BALAMARA

RESOURCES LIMITED

ABN 84 061 219 985

INTERