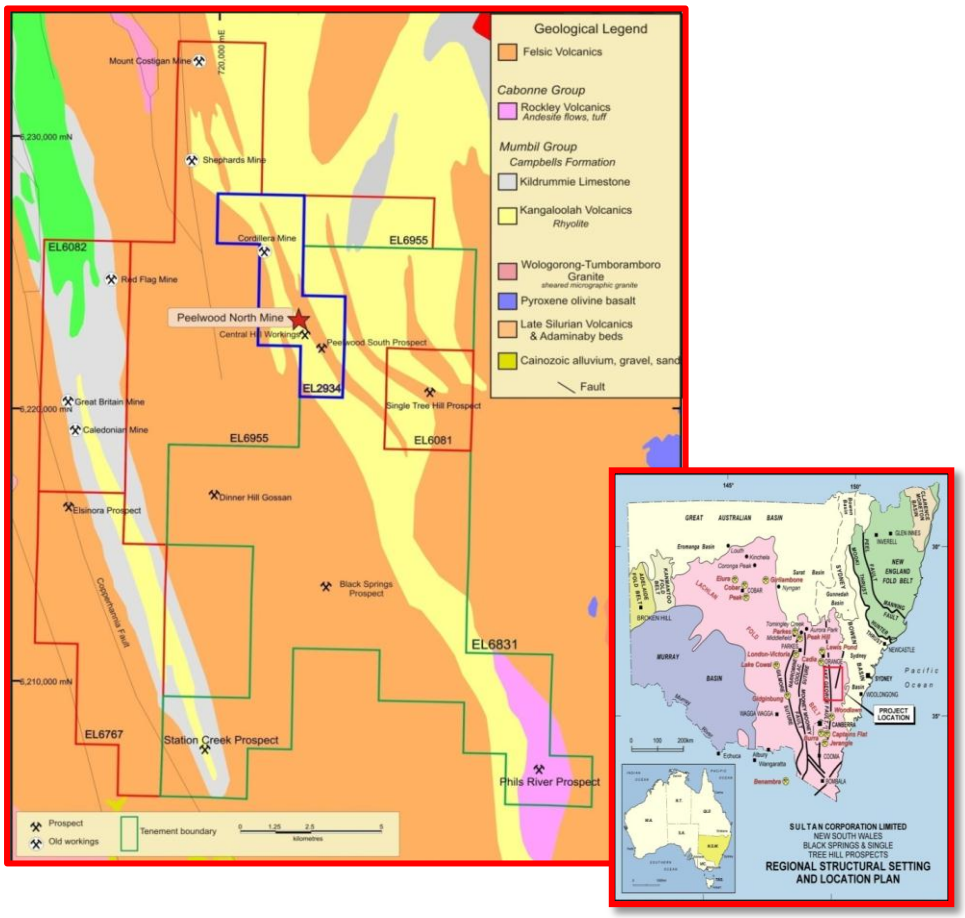
Hole B4:*

- Assay results from the third hole (Hole B4) were returned in August, revealing a more extensive copper-dominant zone and providing a priority target for follow-up drilling. In the latest hole, copper mineral species have been identified visually in core over an 8.3m interval extending from 350.5m to 358.8m below surface with 8.5 metres at 0.36% copper (Cu), 11.6 g/t silver (Ag), including 1.3 metres at 0.60% copper (Cu) and 13.5 g/t silver (Ag).

Peelwood and Elsienora Projects: copper-zinc-lead (100% owned; NSW, Australia)

Balamara Resources Limited is 100% owner of the exploration licences located in the Lachlan Fold Belt of Eastern New South Wales, Australia. The six exploration licences are: Peelwood (EL2934); Single Tree Hill (EL6081); Junction Point (EL6082); Elsienora (EL6767); Black Springs (EL6831) and Mount Costigan (EL6955).

The Peelwood Copper-Zinc project lies entirely within EL2934 50km to 80km south of the City of Bathurst in eastern New South Wales. There are several historical mines and potentially economic occurrences of zinc, copper, lead and silver. Mineralisation is volcanogenic massive sulphide in style (VMS) with the massive sulphides variably containing sphalerite, chalcopyrite, galena and pyrite.



Peelwood North and South

The Peelwood project (EL2934) consists of three mineralised zones that occur over a strike length of approximately one kilometre. The area is underlain by Late Silurian and Early Devonian sediments and volcanics of the Lachlan Fold Belt.

Diagram: *Location of Balamara's NSW tenements.*

* *Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

In 2008 Balamara announced a JORC resource as outlined below. Metallurgical test work indicates that the sulphide minerals are readily liberated at 75 micron and 106 micron, the bulk grind recoveries of zinc, copper and lead are all well in excess of 90% and generally more than 95% and finer grinding did not enhance floatation performance. McSweeney Partners Pty Ltd have designed the proposed mine and infrastructure and all aspects of the mineral processing plant. The ore planned to be mined is 360,000 tonnes at 6.10% Zn, 1.45% Cu, 0.75% Pb and 23g/t Ag based on an initial mine life of four years and a processing rate of 90,000 tonnes per annum.*

Individual Resource Updates for Peelwood North and South Prospects

Resource	Resource Category	Tonnes	Zn%	Cu%	Pb%	Ag g/t	Zinc Equiv.
Peelwood North * *(1% Zn cut-off)*	*Indicated*	*597,000*	*4.5*	*1.0*	*0.6*	*15*	*9.2*
	Inferred	*39,000*	*3.0*	*1.1*	*0.3*	*13*	*7.8*
	Total	**636,000**	**4.4**	**1.0**	**0.5**	**15**	**9.0**
Peelwood South **							
	Inferred	*259,000*	*2.82*	*0.3*	*1.28*	*17*	*5.45*
	Total	**259,000**	**2.82**	**0.3**	**1.28**	**17**	**5.45**
Combined Resource		*895,000*	*3.94*	*0.8*	*0.73*	*16*	*8.0*

* Peelwood North October 2008 Resource was estimated by Chris Black of Cube Consulting Pty Ltd
** Peelwood South Resource was estimated by Kevin Alexander of Sultan Corporation Ltd

NB: The zinc equivalence formula (Zinc equivalent % = Zn% + 4.0Cu% + 1.0Pb% + 0.01Ag g/t.) and relevant variables for calculation are outlined in the ASX announcement "Feasibility Study – Market Update" released to the market on 12th November, 2008

***Table:** JORC compliant resource at Peelwood.**

Extensive environmental surveys and studies which included flora and fauna along with heritage works have been conducted. The full development application requires the completion of a hydrological study as well as noise and dust and other surveys related to traffic movements in the local area. This environmental impact study is near completion.

Single Tree Hill

EL6081 is located approximately 70km north of Goulburn and covers the old workings of the Single Tree Hill base metals and silver project. This Exploration Licence area is underlain by Late Silurian and Early Devonian sediments and volcanics of the Lachlan Fold Belt which are part of same group of rocks that host the Peelwood deposits.

Two holes were drilled by a previous explorer into the Single Tree Hill Prospect in 2006. Significant intercepts for hole RCS2 were 10 metres of 0.13% Cu, 0.78% Pb and 1.70% Zn from 28m to 38m; 1 metre of 2.72% Zn from 42m to 43m and 1 metre of 1.28% zinc from 45m to 46m. This deposit has been interpreted as VHMS mineralisation, similar in style and located at approximately the same stratigraphic horizon as mineralisation at the nearby Peelwood Project.*

The mineralisation is stratabound but seems to have thickened in the hinge zone of the fold. Gossanous material has also been obtained in an old shallow trench and appears to be along strike and approximately 20 to 30m to the north from the intersection in RCS2. The target area does not appear to be large but mineralisation is similar to Peelwood. Follow-up mapping and drilling is required to determine the potential to obtain additional resources for the Peelwood project.

Junction Point

The Junction Point (EL6082) project is located 80km south of the town of Bathurst in eastern New South Wales. The project covers an area 57km^2, which consists of freehold and some Crown land. The area is partly underlain by the same Late Silurian volcanics as at Peelwood and is prospective for VMS base metal deposits. It is also prospective for gold deposits.

Exploration from the late 1970s onwards has been conducted intermittently and mainly concentrated on the northern extension of the Elsienora project. Significant historical drill intercepts are given in the below table.

***** *Please refer to Competent Persons Statement on page 16.*

Hole	From(m)	To(m)	Length(m)	Lead	Zinc	Silver(g/t)	Gold(g/t)
DDHJP1	48.8	49.4	0.6	1.5	4.2	35	1.8
	51.8	52.4	0.6	1.1	8.8	52	3.1
DDH 1	75.6	79.7	4.1	0.71	1.26	na	na
	81.8	83.7	1.9	3.48	7.24	36	na
	89.1	97.3	8.2	0.39	1.29	na	na
	113.4	116.7	3.3	1.41	4	15	na
DDH 2	15.6	17.1	1.5	0.56	1.8	6	na
	33	41.3	8.3	0.7	1.06	9	na
	108.7	112.8	4.1	0.56	1.48	12	na
	127.2	131.3	4.1	1	2	18	na
	108	132	24	0.22	0.54	5	0.48
DDH 4	318.5	324.6	6.1	1.37	3.73	31	0.29
	345.9	349.5	3.6	0.5	1.1	9	0.23
	357.4	360.8	3.4	0.51	1.19	9	<0.1
	394.8	396	1.2	2.57	3.4	67	1.9
DDH 5	46.7	48.3	1.6	0.64	1.34	12	3.53
	98.1	99.4	1.3	0.29	1.57	12	0.31
	102.8	105.5	2.7	0.21	1.04	15	0.31
PDH 4	70.7	75.3	4.6	0.82	2.7	18	na

Table: *Significant Drill Intercepts at Junction Point.**

Elsienora

The Elsienora Project lies mainly within EL6767 and covers an area of 37km^2. It is contiguous with and immediately to the south of EL6082 and contains the extensions of the historical Elsienora prospects. The geology consists of Ordovician sediments (volcanic and intrusive) in addition to the Late Silurian and Early Devonian sediments and volcanics of the Peelwood area.

Picture: *Drilling at Elsienora*

In mid-2011 Balamara conducted a shallow drilling program at Elsienora to determine whether gold and base metal mineralisation similar to the large-scale McPhillamy's deposit, located 50km to the north, is present on this tenement. McPhillamy's is a joint venture between Newmont and Alkane Resources and has a stated resource of 3 million ounces of gold and 60,000 tonnes of copper.

This initial programme confirmed the presence of both gold and zinc mineralisation at Elsienora and, particularly strong similarities in the structures between Elsienora and McPhillamy's. These results gave the company the confidence to continue with further exploration to focus on potential targets for resource development.

Balamara's drilling program confirmed strong geological similarities between the Elsienora prospect and McPhillamy's. This drilling combined with historical drilling has outlined a consistent zone of zinc that is 500 meters long, up to 100 meters wide, and it is open to the north and at depth.

The anomalous gold values are more restricted but occur within the zone of 0.2% Zn.

****** Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

At McPhillamy's there is a very strong vertical zonation with low-grade zinc and anomalous gold nearer the surface and higher grade gold with minimal zinc at depth. The deeper mineralization occurs from 100-200 meters vertical below the near-surface mineralization.

In late 2011 Balamara conducted a further diamond drilling program at Elsienora to follow up on this initial program and to test these structures with three diamond drill holes at depths of between 200 and 400 meters.

On 17 February 2012, Balamara announced that the deep drilling at its Elsienora Project indicated a potential for a large-scale gold system. Strongly anomalous gold and zinc results have returned in all holes from the recent deep diamond drilling program of 3 holes (1378m) at Elsienora, NSW. The drilling was designed to test for the presence of a large-scale McPhillamy's-style gold system and the results include a significant intercept of 21m @ 0.89g/t Au from 207m, including 1m @ 14.7g/t Au, 1.48% Zn and 22g/t Ag from 215m. There is also a potential high-grade gold targets which were identified for follow-up drilling.*

In conjunction with the nearby Peelwood Project, Elsienora provides the company with a package of one advanced asset together with one early exploration asset with considerable upside potential. The Company's focus however remains with the Central European projects, and it therefore will look to divest its NSW projects.

Black Springs
EL6381 is located approximately 70km northwest of Goulburn and east of the village of Peelwood in eastern New South Wales. This Exploration Licence area is underlain by Late Silurian and Early Devonian sediments and volcanics of the Lachlan Fold Belt which are part of same group of rocks that host the Peelwood deposits. The area is prospective for VMS base metal deposits similar to those at Peelwood.

The Black Springs zinc-lead prospect has been tested by 20 widely spaced diamond drill holes (refer to table below). Nine of the holes intersected significant concentrations of zinc and lead sulphide mineralisation. The best intersection was 4.0 meters of 9.6% zinc, 3.62% lead and 31g/t silver and a list of major intersections is shown below. There are five zones of ironstone gossans that outcrop over a strike length of approximately 2km. The gossans have associated geochemical and geophysical anomalies.

Hole No.	North (m)	East (m)	Bearing (°MN)	Dip (°)	From (m)	Length (m)	Zinc (%)	Lead (%)	Silver (ppm)
BSDH 1	3000	3143	39	55	47.6	2.00	1.64	0.2	
BSDH.2	2396	3358	236	50	85.09	1.13	1.86	0.08	
BSDH 3	3600	2780	66	50	24.2	3.1	1.7	0.19	
					29.9	0.7	1.5	0.27	104
BSDH 4	3502	2835	61	49	23.4	2.1	1.19	0.57	19.6
BSDH 6	2132	3376	242	50	41.7	4.8	1.41	0.56	23.3
					55.1	1.7	4.67	1.9	91.9
					60.5	0.3	4.33	1.95	114
BSDH 7	1935	3388	235	50	26	2.5	0.2	11.8	130
BSDH 8	2033	3427	244	50	68.3	1.1	1.4	0.67	20
					71.6	1.95	4.54	1.95	73.8
					88.2	1.32	1.05	0.6	24
BSDH 9	2100	3500	250	60	216.76	1.39	3.57	2.04	90
					217.8	0.35	10.1	4.1	224
BSDH 10	1950	3475	243	60	102.85	0.13	1.87	1.87	197.7
BSJ 4	2370	3238	52	70	130.2	3.64	1.28	0.56	18.4
					165.2	4.59	3.98	1.53	24
BSJ-7	2285	3150	51	65	111.2	4	9.7	3.63	29
					131.2	2	2.53	2.14	25

Table: *Historical Drill Results at Black Springs.*

***** *Please refer to Competent Persons Statement on page 16.*

OPERATIONS REPORT (Continued)

During the year, Balamara drilled one hole with significant drill results as follows; (Hole SCBS1) 4m at 0.33% Pb, 1.2% Zn and 14.6g/t Ag from 56m, 4m at 0.75% Pb, 2.75% Zn and 12.1g/t Ag from 64m, 2m at 1.65% Pb, 4.15% Zn and 31.2g/t Ag from 72m and 2m at 0.59% Pb, 1.07% Zn and 32.7g/t Ag from 84m.

Mount Costigan

Exploration Licence EL6955 is located in eastern New South Wales, approximately 78km northwest of Goulburn in the vicinity of the village of Peelwood. It lies immediately adjacent to the Peelwood licence and was originally part of the Peelwood project area. The licence area is underlain by the same Late Silurian and Early Devonian sediments and volcanics that host Peelwood and it is prospective for the same type of VMS Cu-Zn-Pb deposits. The mine at Mount Costigan was worked intermittently from 1884 to 1915 by the Mount Costigan Silver Lead Mining Company. Ore occurred within shales close to a contact with coarse tuff and was polymetallic in nature containing copper, lead, silver and zinc.

Modern exploration was predominantly for VMS style Cu-Pb-Zn-Ag deposits and was conducted by a number of companies in the period from the 1970s to the early 1990s. There has been no significant exploration since the early 1990s.

Picture: *Drilling underway at Peelwood.*

Competent Persons Statement:

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Kevin Alexander. Mr Alexander is a full time employee of Balamara Resources Limited. Mr Alexander is a member of The Australasian Institute of Mining and Metallurgy and Australian Institute of Geoscientists.

He has sufficient experience that is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to be qualified as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting on Exploration Results, Mineral resources and Ore Reserves". Mr Alexander consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

***** *Please refer to Competent Persons Statement on page 16.*

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Balamara Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

The names of the directors of the company in office during the year and until the date of this report are as follows;

Mike Ralston
Derek Lenartowicz
Milos Bosnjakovic
Michael Hale
Alastair Clayton (*Appointed 15 May 2012*)

Note: *Directors held office for the entire period unless otherwise stated.*

Principal activities

The principal activities of the group are for the exploration of base metals. During the year the Company changed its primary focus from the NSW, Australia Projects consisting of Elsienora and Peelwood, to its Central European projects in Montenegro and Poland. Drilling was undertaken at all projects throughout the year, and an environmental impact study commenced on its Peelwood project to assist in obtaining a mining license. For a detailed review of the Group's Projects, refer to the operations report commencing on page 6.

Review and results of operations

During the year, the consolidated entity:

- Completed a successful metallurgical drilling program at the Monty Project in Montenegro, to deliver samples for laboratory test work to understand the most favourable concentrate recovery of all metals. This work will be integral to plant design and therefore to the entire feasibility study and should be completed in early Q4 2012;
- Discovered high-grade silver mineralization at its Brskovo deposit within the Monty project;
- Continued drilling at Brskovo and commenced drilling at its Zuta Prla and Visnjica deposits (Project Monty) with the aim to both increase the JORC resource and to reclassify some inferred tonnes to the indicated category;
- Acquired an 85% interest in the highly prospective Bogdan base metals exploration Project in Poland, with 3 holes successfully intersecting mineralisation to date;
- Completed a phase two deep diamond drilling program at Elsienora, testing for gold and zinc mineralisation at depth;
- Continued the mine development process for the Peelwood North copper/zinc Project:
- Closed out the La Jolla Cove debt instrument;
- Secured a cornerstone investor to in May 2012, to invest $3m in the company for a holding of 8%;
- Appointed a new Managing Director, Mike Ralston, with the existing Managing Director, Derek Lenartowicz, moving to the role of Executive Chairman; and
- Appointed a new UK-based Non-Executive Director, Alastair Clayton.

The comprehensive loss for the consolidated entity attributable to members was $9,390,843 (2011: $2,970,034) with $3,810,675 of this attributable to the Balamara director/employee incentive share plan.

Significant changes in the state of affairs

No significant changes in the state of affairs of the consolidated entity occurred during the financial year.

Dividends

No dividends were paid or proposed to be paid to members during the financial year.

Matters subsequent to the end of the financial year

Subsequent to balance date:

- In late August 2012, Balamara's cornerstone investor committed to subscribe for a $2.97m placement at $0.11 to increase his holding to 19.9%. The funds will be received in two tranches, $1.1m by 4 October a further $1.87m by 4 December 2012;
- On 12 September 2012, the Company announced further positive assay results from the Brskovo deposit at its flagship Monty Project, with the most significant intersection being;
  - 9m @ 340.4g/t Ag, 2.43%Zn, 1.74% Pb, and 0.25% Cu from 161m, including:
    - *4m @ 731.2g/t Ag, 4.58%Zn, 3.19% Pb, and 0.47% Cu from 163m*

  Please refer to page 7 within the operations report, for further details on these results.

Other than the matter set out above, there has been no other matters or circumstances that has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

1. The consolidated entity's operations in future financial years, or
2. The results of those operations in future financial years, or
3. The consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Other than as described under Principal Activities and Matters Subsequent to the End of the Financial Year, the likely developments in the activities of the consolidated entity and the expected results of these operations have not been discussed in this report. Disclosure of the information would be likely to result in prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is subject to the usual environmental regulations that are applicable to mineral exploration.

Information on Directors

Mike Ralston (Managing Director)

Appointed as a Non-Executive Director on the 1 March 2011 and became the Managing Director effective from 1 August 2011.

Experience and expertise
Mr Ralston is a Chartered Management Accountant with extensive international experience. He has been directly involved in the resources sector in Australia since moving to Perth in 2004 and has been a Director and/or Chief Finance Officer for several ASX-listed resource companies in that time, including Terra Gold Resources, View Resources, Fireside Resources and most recently Kangaroo Resources. In his previous role, as Chief Financial Officer of Kangaroo Resources, Mr Ralston was an integral part of developing that business from a small shell company to a company with a market capitalisation of over $600 million within just two years, which was admitted into the ASX-300 in March 2012. He was directly involved with selling a majority position in Kangaroo Resources to a major listed Indonesian coal producer in 2011 before leaving to join Balamara.

Mr Ralston has an executive role at Balamara, with a key focus on all corporate and financial decisions. Responsibilities include delivery on strategy and objectives, marketing the Company and raising capital for Balamara.

Information on Directors (continued)

Other current Directorships of listed entities
Non-Executive Chairman of Conto Resources Limited, appointed 3 February 2011.

Former Directorships in the last three years
None

Interests in shares and options
8,200,000 ordinary shares
700,000 options to acquire ordinary shares

Derek Lenartowicz *BS Eng MSE* (Executive Chairman)

Appointed as an Executive Director on the 2nd of May 2007 and became the Executive Chairman on the 1st of August 2011.

Experience and expertise
Mr Lenartowicz is a Mining Engineer with considerable experience in developing and operating resource projects, most particularly in Australia where he has lived for the past 35 years, and in Poland, his country of birth. Most notably he was General Manager of BHP's Mt Keith Nickel Mine in Western Australia for 5 years, which is one of the largest nickel mines in Australia. In addition, he has held senior executive positions with View Resources and Syngas, both ASX listed resource companies.

Mr Lenartowicz's role at the company is to focus on strategic and technical matters, working closely with Mr Ralston. Mr Lenartowicz plays a hands-on role in the Bogdan project in Poland owing to his close ties with that country.

Other current Directorships of listed entities
None

Former Directorships in the last three years
Syngas Limited - appointed 15 January 2008 and resigned 15 September 2009.

Interests in shares and options
16,741,254 ordinary shares
700,000 options to acquire ordinary shares

Milos Bosnjakovic (Executive Director)

Appointed 2 June 2009

Experience and expertise
Mr Bosnjakovic is a lawyer by profession with strong links and network in the Balkan countries of the former Yugoslavia. He has been involved in the resources industry in Australia for over a decade and has considerable corporate experience within the industry. He has also built a successful construction business in Australia.

Mr Bosnjakovic plays a critical role in the development of the Monty Project, as well as seeking other potential acquisitions in the Balkans region for Balamara.

Other current Directorships of listed entities
None

Former Directorships in the last three years
None

Interests in shares and options
16,613,810 ordinary shares
700,000 options to acquire ordinary shares

DIRECTORS' REPORT (Continued)

Information on Directors (continued)

Michael Hale (Independent non-executive Director)

Appointed 12 April 2011

Experience and expertise
Mr Hale has a long held interest in Public Administration including service in the Cabinet Office for the State Government of Western Australia.
He has previously held elected positions with the governing bodies of the City of Perth and University of Western Australia. Mr Hale has over 35 years' experience in public administration and corporate governance, having served on various Boards and Committees.

Mr Hale plays the role of an independent Director; however he also plays a role within the tender process for the Togo Phosphate Project.

Other current Directorships of listed entities
None

Former Directorships in the last three years
None

Interests in shares and options
2,500,000 ordinary shares

Alastair Clayton (Independent non-executive Director)

Appointed 15 May 2012

Experience and expertise
Mr Clayton has a wealth of experience in the resources sector, having held senior executive and board positions with a wide range of successful resources companies over a 16-year career. He has been involved in the financing of several large-scale mining projects, as well as the recent sale of the Namibian-focused uranium company Extract Resources Ltd (ASX: EXT), of which he was a Director, to Taurus, a wholly-owned subsidiary of China Guangdong Nuclear Power Company.

Mr Clayton is a qualified geologist and mining executive with extensive corporate experience at all levels, and he is based in London. Mr Clayton also plays the role of an independent Director, and assists with marketing the company in Europe and the United Kingdom.

Other current Directorships of listed entities
Uranex Limited – Non-Executive Director

Former Directorships in the last three years
Mr Clayton has previously been a Non-Executive Director of Bannerman Resources Ltd, Templar Resources PLC and Extract Resources Ltd.

Interests in shares and options
Nil

Company Secretary

Mr Jerry Monzu has over 20 years' experience in publicly listed multinational corporations, predominantly in the resources and mining sectors. He has previously held senior management positions in companies such as Woodside Energy and Normandy Mining.

Mr Monzu graduated with a Bachelor of Business (Accounting and Finance) from Curtin University and is a qualified member of CPA Australia and Chartered Secretaries Australia.

Meetings of Directors

The numbers of meetings of the company's board of directors held during the year ended 30 June 2012, and the numbers of meetings attended by each director were as follows:

Director	Number of Meetings	
	Eligible to attend	Attended
Mike Ralston	3	3
Derek Lenartowicz	3	3
Milos Bosnjakovic	3	2
Michael Hale	3	3
Alastair Clayton	1	1

Other matters of board business have been resolved via circular resolutions of the directors, which are a record of decisions made at a number of informal meetings of the directors held to control, implement and monitor the company's activities throughout the year.

Remuneration report (audited)

The directors are pleased to present your company's 2012 remuneration report which sets out remuneration information for Balamara Resources Limited's non-executive directors, executive directors and other key management personnel.

Directors and key management personnel disclosed in this report:

Name	Position
Non-executive and executive directors:	
Mike Ralston	Managing Director
Derek Lenartowicz	Executive Chairman
Milos Bosnjakovic	Executive Director
Michael Hale	Independent Non-Executive Director
Alastair Clayton	Independent Non-Executive Director
Other key management personnel:	
Kevin Alexander	Chief Geologist

The Remuneration Report is set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Details of remuneration
3. Service agreements
4. Share-based compensation

1 Principles used to determine the nature and amount of remuneration

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward.

In considering the group's performance and benefits for shareholder wealth, the board takes regard of the following indices in respect of the current and previous four financial years.

	2012	***2011***	***2010***	***2009***	***2008***
Net profit/(loss)	($9,373,634)	($2,945,263)	($1,895,261)	($1,836,288)	($5,772,906)
Working capital	$1,865,127	$4,761,530	$492,458	$831,203	$1,701,778
Closing share price	$0.155	$0.17	$0.09	$0.05	$0.23
$ Change in share price	($0.015)	$0.08	$0.04	($0.18)	($0.25)
% Change in share price	(9%)	89%	80%	(78%)	(48%)

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

(i) Competitiveness and reasonableness;
(ii) Acceptability to shareholders;
(iii) Performance linkage / alignment of executive compensation;
(iv) Transparency; and
(v) Capital management.

The company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' wealth:

(i) Focuses on sustained growth in shareholder wealth; and
(i) Attracts and retains high caliber executives.

Alignment to program participants' interests:

(i) Rewards capability and experience; and
(ii) Provides a clear structure for earning rewards.

Executive director and key management personnel
Fees and payments to executives reflect the demands which are made on them and their responsibilities. The executives' remuneration is reviewed annually by the board to ensure that executives' fees and salaries are appropriate and in line with the market. On 26 August 2011, shareholders approved the Balamara share plan, whereby shares have been issued to executives via a non-recourse loan. This issue is to incentivise the executives, refer to Section 4 *Share-based compensation* for further details.

Non-executive directors
Fees to non-executive directors are determined by the board and reviewed annually as appropriate and in-line with market expectations. There is no remuneration based on the financial performance of the company and consolidated entity. Mr Hale received shares under the Balamara share plan in June 2012 as an incentive; refer to Section 4 *Share-based compensation* for further details. The amount of any fees payable to non-executive directors shall be determined by the directors provided that they shall not in any year exceed an aggregate amount of $300,000 as approved by Shareholders of the company on 17 November 2011.

Retirement allowances and benefits for directors
There have been no retirement or termination allowances, profit sharing, bonuses, or other performance related remuneration or benefits paid to directors during the financial year. The Company currently does not have any of these schemes in place.

2 Details of remuneration

The relevant proportions of remuneration that are linked to performance are those as follows;

Name	Fixed remuneration		At risk - STI		At Risk - LTI	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*
Directors of Balamara Resources Limited						
Mike Ralston	22%	6%	-	-	78%	94%
Derek Lenartowicz	16%	59%	-	-	84%	41%
Milos Bosnjakovic	17%	56%	-	-	83%	44%
Michael Hale	22%	100%	-	-	78%	-
Alastair Clayton	100%	n/a	-	n/a	-	n/a
Other key management personnel of the group						
Kevin Alexander	52%	70%	-	-	48%	30%

The long term incentives are provided exclusively by way of options, or shares under the Balamara Share Plan. The percentages disclosed are based on the amount expensed during each period using the Black-Scholes option pricing model.

2 Details of remuneration (continued)

The following table shows details of the remuneration received by the directors and the key management personnel of the group for the current financial year.

For the year ended 30 June 2012

	Short-term employment benefits				Post-employment benefits - Superannuation	Termination benefits	Share based payments ***	Total
	Salary & fees $	Bonuses $	Non-monetary benefits $	Total $	$	$	$	$
Executive Directors								
Mike Ralston (i)	231,667	-	-	231,667	20,850	-	886,726	1,139,243
Derek Lenartowicz (ii)	232,150	-	-	232,150	-	-	1,182,302	1,414,452
Milos Bosnjakovic (iii)	234,134	-	-	234,134	-	-	1,182,302	1,416,436
Non-Executive Directors								
Michael Hale (iv)	94,373	-	-	94,373	-	-	335,962	430,335
Alastair Clayton (v)	6,996	-	-	6,996	-	-	-	6,996
Other KMP								
Kevin Alexander	175,000	-	-	175,000	15,750	-	177,345	368,095
Totals	**974,320**	**-**	**-**	**974,320**	**36,600**	**-**	**3,764,637**	**4,775,557**

(i) Includes fees as a Non-Executive Director from 1 July 2011 to 1 August 2011.
(ii) These fees were paid to Voitek Pty Ltd, an entity associated with Mr. Lenartowicz.
(iii) These fees were paid to MBL Construction Pty Ltd, an entity associated with Mr. Bosnjakovic.
(iv) This amount also includes consulting fees paid to Mr. Hale for other professional services during the year amounting to $48,933.
(v) Appointed 15 May 2012.

*** These Share-based payments relate to shares issued to directors and employees under the Balamara Director/Employee Share Plan. As these loans have not been repaid to date, an expense is recorded using the Black-Scholes option pricing model. Please refer to section 4 for further details.

2 Details of remuneration (continued)

The following table shows details of the remuneration received by the directors and the key management personnel of the group for the previous financial year.

For the year ended 30 June 2011

	Short-term employment benefits				Post-employment benefits - Superannuation	Termination benefits	Share based payments - Options	Total
	Salary & fees $	Bonuses $	Non-monetary benefits $	Total $	$	$	$	$
Executive Directors								
Derek Lenartowicz (i)	226,200	-	-	226,200	-	-	159,767	385,967
Milos Bosnjakovic	191,150	-	-	191,150	16,200	-	159,767	367,117
Non-Executive Directors								
(Jimmy) Kong Leng Lee (ii)	15,000	-	-	15,000	-	-	-	15,000
Mike Ralston (iii)	10,000	-	-	10,000	900	-	159,767	170,667
Michael Hale (iv)	28,583	-	-	28,583	-	-	-	28,583
Other KMP								
Kevin Alexander	150,000	-	-	150,000	13,500	-	68,472	231,972
Totals	**620,933**	**-**	**-**	**620,933**	**30,600**	**-**	**547,773**	**1,214,306**

(i) Voitek Pty Ltd, an entity associated with Derek Lenartowicz, was paid $226,200 for executive director's fees.
(ii) *Resigned 1 March 2011* - M8 Holdings Pty Ltd, an entity associated with (Jimmy) Kong Leng Lee, was paid $15,000 for director's fees.
(iii) *Appointed 1 March 2011*, and promoted to Managing Director on 1 August 2011.
(iv) *Appointed 12 April 2011.*
(v) *Resigned 14 October 2010.*

3 Service agreements

On appointment to the board, all non-executive directors enter into a service agreement with the company in form of a letter of appointment. The letter summarises the board policies and terms, including remuneration. A summary of each non-executive directors terms can be found in the below table, among all other executives;

Name	Term of Engagement	Base Salary*	Termination benefit^	Other
Mike Ralston, *Managing Director*	On-going commencing 1 August 2011	$272,500**	12 months base salary	-
Derek Lenartowicz, *Executive Chairman*	On-going commencing 30 March 2012	$250,000	12 months base salary	-
Milos Bosnjakovic, *Executive Director*	On-going commencing 30 March 2012	$250,000	12 months base salary	-
Michael Hale, *Non-Executive Director*	On-going commencing 1 May 2012	$3,000 per month	n/a	-
Michael Hale, Consultant fees	8 months commencing 1 May 2012	$5,000 per month	1 month base salary	-
Alastair Clayton, Non-Executive Director	On-going commencing 15 May 2012	GBP3,000 per month	n/a	1.25m share options+
Kevin Alexander	On-going commencing 24 July 2007	$190,750	1 month base salary	-

* Base salaries are based on agreements as at 30 June 2012, and include statutory superannuation where applicable.

** According to Mr Ralston's agreement, he was entitled to an increase of $50,000 at the earliest of six months or the date the Executive Chairman moved to a non-executive position. Per this, his salary would have increased to $300,000 on 1 February 2012; however Mr Ralston has not accepted this pay increase.

^ Termination benefits are based on termination by the company without reason.

\+ Includes 500,000 with an exercise price of $0.30 and 750,000 with an exercise price of $0.40, both with an expiry of 3 years from date of issue. These options are subject to shareholder approval, and therefore have not been issued as yet.

4 Share-based compensation

On 26 August 2011, shareholders approved both the Balamara Director Share Plan, and the Balamara Employee Share Plan. A summary of the terms and conditions of the share plan are as follows;

- Employee/Director to receive an interest-free, non-recourse loan for the amount of shares offered by the Company,
- Shares are to be issued at lower of $0.22 or 20% discount to 5day VWAP prior to issue date,
- Repayment of the loan can be made at any time during the 4 year term,
- Shares cannot be traded until the loan is fully repaid.

As the loan is non-recourse, they will be accounted for in accordance with AASB 2 as share-based payments, and calculated using the Black-Scholes option pricing model.

During the period, the following amount of shares were issued to key management personnel under the scheme;

Name	Grant Date	No Issued at grant date	No of options vested	Value at grant date	Amount vested	Expiry date
Mike Ralston	26/08/11	7,500,000	7,500,000	$886,727	100%	26/08/15
Derek Lenartowicz	26/08/11	10,000,000	10,000,000	$1,182,302	100%	26/08/15
Milos Bosnjakovic	26/08/11	10,000,000	10,000,000	$1,182,302	100%	26/08/15
Michael Hale	22/06/12	2,500,000	2,500,000	$335,962	100%	22/06/16
Kevin Alexander	26/08/11	1,500,000	1,500,000	$177,345	100%	26/08/15

4 Share-based compensation (Continued)

During the year, there have been:

- No modifications to share-based payments;
- No options exercised by key management personnel; or
- No options lapsing due to service conditions not being met.

For further details, including the inputs to the calculation of these share-based payments, refer to note 16.

Share options
During the prior year, the following incentive options were issued to key management personnel as remuneration:

Name:	Grant date	No Issued at grant date	No of options vested	Value at grant date	Amount vested	Expiry date
Milos Bosnjakovic	19/05/11	700,000	700,000	159,767	100%	19/05/14
Mike Ralston	19/05/11	700,000	700,000	159,767	100%	19/05/14
Derek Lenartowicz	19/05/11	700,000	700,000	159,767	100%	19/05/14
Kevin Alexander	19/05/11	300,000	300,000	68,472	100%	19/05/14

At 30 June 2012, these options remain vested and exercisable. None of these options were exercised during the period. There have been no share options exercised during the period by key management personnel.

The consolidated entity does not have a policy on executives and directors hedging equity remuneration received.

(End of audited remuneration report)

Additional information

(a) Shares under option

At 30 June 2012 there were 4,900,000 ordinary shares under option (2011: 3,400,000) made up of:

- 2,400,000 options with an exercise price of 30 cents expiring 19 May 2014, and
- 2,500,000 options with an exercise price of 25 cents expiring 9 May 2014

(b) Insurance of officers

During the financial year the Company paid a premium of $20,675 (2011: $17,623) to insure the directors and officers of the company. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

(c) Agreement to indemnify officers

The Company has entered into agreements to provide access to company records and to indemnify the directors of the company. The indemnity relates to any liability:

1. As a result of being, or acting in their capacity as, an officer of the company to the maximum extent permitted by law; and

2. for legal costs incurred in successfully defending civil or criminal proceedings.

No liability has arisen under these indemnities as at the date of this report.

(d) Proceedings on behalf of the Company

No person has applied to the court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under Section 237 of the *Corporations Act 2001*.

(e) Auditor

BDO Audit (WA) Pty Ltd is the appointed auditor of the Company, approved at the Annual General Meeting on 17 November 2011, and remains in office in accordance with Section 327 of the *Corporations Act 2001.* The auditor has not been indemnified under any circumstance.

(f) Non-audit services

During the year the group paid $110,813 (2011: nil) to a related entity of the auditor for non-audit services provided as outlined in note 18 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

(g) Auditors' independence declaration

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 28 of the annual report.

Signed in accordance with a resolution of the directors,
On behalf of the directors

Mike Ralston

Managing Director
SUBIACO, 17 September 2012

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Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

17 September 2012

Balamara Resources Limited
The Board of Directors
Level 1, 350 Hay Street
SUBIACO, WA 6008

Dear Sirs,

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF BALAMARA RESOURCES LIMITED

As lead auditor of Balamara Resources Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Balamara Resources Limited and the entities it controlled during the period.

BRAD MCVEIGH
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CORPORATE GOVERNANCE STATEMENT

Balamara Resources Limited and the board of directors ("The Board") are committed to achieving and demonstrating the highest standards of corporate governance.

The directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed.

Day to day management of the company's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the board. These are reviewed on an annual basis.

Compliance with the corporate governance council recommendations

The Board endorses the ASX Corporate Governance Council's - Corporate Governance Principles and Recommendations, and has adopted corporate governance charters and policies reflecting those recommendations to the extent appropriate having regard to the size and circumstances of the company. Where the company has not adhered to the policies set out in its board charter for corporate governance it has stated that fact in this statement.

The corporate governance charters and policies adopted by the Board are available from the company's registered office and website www.balamara.com.au. In accordance with the recommendations of the ASX, information published on the company's website includes charters (for the board and its sub-committees(if in existence)), codes of conduct and other policies and procedures relating to the board and its responsibilities.

Major corporate governance practices

A description of the company's current corporate governance practices is set out below.

The Board of Directors

The Board operates in accordance with the broad principles set out in its charter. The charter details the board's composition and responsibilities.

Composition

The Board's composition changed during the year. Consistent with the size of the company and its activities, the board currently comprises five (5) directors, two (2) of which, Mr Michael Hale and Mr Alastair Clayton , the Company considers meets the criteria set by the Corporate Governance Council to be considered to be independent directors. The Board's policy is that the majority of directors shall be independent, non-executive directors. Due to the size of the company and the stage of the company's development, the board does not consider it can justify the appointment of more independent non-executive directors, and therefore, the composition of the board does not currently conform to its policy and the best practice recommendations of the ASX Corporate Governance Council.

Details of the members of the board, their experience, expertise, qualifications, term of office and status are set out in the Directors' Report under the heading "Information on Directors".

Mr Lenartowicz is the Executive Chairman of the Company and Mr Ralston is the Managing Director.

Board responsibilities

The responsibilities of the Board include:

(i) Providing strategic guidance to the company including contributing to the development of and approving the corporate strategy;
(ii) Reviewing and approving business plans and financial plans including available resources and major capital expenditure initiatives;
(iii) Overseeing and monitoring organisational performance and the achievement of the company's strategic goals and objectives;
(iv) Compliance with the company's code of conduct;
(v) Progressing major capital works and other significant corporate projects including any acquisitions or divestments;

Board responsibilities (continued)

(vi) Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors;
(vii) Appointment, performance assessment and, if necessary, removal of the directors;
(viii) Ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the chief financial officer and the company secretary;
(ix) Ensuring there are effective management processes in place and approving major corporate initiatives;
(x) Enhancing and protecting the reputation of the organisation; and
(xi) Overseeing the operation of the company's system for compliance and risk management reporting to shareholders.

Commitment

The number of meetings of the board of directors held during the year ended 30 June 2012, and the number of meetings attended by each director is disclosed in the Directors' Report under the heading "Meetings of Directors'".

Independent professional advice

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense.

Performance assessment – the Board and Senior Executives

The corporate governance policy provides that the board undertake an annual self-assessment of its collective and individual performance and formal evaluations of senior executives. The annual board assessment was carried out informally by the board, no formal assessments of senior executives were carried out during the year, however individual feedback was provided to all employees on their performance.

Remuneration

The remuneration report outlines the director remuneration arrangements of the company in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*. It also provides the remuneration disclosure required by AASB124 Related Party Disclosures.

The Company currently has three executive directors and two non-executive directors that are remunerated at market rates for comparable companies for the time, commitment and responsibilities.

The Board determines the remuneration paid to directors having regard to market practices and the size and nature of the company and its operations, subject to the maximum aggregate remuneration approved by the shareholders at a general meeting.

All directors received a fixed fee including an amount equivalent to a superannuation contribution. Incentive options were issued to directors during the period, for services rendered, refer remuneration report for further details.

Trading in the company's shares

The company has established a policy concerning trading in securities by directors, senior executives and employees and has lodged this with the ASX. In summary, no directors, senior executives and employees may trade in the company's securities at any time when they are in possession of unpublished price sensitive information in relation to those securities. The security trading policy also provides details for closed periods in which trading is not permitted (subject to certain specific exceptions).

As required by the ASX Listing Rules, the company is to notify the ASX of any transaction conducted by any director in the listed securities of the company.

CORPORATE GOVERNANCE STATEMENT (Continued)

Corporate reporting

The managing director and the financial controller have made the following certifications as to the Financial Report for the reporting period ended 30 June 2012:

(i) that the Company's consolidated financial report is complete and presents a true and fair view, in all material respects, of the financial condition and operational results of the group; and

(ii) That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that system is operating efficiently and effectively in all material respects.

Board committees

The Board's charter calls for the establishment of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. As at the date of this report, no committees have been established as the structure of the board, the size of the company and the scale of its activities allows all directors to participate fully in all decision making. When the circumstances require it, an audit committee, nomination committee, risk management committee and remuneration committee will be established and each committee will have its own charter approved by the board that will set the standards for the operation of the committees.

External auditors

The company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and if deemed appropriate having regards to the assessment of performance, existing value and costs , applications for tender of external audit services can be requested,

It is the policy of BDO Audit (WA) Pty Ltd to:

1. rotate audit engagement partners on listed companies at least every five years; and
2. Provide an annual declaration of their independence to the company.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in note 18 to the financial statements.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

Risk assessment and management

The company risk management policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the company's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the code of conduct is required at all times and the board actively promotes a culture of quality and integrity.

The company's risk management policy and the operation of the risk management and compliance system are managed by the board. Control procedures cover management accounting, financial reporting, project appraisal, compliance and other risk management issues.

The company's current activities expose it to minimal risk. However, as activities increase there may be exposure to market, credit, and liquidity risks. The company currently has currency risk as it has advanced monies to its Polish and Montenegrin subsidiaries to meet administrative expenses and obligations of the subsidiary settled in Polish Zloty and Euro.

There is further commentary on financial risk management in note 2 of the financial statements.

Code of conduct

The company has developed a statement of values and a code of conduct which has been fully endorsed by the board and applies to all directors and any employees if and when they are engaged. The code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the company's integrity.

In summary, the code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The directors are satisfied that the company has complied with its policies on ethical standards, including trading in securities.

Diversity policy

The Company and all its related bodies corporate have established a gender diversity policy as part of the overall corporate governance plan.

The Company recognises the benefits arising from employee and board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent.

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

To the extent practicable, the Company will address the recommendations and guidance provided in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

The diversity policy does not form part of an employee's contract of employment with the Company, nor gives rise to contractual obligations. However, to the extent that the diversity policy requires an employee to do or refrain from doing something and at all times subject to legal obligations, the diversity policy forms a direction of the Company with which an employee is expected to comply.

Objectives

The diversity policy provides a framework for the Company to achieve:

- A diverse and skilled workforce, leading to continuous improvement in service delivery and achievement of corporate goals;
- A workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- Improved employment and career development opportunities for women;
- A work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workforce diversity and successful management of diversity; and
- Awareness in all staff of their rights and responsibilities with regards to fairness and respect for all aspects of diversity.

The diversity policy does not impose on the company, its directors, officers, agents or employees any obligation to engage in, or justification for engaging in, any conduct which is illegal or contrary to any anti-discrimination or equal employment opportunity legislation or laws in any State or Territory of Australia or of any foreign jurisdiction.

Responsibilities

The Board's commitment
The Board is committed to workplace diversity, with a particular focus on supporting the representation of women at the senior level of the Company and on the Board.

Diversity policy (continued)

The Board is responsible for developing measurable objectives and strategies to meet the objectives of the diversity policy (***Measurable Objectives***) and monitoring the progress of the measurable objectives through the monitoring, evaluation and reporting mechanisms listed below.

The Board may also set Measurable Objectives for achieving gender diversity and monitor their achievement.

The Board will conduct all Board appointment processes in a manner that promotes gender diversity, including establishing a structured approach for identifying a pool of candidates, using external experts where necessary.

Strategies

The Company's diversity strategies include:

- Recruiting from a diverse pool of candidates for all positions, including senior management and the Board;
- Reviewing succession plans to ensure an appropriate focus on diversity;
- Identifying specific factors to take account of in recruitment and selection processes to encourage diversity;
- Developing programs to develop a broader pool of skilled and experienced senior management and Board candidates, including, workplace development programs, mentoring programs and targeted training and development;
- Developing a culture which takes account of domestic responsibilities of employees; and
- Any other strategies the Board develops from time to time.

Monitoring and evaluation

The Chairman will monitor the scope and currency of this policy.

The Company is responsible for implementing, monitoring and reporting on the Measurable Objectives.

Measurable Objectives if set by the Board will be included in the annual key performance indicators for the Chief Executive Officer / Managing Director and senior executives.

In addition, the Board will review progress against the objectives (if set) as a key performance indicator in its annual performance assessment.

Reporting

The Board may include in the annual report each year:

- The measurable objectives, if any, set by the board;
- Progress against the objectives; and
- The proportion of women employees in the whole organisation, at both a senior management level and board level.

Continuous disclosure and shareholder communication

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the company that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings.

CORPORATE GOVERNANCE STATEMENT (Continued)

Continuous disclosure and shareholder communication (continued)

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Shareholders that have made an election receive a copy of the company's annual report by mail. Otherwise, the Annual Report is available on the company's website.

Non-compliance with ASX principles and recommendations

The company has not complied with the following ASX principles and recommendations:

Recommendation Ref	Notification of departure	Explanation for departure
1.3 2.6	Performance Evaluations	Formal evaluations of the Board, committees and executives did not occur during the year as set out above.
2.1	A majority of the board should be independent directors.	As stated above, the majority of the board was not independent. The Board considered that given the size and activities of the company, the current board was a cost effective and practical way of directing and managing the company. Although the board is not considered "Independent", Directors still exercise independence in decision making on behalf of the company
2.2 2.3	The chair should be an independent director. The roles of chair and chief executive officer should not be exercised by the same individual.	The Company does have an Executive Chairman and has appointed a Managing Director. It is the Board's view that the size and complexity of the company does not warrant the appointment of an independent chairman at this point in time. This position will be reviewed as the company development matures.
2.4	The Board should establish a nomination committee.	Currently, the company has decided not to have a nomination committee given its size and scope. The Board, as a whole, serves to identify, appoint and review board membership through an informal assessment process and in consultation with the company's external professional advisors.
4.1 4.2 4.3	The Board should establish an audit committee. The audit committee should be structured so that it: (a) Consists only of non-executive directors (b) Consists of a majority of independent directors (c) Is chaired by an independent chair, who is not chair of the board; and (d) Has at least three members. The audit committee should have a formal charter	The directors do not consider the company's affairs are of such a size and complexity as to merit the establishment of a separate audit committee. Until this situation changes the full board will carry out any necessary audit committee functions.

CORPORATE GOVERNANCE STATEMENT (Continued)

Recommendation Ref	Notification of departure	Explanation for departure
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risk.	The company has two senior managers that work closely with the managing director on a daily basis and monitor material business risks. The Board also reviews business risks on a regular basis at board meetings and may call upon the use of consultants with the requisite experience and qualifications to advise on business risks and mitigation strategies.
8.1	The Board should establish a remuneration committee	The directors do not consider the company's affairs are of such a size and complexity as to merit the establishment of a separate remuneration committee. Until this situation changes the full board will carry out any necessary remuneration committee functions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

	Note	2012 $	2011 $
Interest revenue		169,215	32,306
Other income	6	-	125,000
Foreign exchange gain		828	37,353
		170,043	194,659
Consultancy costs		(316,435)	(322,617)
Director & employee costs		(592,031)	(781,514)
Share-based payments	16	(3,810,675)	(578,350)
Other corporate expenses	7	(906,010)	(613,129)
Professional services		(591,431)	(93,272)
Interest expense		(2,424)	(33,354)
Exploration costs expensed as incurred	12	(2,974,045)	(717,686)
Convertible note settlement costs	14	(350,626)	-
Loss before income tax expense		(9,373,634)	(2,945,263)
Income tax expense	5	-	-
Net Loss for the year		**(9,373,634)**	**(2,945,263)**
Other comprehensive income/(losses) for the year:			
Foreign currency translation reserve		(79,017)	(24,771)
Total comprehensive loss for the year		**(9,452,651)**	**(2,970,034)**
Net loss is attributable to:			
Owners of Balamara Resources Limited		(9,314,299)	2,945,263
Non-controlling interests		(59,335)	-
		(9,373,634)	***(2,945,263)***
Total comprehensive loss is attributable to:			
Owners of Balamara Resources Limited		(9,390,843)	(2,970,034)
Non-controlling interests		(61,808)	-
		(9,452,651)	***(2,970,034)***
Basic and diluted loss per share from continuing operations attributable to the ordinary equity holders of the Company (cents per share):	22	(5.39)	(2.75)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 30 June 2012

	Note	2012 $	2011 $
Current assets			
Cash and cash equivalents	8	1,942,835	5,310,278
Trade and other receivables	9	204,271	122,715
Other assets	10	130,895	46,294
Total current assets		**2,278,001**	**5,479,287**
Non-current assets			
Other assets	10	313,178	356,383
Plant and equipment	11	48,145	22,884
Exploration and evaluation assets	12	3,333,836	3,237,240
Total non-current assets		**3,695,159**	**3,616,507**
Total assets		**5,973,160**	**9,095,794**
Current liabilities			
Trade and other payables	13	412,874	327,671
Borrowings	14	-	390,086
Total current liabilities		**412,874**	**717,757**
Total liabilities		**412,874**	**717,757**
Net assets		***5,560,286***	***8,378,037***
Equity			
Issued capital	15	49,763,911	46,877,911
Reserves	16	4,257,133	594,023
Accumulated losses		(48,408,793)	(39,093,897)
Capital and reserves attributable to owners of Balamara Resources Limited		**5,612,251**	**8,378,037**
Non-controlling interests	24	(51,965)	-
Total equity		***5,560,286***	***8,378,037***

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Issued capital	Convertible note reserve	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interest	Total equity
	$	$	$	$	$	$	$	$
Balance at 1 July 2011	46,877,911	40,444	578,350	(24,771)	(39,093,897)	8,378,037	-	8,378,037
Comprehensive income for the year								
Loss for the year	-	-	-	-	(9,314,299)	(9,314,299)	(59,335)	(9,373,634)
Foreign Currency Translation	-	-	-	(76,544)	-	(76,544)	(2,473)	(79,017)
Total comprehensive income for the year	-	-	-	(76,544)	(9,314,299)	(9,390,843)	(61,808)	(9,452,651)
Transactions with owners in their capacity as owners:								
Share based payments	56,000	-	3,810,675	-	-	3,866,675	-	3,866,675
Issue of shares, net of transaction costs	2,730,000	-	-	-	-	2,730,000	-	2,730,000
Termination of convertible loan note with La Jolla	-	(40,444)	-	-	-	(40,444)	-	(40,444)
Retained earnings and NCI on acquisition of subsidiary	-	-	-	-	(31,174)	(31,174)	9,843	(21,331)
Options exercised during the period	100,000	-	(30,577)	-	30,577	100,000	-	100,000
Balance at 30 June 2012	**49,763,911**	**-**	**4,358,448**	**(101,315)**	**(48,408,793)**	**5,612,251**	**(51,965)**	**5,560,286**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Issued capital	Convertible note reserve	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	$	$	$	$	$	$
Balance at 1 July 2010	39,979,448	-	1,979,500	-	(38,128,134)	3,830,814
Comprehensive income for the year						
Loss for the year	-	-	-	-	(2,945,263)	(2,945,263)
Foreign Currency Translation	-	-	-	(24,771)	-	(24,771)
Total comprehensive income for the year	-	-	-	(24,771)	(2,945,263)	(2,970,034)
Transactions with owners in their capacity as owners:						
Share based payments	-	-	578,350	-	-	578,350
Issue of shares, net of transaction costs	6,571,463	-	-	-	-	6,571,463
Value of conversion rights on convertible note issues	-	71,764	-	-	-	71,764
Conversion of Convertible Note	327,000	(31,320)	-	-	-	295,680
Options Expired during the period	-	-	(1,979,500)	-	1,979,500	-
Balance at 30 June 2011	**46,877,911**	**40,444**	**578,350**	**(24,771)**	**(39,093,897)**	**8,378,037**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Payments to suppliers and employees		(2,775,703)	(1,769,186)
Exploration expenditure		(2,963,224)	(717,686)
Interest received		169,215	32,306
Interest Paid		(20,184)	(11,943)
Net cash flows used in operating activities	21	**(5,589,896)**	**(2,466,509)**
Cash flows from investing activities			
Deposits (paid)/returned		(80,000)	(152,317)
Acquisition of plant and equipment		(40,084)	(12,325)
Acquisition of projects		(96,596)	-
Advance repaid		-	125,000
Net cash flows used in investing activities		**(216,680)**	**(39,642)**
Cash flows from financing activities			
Proceeds from issue of share capital		3,100,000	6,992,700
Payment of share issue costs		(270,000)	(421,237)
Repayment of borrowings		(390,086)	-
Proceeds from convertible note		-	787,619
Net cash flows provided by financing activities		**2,439,914**	**7,359,082**
Net Increase/(decrease) in cash and cash equivalents		*(3,366,662)*	*4,852,931*
Exchange rate adjustment		(781)	(1,427)
Cash and cash equivalents at beginning of the year		5,310,278	458,774
Cash and cash equivalents at end of the year	8	**1,942,835**	**5,310,278**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents to the notes of the consolidated financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Balamara Resources Limited and the entities it controlled at the end of, or during the financial year.

(a) Basis of preparation

These general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

(i) Compliance with IFRS

These financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and is not likely to affect future periods. However, the adoption of the revised AASB 124 *Related Party Disclosures* resulted in the disclosure of fewer related party transactions and required the restatement of some comparative information in note 17, and the adoption of AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* enabled the removal of certain disclosures in relation to commitments.

(iii) Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost basis.

(v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The financial report has been prepared on the going concern basis of accounting which assumes that the group will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of business. This includes expenditure on the Group's various exploration projects. In arriving at this position, the directors recognise the Company is dependent on various funding alternatives to meet these commitments, including share placements.

The group has incurred a comprehensive loss after tax for the year ended 30 June 2012 of $9,373,634 (2011: $2,945,263) and experienced net cash outflows from operating activities of $5,589,896 (2011: $2,466,509). At year-end the working capital position was $1,865,127 (2011: $4,761,530).

The directors believe that at the date of signing the financial report they have reasonable grounds to believe that having regard to matters set out above, along with those in note 20 '*events occurring after the balance date*', the group will have sufficient funds to meet its obligations as and when they fall due.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Balamara Resources Limited (the Company) as at 30 June 2012 and the results of all subsidiaries for the year then ended. Balamara Resources Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50 per cent of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(c)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received in recognised in a separate reserve within equity attributable to owners of Balamara Resources Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

1 Summary of significant accounting policies (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(d) Segment reporting

The group determines and presents operating segments based on the internal information that is provided to the board, whom are considered the group's chief operating decision maker.
Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(e) Foreign currency translation

(i) Functional and presentational currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Balamara Resources Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

1 Summary of significant accounting policies (continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The functional currency of its foreign subsidiaries is as follows;

- North Mining doo (Montenegro): Euro
- Polmetal sp. z o.o. (Poland): Polish Zloty
- Global Mineral Prospects sp. z o.o. (Poland): Polish Zloty

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods and disposal of other assets is recognised when the group has passed control of the goods or other assets to the buyer. Interest revenue is recognised using the effective interest method.

(g) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1 Summary of significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade receivables

Trade receivables are recognised at fair value and subsequently measured at amortised cost, less provision for impairment. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

(j) Investments and other financial assets

Classification
The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 12) and receivables (note 16) in the balance sheet.

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. If the group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

1 Summary of significant accounting policies (continued)

Financial assets – reclassification

The group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Impairment

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

1 Summary of significant accounting policies (continued)

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in note 1(i).

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(k) Plant & equipment

Plant and equipment is shown at cost less accumulated depreciation and impairment losses (refer note 1(n)). Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation is calculated using the diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

Category	Useful Life
Office furniture & equipment	3-7 years
Motor vehicles	2-3 years
Computer equipment	3 years
Leasehold improvements	3-5 years

(l) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units (CGUs) or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

1 Summary of significant accounting policies (continued)

(m) Exploration and evaluation expenditure

Exploration and evaluation costs, excluding the cost of acquiring areas of interest, are expensed as incurred.

The acquisition cost is carried forward where the right of tenure of the area of interest is current and they are either expected to be recouped through sale or successful development and exploitation of the area of interest or the activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active significant operations in, or in relation to, the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written-off in the financial year the decision is made.

Exploration and evaluation assets are assessed and tested for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to CGU's to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

(n) Impairment of Assets

(i) Financial assets (including receivables)
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the group on terms that the group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The group considers evidence of impairment for receivables and held-to-maturity investment securities at an individual asset level.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets (other than Goodwill)
Non-financial assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The group assesses at each reporting date whether any objective indications of impairment are present. Where such an indicator exists, a formal assessment of recoverable amount is then made and where this is in excess of carrying amount, the asset is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and 'value-in-use' ("VIU"). The VIU is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating VIU, a pre-tax discount rate is used which reflects the current market assessments of the time value of money and the risks specific to the asset.

1 Summary of significant accounting policies (continued)

Any resulting impairment loss is recognised immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial period which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Compound financial instruments
Compound financial instruments issued by the group comprise convertible notes that can be converted to share capital at the option of the holder.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

1 Summary of significant accounting policies (continued)

Borrowing costs
Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(q) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (Note 19(a)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(r) Employee benefits

(i) Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, number of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(t) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1 Summary of significant accounting policies (continued)

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Balamara Resources Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity attributable to the owners of Balamara Resources Limited.

(u) Loss per share

Basic loss per share ("LPS") is calculated by dividing the profit attributable to owners of the Company by the weighted number of shares outstanding during the year.

Diluted LPS adjusts the figures used in the calculation of basic LPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed or known to have been issued in relation to dilutive potential ordinary shares.

(v) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant tax office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the statement of cash flow on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(w) New accounting standards and interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below:

Reference	Title	Summary	Application date of standard	Impact on consolidated financial report	Application date for group
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The group has not yet made an assessment of the impact of these amendments.	1 July 2015
AASB 10 (issued August 2011)	Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • Power over investee (whether or not power used in practice)	Annual reporting periods commencing on or after 1 January	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial	1 July 2013

		• Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the [Entity]'s returns from investee. • Introduces the concept of 'defacto' control for entities with less than 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated.	2013	statements because the group does not have any special purpose entities. The 'Entity' does not have 'defacto' control of any entities with less than 50% ownership interest in an entity.	
AASB 11 (issued August 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the group has not yet entered into any joint arrangements.	1 July 2013
AASB 12 (issued August 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods commencing on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. At current the group does not have interest in any associates or joint ventures.	1 July 2013
AASB 13 (issued September 2011)	Fair Value Measurement	AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the balance sheet or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the balance sheet, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.	1 July 2013
AASB 119 (reissued	Employee Benefits	Employee benefits expected to be settled (as opposed to due to	Annual periods	When this standard is first adopted for 30	1 July 2013

September 2011)		settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	commencing on or after 1 January 2013	June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.	
AASB 2010-8 (issued December 2010)	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (AASB 112)	For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.	Periods commencing on or after 1 January 2012	The group does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these amendments are first adopted.	1 July 2012
AASB 2011-4 (issued July 2011)	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Amendments to remove individual key management personnel (KMP) disclosure requirements from AASB 124 to eliminate duplicated information required under the *Corporation Act 2001.*	Annual periods commencing on or after 1 July 2013	When this standard is first adopted for the year ended 30 June 2014 the group will show reduced disclosures under Key Management Personnel note to the financial statements.	1 July 2013
AASB 2011-9 (issued September 2011)	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101 as follows: • 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' • 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. • OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.	Annual periods commencing on or after 1 July 2012	When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 (and comparatives).	1 July 2012

Interpretation 20 (issued November 2011)	Stripping Costs in the Production Phase of a Surface Mine	Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 *Inventories* if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.	Annual periods commencing on or after 1 January 2013	The [Entity] does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.	1 July 2013
AASB 2012-5 (issued June 2012)	Annual Improvements to Australian Accounting Standards 2009-2011 Cycle	Non-urgent but necessary changes to IFRSs (IAS1, IAS 16 & IAS 32)	Periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2013, there will be no material impact.	I July 2013
IFRS (issued December 2011)	Mandatory Effective Date of IFRS 9 and Transition Disclosures	Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods commencing on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.	1 July 2015

2 Financial risk management

Risk management is carried out by the board of directors under policies approved by the board. The Board identifies and evaluates financial risks and provides written principles for overall risk management. The current activities of the group expose it to minimal financial risk, however, as activities increase there may be exposure to market, credit and liquidity risks.

The groups financial instruments are measured in accordance with the most appropriate accounting standards, discounted to its present value when settlement is expected to be greater than 12 months. At the reporting date, there were no differences between the carrying value and fair value of any financial instruments.

(a) Market risk

Market risk is the risk that changes in market prices such as equity prices, commodity prices, foreign exchange rates and interest rates will affect the income or the value of financial instruments of the group.

Price risk
The group is not exposed to equity securities price risk as there is no holding of investments in securities classified on the balance sheet as available-for-sale or at fair value through profit or loss. Furthermore, changes in commodity prices did not impact, nor are likely to impact the group in the short-term future as the company is still in the exploration/development phase.

2 Financial risk management (continued)

Currency risk
The group is not ordinarily exposed to currency risk as it receives its income and pays its liabilities in Australian dollars. However, during the period;

1. In July 2010 a USD $4m convertible loan note was issued to the entity by La Jolla Cove Investments Inc. The shareholders voted against the issue of the convertible note in November 2010, which was settled in October 2011. The strengthening of the AUD caused a foreign exchange gain of $8,205 upon settlement.

2. Administrative costs incurred by the company's foreign subsidiaries, as outlined in note 1(e), are funded from advances made by the company to its subsidiaries in order to meet these expenses. The Company has also advanced funds to allow North Mining doo, its Montenegrin subsidiary to provide security against a Euro bank guarantee provided in respect to the Montenegro mining license. Exchange rate movements will affect the value of the assets/liabilities when reported in AUD, with the corresponding increase/decrease recognised in the *foreign currency translation reserve*. An amount of $73,924 (2011: $24,771) was recognised in the Foreign Currency Translation Reserve during the current period.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date based on historical information and market trends. Management's assessments of the possible changes in foreign exchange rates are between the ranges of 10% either way. The potential effect on post-tax loss and equity are as follows:

	2012	2011
Foreign exchange sensitivity analysis:	**$**	**$**
Increase in AUD against foreign currencies by 10%	34,194	39,525
Decrease in AUD against foreign currencies by 10%	(34,194)	(39,525)

Interest rate risk

The group has interest bearing financial instruments in the form of cash and cash equivalents and convertible loan notes; therefore the group's income and operating cash flows are subject to changes in the market rates. The convertible notes have a fixed interest rate of 4.75% and therefore have no risk to changes in interest rates.

The exposure of the group to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market rates, and the weighted average interest rates on classes of financial assets and financial liabilities, are as follows:

	Weighted average interest rate	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
2012 Consolidated:					
Financial assets		$	$	$	$
Cash and cash equivalents	4.0%	1,838,183	-	104,652	1,942,835
Other assets	5.5%	250,699	-	151,266	401,965
Total financial assets		2,088,882	-	255,918	2,334,800
Financial liabilities					
Trade and other payables		-	-	(395,274)	(395,274)
Total financial liabilities		-	-	(395,274)	(395,274)
Net financial assets		2,088,882	-	(139,356)	1,949,526

2 Financial risk management (continued)

2011 Consolidated:	Weighted average interest rate	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
Financial assets		$	$	$	$
Cash and cash equivalents	3.5%	5,290,624	-	19,654	5,310,278
Other assets	4.0%	386,004	-	-	386,004
Total financial assets		5,676,628	-	19,654	5,696,282
Financial liabilities					
Borrowings and other payables	4.75%	-	(390,086)	(298,702)	(688,788)
Total financial liabilities		-	(390,086)	(298,702)	(688,788)
Net financial assets		5,676,628	(390,086)	(279,048)	5,007,494

The risk of market changes in interest rates will not have a material impact on the profitability or operating cash flows of the group. If interest rates had moved at 30 June and all other variables held constant, the loss before tax and cash flows would be affected as illustrated in the following table:

	Increase/decrease in equity	
	2012	**2011**
Consolidated entity	**$**	**$**
+1%: (*100 basis points*), (2011: +1%)	19,495	49,005
- 1% (*100 basis points*), (2011: -0.5%)	(19,495)	(24,503)

The group does not hedge against interest rate risk.

The carrying value of financial assets and financial liabilities recorded in the financial statements represent their respective fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements. Due to their liquid nature, the carrying amount of cash and cash equivalents is the fair value. Due to the short-term nature, the receivables and payables carrying amounts reflect the fair value.

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The group has the majority of its cash and cash equivalents with ANZ Banking Corporation; however the board does not determine this to be a risk as their credit rating per Standard & Poor's is a stable AA- . The group has no other exposure to credit risk at 30 June 2012.

(c) Capital risk management and liquidity risk

Capital is the funding required to continue the activities of the group. Capital risk is the risk that capital cannot be raised as and when required to fund the operations of the group. Liquidity risk is the risk that the group cannot meet its short-term financial obligations as and when they become due.

The group objective in managing capital is to safeguard the ability to continue as a going concern to provide a return to shareholders and reduce the cost of capital. In order to maintain the capital structure, the capital raisings have been undertaken.

The group manages liquidity risk by continuously monitoring forecast and actual cash flows and requirements for future capital raisings. The group has no committed credit lines available, which is appropriate given the nature of the operations. Surplus funds are invested in a cash management account.

The material liquidity risk for the group is the ability to raise equity in the future. Historically capital has been raised sufficiently to fund operations. In Q2 2012, the Company secured a strategic cornerstone investor via a placement of $3m.

Trade and other payables are expected to be settled within 30 days.

3 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The following critical accounting estimates and/or assumptions have been made during the preparation of the financial report:

Exploration and evaluation expenditure
These costs (other than the cost of acquiring the interests) continue to be expensed as incurred and not carried forward, to reduce the risk of uncertainty that the expenditure can be recouped through the sale or successful development and exploitation of the areas of interest. Management believe that there is no need to impair the acquisition costs, as it is likely that these will be recouped in the future via way production or sale of the assets.

Recognition of deferred tax assets
The group has not recognised a deferred tax asset for tax losses as the group does not believe it probable to be recovered by future taxable income in the short-term future.

Share-based payments
The group measures the cost of equity settled transactions with directors, employees, consultants and creditors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes valuation model; refer to note 16 for further details.

4 Segment information

Description of a business segment

In accordance with AASB 8, the reportable segments are based on aggregated operating segments determined by the similarity of the minerals targeted for the same jurisdiction, as these are the sources of the group's major risks and have the most effect on the rates of return.

Once reportable segments have been identified, all remaining segments that do not satisfy the thresholds are to be aggregated together to form an all other segments reporting segment. In accordance with *AASB 8 Segment Reporting*, corporate and administration activities are to be included in the 'other segments' reporting segment.

The group is an explorer for prospective zinc/lead/silver in Montenegro, copper/lead/silver and zinc with its Bogdan project in Poland, and zinc/lead/copper/gold with its tenements in New South Wales. The Board considers the entity from both a commodity type, and a geographical perspective, and at this stage just has the three reportable segments.

(i) Segment assets - 30 June 2012

	Exploration Balkans region $	Exploration Poland $	Exploration Australia $	Total $
Segments assets	250,699	96,596	3,287,240	3,634,535

Reconciliation of segment assets to the balance sheet

Total reportable segment assets	3,634,535
Cash and cash equivalents	1,942,835
Trade and other receivables	216,750
Other assets	130,895
Plant and equipment	48,145
Total assets	**5,973,160**

4 Segment information (continued)

(ii) Segment assets - 30 June 2011

	Montenegro Exploration $	Australia Exploration $	Total $
Segments assets	275,038	3,318,585	3,593,623

Reconciliation of segment assets to the balance sheet

Total reportable segment assets	3,593,623
Cash and cash equivalents	5,310,278
Trade and other receivables	122,715
Other assets	46,294
Plant and equipment	22,884
Total Assets	**9,095,794**

(iii) Segment profit and loss

	Exploration Balkans region $	Exploration Poland $	Exploration Australia $	Total $
Reportable segment loss 2012	(924,679)	(617,075)	(1,398,007)	(2,939,761)
Reportable segment loss 2011	(333,937)	-	(383,749)	(717,686)

A reconciliation of reportable segment loss to operating loss before income tax is provided as follows:	2012 $	2011 $
Total loss for reportable segment	(2,939,761)	(717,686)
Interest revenue	169,215	32,306
Other income	-	125,000
Foreign exchange gain	828	37,353
Consultancy costs	(316,435)	(322,617)
Director & employee costs	(592,031)	(781,514)
Share-based payments	(3,810,675)	(578,350)
Other corporate expenses	(906,010)	(613,129)
Professional services	(591,431)	(93,272)
Interest expense	(2,424)	(33,354)
Exploration costs unallocated	(34,284)	-
Convertible note settlement costs	(350,626)	-
Loss before income tax from continuing operations	**(9,373,634)**	**(2,945,263)**

5 Income tax & deferred tax

(a) Income tax expense

	2012 $	2011 $
Current tax	-	-
Deferred tax	-	-
	-	-

5 Income tax & deferred tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2012 $	2011 $
Loss from continuing operations before income tax expense	(9,373,634)	(2,945,263)
Tax at the Australian tax rate of 30% (2011: 30%)	(2,812,090)	(883,579)
Tax effect of amounts not deductible (allowable) in calculating taxable income:		
Over/(under) provision for tax loss in prior year	(341)	(28,926)
Share-based payments	1,143,203	173,505
Annual leave	(3,411)	-
Unrealised exchange loss	(248)	-
Expenses incurred on foreign projects	462,526	100,181
Allowable deductions	(54,386)	(56,042)
Tax losses not recognised	1,264,747	694,861
Income tax expense	-	-

(c) Unrecognised deferred tax assets

The following deferred tax assets have not been brought to account:

Tax losses - revenue	4,089,085	3,192,467
Temporary differences - exploration	(1,000,151)	(971,172)
Temporary differences - other	308,363	151,816
	3,397,297	**2,373,111**

Deferred tax assets have not been recognised as it is not probable that taxable income will be available against which the deferred tax deductions can be utilised, in respect of the following:

	2012 $	2011 $
Exploration	(1,000,151)	(971,172)
Trade & other payables	(3,411)	8,691
Section 40-880 expenses	137,659	143,126
Tax loss carry-forward	4,263,200	3,192,467
	3,397,297	**2,373,111**

6 Other income

On 1 April 2009 the Company entered into a formal agreement to engage consultants to procure mining permits in West Africa. As part of that agreement (as varied), the company advanced the consultant a total of US$500,000 (US$400,000 in 2009 and US$100,000 in 2010) as an advance against the fee of US$700,000 payable to the consultant on procurement of the mining permits.

The consultant was unable to perform the services within the term and the advance was repayable to the company without deduction. The company had taken out a second mortgage on the residence of the principals of the consultant; however there as there was no reasonable certainty that there would be equity in the property on realisation, the entire amount was impaired in the prior year. This resulted in a cumulative impairment loss of $580,383 with $88,105 written off in 2010.

During the prior period, a settlement deed was entered into, whereby the consulting company was ordered to pay a one-off sum of AUD $125,000. This amount has been recognised as other income in the statement of comprehensive income for the 2011 year.

7 Expenses

(a) Other corporate costs	2012 $	2011 $
ASIC, ASX & share registry fees	(99,491)	(52,869)
Depreciation	(14,742)	(9,212)
Insurance	(22,629)	(58,121)
Office rent and outgoings	(84,269)	(78,275)
Marketing and public relations	(110,048)	(29,311)
Communication costs	(60,544)	(43,120)
Business development costs	(98,544)	-
Taxes (local and international)	(67,956)	-
Travel & Accommodation	(184,143)	(181,880)
Other administrative costs	(163,644)	(160,341)
	(906,010)	**(613,129)**
(b) Superannuation guarantee		
Included within director and employee costs	(44,796)	(36,779)
Included within exploration costs	(15,750)	-
	(60,546)	**(36,779)**

8 Cash and cash equivalents

Cash at bank	**1,942,835**	**5,310,278**

9 Trade and other receivables*

GST/VAT receivable	**204,271**	**122,715**

** Refer to note 2 for risk exposure*

10 Other assets

Current:		
Deposit for project due diligence	80,000	-
Security deposit for credit cards	-	29,621
Prepayments	50,895	16,673
	130,895	**46,294**
Non-current:		
Office bond	12,479	-
Tenement bonds – Australia*	50,000	81,345
Tenement bonds – Montenegro*	250,699	275,038
	313,178	**356,383**

* These deposits are lodged with the respective governments, for the grant of the applicable exploration and mining leases. These amounts are to be used for land rehabilitation. As these deposits are in place for the groups exploration projects, they will be classified as non-current assets.

11 Plant and equipment

Year ended 30 June 2012	Computer equipment $	Office furniture and fittings $	Motor vehicles $	Total $
Opening net book amount	10,912	11,972	-	22,884
Additions – at cost	14,283	5,920	19,880	40,084
Depreciation charge	(5,731)	(4,685)	(4,326)	(14,742)
Foreign exchange adjustment	(170)	(126)	215	(81)
Closing net book amount	**19,295**	**13,081**	**15,769**	**48,145**

11 Plant and equipment (continued)

	Computer equipment	Office furniture and fittings	Motor vehicles	Total
	$	$	$	$
As at 30 June 2012				
Cost	56,159	41,432	19,880	117,472
Accumulated depreciation	(36,864)	(28,351)	(4,111)	(69,327)
Net book amount	**19,295**	**13,081**	**15,769**	**48,145**
Year ended 30 June 2011				
Opening net book amount	5,907	13,864	-	19,771
Additions – at cost	10,861	1,464	-	12,325
Depreciation charge	(5,856)	(3,356)	-	(9,212)
Closing net book amount	**10,912**	**11,972**	**-**	**22,884**
As at 30 June 2011				
Cost	42,054	35,641	-	77,695
Accumulated depreciation	(31,142)	(23,669)	-	(54,811)
Net book amount	**10,912**	**11,972**	**-**	**22,884**

12 Exploration and evaluation expenditure

	2012 $	2011 $
Capitalised:		
Opening balance	3,237,240	3,237,240
Additions	96,596	-
Closing balance	**3,333,836**	**3,237,240**

As outlined in note 1(m), only acquisition costs are capitalised, whilst all other exploration and evaluation expenditure is expensed as incurred. Refer below for a summary of expenditure incurred;

Expensed as incurred:		
Drilling costs	(1,033,178)	(105,469)
Assaying and analysis costs	(86,609)	(38,320)
Consultancy costs	(840,922)	(500,485)
Salaries and wages	(540,463)	-
Travel and accommodation	(191,852)	(4,728)
Other	(281,021)	(68,684)
	(2,974,045)	**(717,686)**

13 Trade and other payables

Trade payables	140,072	233,612
Other payables and accruals	255,202	65,090
Annual leave payable	17,600	28,969
	412,874	**327,671**

Trade and other payables are expected to be settled within 12 months. Management estimates that 50% of the annual leave balance will be used within the next 12 months. Refer to note 2 for risk exposure.

14 Convertible note

In July 2010 the Company secured up to an aggregate of US$4m through an agreement to issue two consecutive convertible notes of US$2m each. The finance was provided by La Jolla Cove Investments Inc. On 30 November 2010, the shareholders did not approve the issue of further convertible notes at the AGM, and therefore no further draw-downs could take place on the facility. The shareholders have however approved the allotment of shares upon the conversion of the convertible notes already issued.

The debt instrument was officially closed out on 27 October 2011. All debt was fully repaid, along with a cancellation fee of $350,626.

	30 June 2012 $	30 June 2011 $
Face Value of Notes Issued	-	787,619
Convertible note reserve – value of conversion rights	-	(40,444)
Amount converted to issued capital	-	(327,000)
	-	**420,175**
Interest expense*	2,424	34,099
Interest paid/payable	(2,424)	(26,835)
Foreign Exchange Gain	-	(37,353)
Total Liability	**-**	**390,086**

* Interest expense is calculated by applying the effective interest rate of 10% to the liability component.

15 Issued Capital

	30 June 2012		30 June 2011	
Movement in ordinary shares	**Number of shares**	**Value $**	**Number of shares**	**Value $**
Opening balance	144,465,849	46,877,911	90,177,230	38,442,800
Placement Shares[1]	15,000,000	3,000,000	45,716,251	6,992,700
Conversion of convertible notes[2]	-	-	8,572,368	327,000
Share-based payments	385,238	56,000	-	-
Conversion of options	1,000,000	100,000	-	-
Director/employee share scheme[3]	31,800,000	-	-	-
Impact from share consolidation	373	-	-	-
Capital raising costs	-	(270,000)	-	(421,237)
Closing balance	**192,651,460**	**49,763,911**	**144,465,849**	**46,877,911**

On 15 June 2012 the shareholders approved a 1:10 share consolidation. Equity transactions before this date have been amended on this basis to reflect the share consolidation.

1. *2012:* Placement relates to newly secured cornerstone investor. This placement was made in 2 tranches, $2m in April 2012 and the remaining $1m in May 2012.

   2011: Includes – 5.5m shares issued at $0.06 in December 2010 to raise $330,000, 15.6m shares at $0.08 in February 2011 to raise $1,248,500 and 24.6m shares at $0.22 in May 2011 to raise $5,414,200 (before costs).
2. *2011:* Part conversion of convertible note by La Jolla to the value of USD $312,080 – prior to rejection of the issue of the notes by shareholders.
3. *2012:* These shares were issued in accordance with the director and employee share plans, approved by shareholders on 26 August 2011. These shares are issued via an interest-free loan, which is calculated at the higher of $0.22 or a 20% discount to the VWAP of the 5 trading days prior to issue. At 30 June, no amounts have been received and thus these shares are not tradable. An amount of $6,996,000 is receivable at 30 June 2012, however due to the nature of the plan; these transactions are effectively treated as options and recorded as share-based payments. Refer to note 16(c) for further details.

16 Reserves

(a) Reserve balances	2012 $	2011 $
Share-based payments reserve	4,358,448	578,350
Convertible note reserve	-	40,444
Foreign currency translation reserve	(101,315)	(24,771)
	4,257,133	**594,023**

(b) Nature and purpose of reserves

The share based payments reserve arises from an issue of options as consideration for a service or an acquisition transaction, along with shares issued under the Balamara director/employee share scheme. Details on options issued, exercised and lapsed during the financial year, and options outstanding at the end of the reporting period is set out in note 16(d).

The foreign currency translation reserve is used to record exchange differences arising from the translation of balances in the foreign subsidiaries.

The convertible note reserve is to show the residual between the fair value of the liability and the face value of the convertible note. This amount shall remain the same at each reporting period, until the liability is extinguished.

(c) Movement in share-based payments reserve

(i) Reconciliation of options issued

Date	Details	Number of options	Amount $
01/07/2010	Opening balance	4,900,000	1,979,500
31/12/2010	Options not exercised by expiry date	(4,900,000)	(1,979,500)
21/10/2010	Issue of $0.10 options to consultant	1,000,000	30,577
19/05/2011	Issue of $0.30 options to Directors & Executives	2,400,000	547,773
30/06/2011	*Balance*	*3,400,000*	*578,350*
16/09/2011	Conversion of $0.10 options	(1,000,000)	(30,577)
09/05/2012	Issue of $0.25 free attaching options with placement	2,500,000	-
30/06/2011	**Closing Balance**	**4,900,000**	**547,773**

Set out below are the options on issue as at 30 June 2012:

Expiry date	Exercise price	Balance at start of period	Granted during the period	Exercised during the period	Expired/ lapsed during the period	Balance unvested at period end	Balance vested and exercisable
21/10/2013	$0.10	1,000,000	-	(1,000,000)	-	-	-
09/05/2014	$0.25	-	2,500,000	-	-	-	2,500,000
19/05/2014	$0.30	2,400,000	-	-	-	-	2,400,000
		3,400,000	**2,500,000**	**(1,000,000)**	**-**	**-**	**4,900,000**

(ii) Reconciliation of director/employee share plan

On 26 August 2011, shareholders approved both the director and employee share plans. Under the plan, at the discretion of the board (subject to shareholder approval with directors) an amount of shares will be issued to the respective person, whereby they enter into an interest-free loan with the company to acquire the set amount of shares.
The loans are non-recourse and have a term of 4 years. The loan value is calculated at the higher of $0.22 or a 20% discount to the volume weighted average price of 5 trading days at the time of issue.
The shares under the scheme cannot be traded until the loan is repaid.

16 Reserves (continued)

During the year ended 30 June 2012, the following shares have been issued under the Balamara Share plan:

Details	Number of shares	Loan value $	Share-based payment expense $
Issued to directors	30,000,000	6,600,000	3,587,292
Issued to employees	1,800,000	396,000	223,383
	31,800,000	**6,996,000**	**3,810,675**

At 30 June 2012, no repayments have been made on the above loan amounts.

(d) Calculation of share-based payments

Under the Balamara share plan approved by shareholders on 26 August 2011, there were 4 issues made during the current year to both directors and employees. Although the share plan relates to the issue of shares, the fact that the loan is non-recourse gives the holder an option over the loan, and thus shall be calculated as such, using the Black-Scholes option pricing model. The following table lists the inputs to the model used in the 4 valuations throughout the year;

	Issue one	*Issue two*	*Issue three*	*Issue four*
Expected volatility (%)	150	150	140	130
Risk-free interest rate (%)	3.64	3.64	3.36	2.49
Exercise price	$0.22	$0.22	$0.22	$0.22
Share price at grant date	$0.14	$0.18	$0.18	$0.17
Fair value per option at grant date	$0.12	$0.16	$0.15	$0.13
Grant Date	26 Aug 11	2 Sept 11	18 Apr 12	22 June 12
Expiry date	26 Aug 15	2 Sept 15	18 Apr 16	22 June 16

1,000,000 unlisted share options were granted to consultants during the prior year. These options were issued in consideration for services provided to assist with the listing of the company on the Frankfurt Stock Exchange. The fair value of the options is estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used in the valuation:

Expected volatility (%)	120
Risk-free interest rate (%)	4.50
Exercise price	$0.10
Share price at grant date	$0.05
Fair value per option at grant date	$0.031
Grant Date	21 October 2010
Expiry date	21 October 2013

On 10 May 2011 shareholders approved at a general meeting the issue of 2,400,000 unlisted incentive options to key management personnel of the company (Refer to Remuneration report section 4 for further details). The fair value of the options is estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used in the valuation:

Expected volatility (%)	151
Risk-free interest rate (%)	5.01
Exercise price	$0.30
Share price at grant date	$0.28
Fair value per option at grant date	$0.228
Grant Date	19 May 2011
Expiry date	19 May 2014

17 Related party disclosures

(a) Investments in controlled entities

	% Owned		Book value of shares held		Contribution to consolidated profit/(loss)	
	2012	2011	2012 $	2011 $	2012 $	2011 $
Parent entity						
Balamara Resources Limited[1]			n/a	n/a		
Controlled entities						
Isabella Minerals Pty Ltd[1]	100%	100%	1	1	-	-
Balkan Mining Pty Ltd[1]	100%	-	1	-	-	-
Polish Investments Pty Ltd[1]	100%	-	1	-	-	-
North Mining doo[2]	100%	100%	1	1	(694,279)	(164,823)
Polmetal sp. z o.o.[3]	85%	-	183,041	-	(395,568)	-
Global Mineral Prospects sp. z o.o.[#3]	98%	-	1,549	-	(21,021)	-
			184,594	**2**	**(1,110,868)**	**(164,823)**

Balamara Resources has the right to acquire the additional 1 share (2%) for an amount of 10 Polish zloty, at any time up until 31 December 2020. On this basis, Global Mineral Prospects has been consolidated as if it were a wholly owned subsidiary.

1. Company incorporated in Australia
2. Company incorporated in Montenegro
3. Company incorporated in Poland

(b) Key management personnel remuneration

	2012 $	2011 $
Short-term benefits	974,320	620,933
Post-employment benefits	36,600	30,600
	1,010,920	**651,533**

Detailed remuneration disclosures are included in pages 22 to 24 of the directors' report.

(c) Key management personnel equity holdings

(i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director and executive of Balamara Resources Limited, including their related parties, are set out below:

2012 Name	Balance at the start of the year	Granted during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at year end
Directors					
Mike Ralston	700,000	-	-	700,000	700,000
Derek Lenartowicz	700,000	-	-	700,000	700,000
Milos Bosnjakovic	700,000	-	-	700,000	700,000
Michael Hale	-	-	-	-	-
Alastair Clayton	-	-	-	-	-
Other executives					
Kevin Alexander	300,000	-	-	300,000	300,000
	2,400,000	**-**	**-**	**2,400,000**	**2,400,000**

17 Related party disclosures (continued)

2011 Name	Balance at the start of the year	Granted during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at year end
Directors					
Derek Lenartowicz	2,500,000	700,000	(2,500,000)*	700,000	700,000
Milos Bosnjakovic	-	700,000	-	700,000	700,000
Mike Ralston	-	700,000	-	700,000	700,000
Michael Hale	-	-	-	-	-
Other executives					
Kevin Alexander	900,000	300,000	(900,000)*	300,000	300,000
	3,400,000	**2,400,000**	**(3,400,000)**	**2,400,000**	**2,400,000**

* Options expired during the year.

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each director and executive of Balamara Resources Limited, including their personally related parties, are set out below:

2012	Balance at the start of the year	Market transactions	Issued under Balamara share plan*	Other changes during the year	Balance at the end of the year
Director					
Mike Ralston	-	700,000	7,500,000	-	8,200,000
Derek Lenartowicz	6,741,254	-	10,000,000	-	16,741,254
Milos Bosnjakovic	6,613,810	-	10,000,000	-	16,613,810
Michael Hale	-	-	2,500,000	-	2,500,000
Alastair Clayton	-	-	-	-	-
Other executives					
Kevin Alexander	416,834	(400,000)	1,500,000	-	1,516,834
	13,771,898	300,000	31,500,000	**-**	**45,571,898**

***** These shares are untradeable until the corresponding loan amount is repaid. At 30 2012 June no repayments have been made.

2011	Balance at the start of the year	Market transactions	Granted as compensation during the year	Other changes during the year	Balance at the end of the year
Director					
Derek Lenartowicz	5,941,254	800,000	-	-	6,741,254
Jimmy Lee	183,096	-	-	(183,096)	-
Milos Bosnjakovic	7,413,810	(800,000)	-	-	6,613,810
Mike Ralston	-	-	-	-	-
Michael Hale	-	-	-	-	-
Other executives					
Kevin Alexander	1,204,834	(788,000)	-	-	416,834
	14,742,994	(788,000)	-	**(183,096)**	**13,771,898**

(d) Other transactions with key management personnel

During both the current financial year, and the prior financial year, there have been no related party transactions between the group and its key management personnel, other than those items already disclosed within the remuneration report (pages 21 to 26), and the tables set out above in note 17(c).

18 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company:

Entity	Description	2012 $	2011 $
BDO Audit (WA) Pty Ltd	Audit and review of financial statements	57,899	34,043
MGI Perth	Under accrual for 2011 year-end audit	1,138	-
BDO Corporate Finance (WA) Pty Ltd#	Preparation of accountancy reports	68,114	-
BDO Corporate Tax (WA) Pty Ltd#	Preparation of tax returns and tax due diligence	42,699	-
		169,850	**34,043**

Non-audit services include only those services provided post appointment of BDO Audit (WA) Pty Ltd as the Company's registered auditor, on 17 November 2011.

It is the Company's policy to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where the auditor is awarded assignments on a competitive basis. It is the Company's policy to seek competitive tenders for all major material consulting projects.

19 Commitments

(a) Lease commitments

	2012 $	2011 $
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within 1 year	75,703	53,035
Later than one year but not later than five years	89,390	-
Later than five years	-	-
	165,093	**53,035**
Representing:		
Non-cancellable operating leases	**165,093**	**53,035**

(b) Project expenditure commitments

	2012 $	2011 $
Commitments in relation to agreements at the Company's discretion, at the reporting date but not recognised as liabilities, payable:		
Within 1 year	602,740	258,500
Later than one year but not later than five years	787,480	109,000
Later than five years	-	-
	1,390,220	**367,500**

20 Events occurring after the balance date

- In late August 2012, Balamara's cornerstone investor has committed to subscribe for a $2.97m placement at $0.11 to increase his holding to 19.9%. The funds will be received in two tranches, $1.1m by 4 October a further $1.87m by 4 December 2012.

20 Events occurring after the balance date (continued)

With exception to the above, there have been no other matters or circumstances that have arisen since 30 June 2012 that has significantly affected, or may significantly affect:

(i) The consolidated entity's operations in future financial years, or
(ii) The results of those operations in future financial years, or
(iii) The consolidated entity's state of affairs in future financial years.

21 Reconciliation of loss after income tax to net cash outflow from operating activities	**2012 $**	**2011 $**
Loss for the year:	(9,373,634)	(2,945,263)
Add back:		
Share based payments	3,810,675	578,350
Depreciation	14,742	9,212
Impairment of advance	-	(125,000)
Consultants paid via equity	56,000	-
Cancellation of La Jolla convertible note	(40,444)	-
Impact from unrealised foreign currency (gain)/loss	(79,845)	(28,831)
Changes in operating assets and liabilities:		
(Increase) / Decrease trade and other receivables	(38,351)	(111,934)
(Increase) / Decrease in other assets	(4,600)	6,511
Increase / (Decrease) in trade and other payables	65,561	150,446
Net cash outflow from operating activities	**(5,589,896)**	**(2,466,509)**

22 Loss per share

(a) Basic and diluted loss per share

	2012 Cents	**2011 Cents**
Loss from continuing operations attributable to the ordinary equity holders of the Company	(5.39)	(2.75)

(b) Reconciliation of loss used in calculating loss per share	**2012 $**	**2011 $**
Basic loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(9,314,299)	(2,945,263)
Diluted loss per share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(9,314,299)	(2,945,263)

(c) Weighted average number of shares used as the denominator	**2012 Number**	**2011 Number**
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	172,780,236	107,292,079
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted loss per share	172,780,236	107,292,079

22 Loss per share (continued)

(d) Information concerning the classification of securities

The group is in a loss making position and it is unlikely that the conversion of options to ordinary share capital would lead to diluted earnings per share that shows an inferior view of earnings per share. For this reason, the diluted losses per share for the years ending 30 June are the same as basic loss per share.

23 Contingencies

There are no contingencies at the reporting date.

24 Non-controlling interests

	2012 $	2011 $
Interests in:		
Issued capital	15,345	-
Reserves	(2,473)	-
Accumulated losses	(64,837)	-
	(51,965)	**-**

25 Parent entity disclosures

(a) Financial information

Financial position		
Assets		
Current assets	1,912,528	5,462,096
Non-current assets	5,263,426	3,831,910
Total assets	**7,175,954**	**9,294,006**
Liabilities		
Current liabilities	348,755	717,738
Non-current liabilities	-	-
Total liabilities	**348,755**	**717,738**
Equity		
Issued capital	49,763,911	46,877,911
Retained earnings	(47,295,161)	(38,920,436)
Reserves	4,358,448	618,794
Total equity	**6,827,198**	**8,576,269**
Financial performance		
Loss for the year	(8,405,301)	(2,812,890)
Other comprehensive income	-	-
Total comprehensive income	**(8,405,301)**	**(2,812,890)**

(b) Total equity

Notwithstanding the deficiency of net assets (total equity) of the group in comparison to the parent entity, the investments and loan receivables with its subsidiaries were considered not to be impaired due to the likelihood of earnings in excess of these investment/loan values in the near future.

25 Parent entity disclosures (continued)

(c) Guarantees and commitments

The parent entity has not provided any guarantees in relation to the debts of its subsidiaries.

The parent entity has the following commitments at 30 June;

	Within 1 year		2-5 years		> 5 years		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Office lease	62,016	53,035	62,016	-	-	-	124,032	53,035
NSW tenements	209,000	258,500	-	109,000	-	-	209,000	367,500
	271,016	**311,535**	**62,016**	**109,000**	**-**	**-**	**333,032**	**420,535**

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:
   (a) Comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in pages 21 to 26 of the directors' report (as part of the audited Remuneration Report); for the year ended 30 June 2012, comply with section 300A of the *Corporations Act 2001.*
5. The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the directors.

Mike Ralston
Managing Director

Subiaco
17 September 2012

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BALAMARA RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying consolidated financial report of Balamara Resources Limited, which comprises the consolidated balance sheet as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the disclosing entity are responsible for the preparation of the consolidated financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a)(i), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the disclosing entity's preparation of the consolidated financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the disclosing entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Balamara Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Balamara Resources Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies *with International Financial Reporting Standards* as disclosed in Note 1(a)(i).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial report, where the company will have to seek additional funding in order to progress exploitation of its exploration assets. This condition, along with other matters, as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore the company may be unable to realise its assets and extinguish its liabilities in the normal course of business at the values stated in this financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 26 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Balamara Resources Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

BRAD MCVEIGH
Director

Perth, Western Australia
Dated this 17th of September 2012

ASX Additional Information

Additional Information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

The shareholder information was applicable as at 12 September 2012.

(a) Substantial Shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number held	Percentage of quoted equity securities
Derek Lenartowicz	16,741,253	9.63%
MBL Constructions Pty Ltd <ATF MB Point Family Trust>	16,613,810	9.50%
Ample Skill Limited	15,000,000	7.90%
Michael John Ralston and Sharon Anne Ralston <ATF Ralston Family Trust>	8,200,000	4.30%

(b) Voting Rights

Ordinary Shares

On a show of hands every member present at a meeting of shall have one vote and upon a poll each share shall have one vote.

Options

There are no voting rights attached to the options

(c) Distribution of Equity Security Holders

Category	Ordinary Fully Paid Shares	Percentage of quoted equity securities
1 – 1,000	168,514	0.09
1,001 – 5,000	1,524,274	0.79
5,001 – 10,000	3,801,351	1.96
10,001 – 100,000	41,710,442	21.51
100,001- and over	146,671,879	75.65
Total	**193,876,460**	**100.00**

There were 1,785 holders of less than a marketable parcel of ordinary shares.

(d) Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

SHAREHOLDER	Shares held	% of Issued capital
AMPLE SKILL LIMITED	15,000,000	7.74
DEREK LENARTOWICZ	10,000,000	5.16
MBL CONSTRUCTIONS PTY LTD <THE MB POINT FAMILY TRUST>	10,000,000	5.16
MICHAEL RALSTON & SHARON RALSTON <THE RALSTON FAMILY TRUST>	7,500,000	3.87
MR GUL CHANDIRAM MAHTANI & MR AVEEN GUL MAHTANI & MRS MANJIT KAUR	5,770,000	2.98
MBL CONSTRUCTION PTY LTD <THE MB POINT FAMILY A/C>	5,640,000	2.91
ATTELOCIN HOLDING LTD	4,527,000	2.33
VP VINHA PRIVADA LTD	4,075,000	2.10
DEREK LENARTOWICZ <THE LENLEE SUPERANNUATION FUND>	4,001,667	2.06
GOLDRIM INVESTMENTS PROPRIETARY LIMITED	3,160,000	1.63
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME ACCOUNT>	2,567,302	1.32
MICHAEL ANTHONY HALE	2,500,000	1.29
DEREK LENARTOWICZ	2,500,000	1.29
MR ANDREW MARK GILLESPIE	2,132,000	1.10
ARRAKIS COMPANY LIMITED	1,985,000	1.02
NATIONAL NOMINEES LIMITED	1,903,126	0.98
NJLH INVESTMENTS PTY LTD	1,721,908	0.89
MR RICKY WONG	1,500,000	0.77
KEVIN RAYMOND ALEXANDER	1,500,000	0.77
MR WILSON KIM LING WONG	1,403,483	0.72
Total	**89,386,486**	**46.10%**
Balance of Register	**104,489,974**	**53.90%**
Grand Total	**193,876,460**	**100.00%**

Unquoted equity securities

Options	Number on issue	Number of holders
Exercisable at 30 cents (exp 19/May/2014)	2,400,000	4
Substantial option holders are:		
MBL CONSTRUCTIONS PTY LTD	700,000	
MICHAEL RALSTON & SHARON RALSTON <THE RALSTON FAMILY TRUST>	700,000	
DEREK LENARTOWICZ	700,000	
KEVIN RAYMOND ALEXANDER	300,000	

Options	Number on issue	Number of holders
Exercisable at 25 cents (exp 9/May/2014)	2,500,000	1
Substantial option holders are:		
AMPLE SKILL LIMITED	2,500,000	

(e) Interests in Tenements

Tenement	Registered holder	Interest	Status	Project
Australian tenements - NSW				
EL 2934	Balamara Resources	100%	Exploration	Peelwood
EL6081	Balamara Resources	100%	Exploration	Single Tree Hill
EL 6082	Balamara Resources	100%	Exploration	Junction Point
EL6767	Balamara Resources	100%	Exploration	Elsienora
EL6831	Balamara Resources	100%	Exploration	Limerick
EL6955	Balamara Resources	100%	Exploration	Mount Costigan

Montenegrin concession				
Concession Agreement no. 01-3660/1	North Mining d.o.o.	100%	Exploration	Monty project
Polish licence				
Licence no. 5/2008/p	Polmetal Sp z.o.o.	100%	Exploration	Bogdan project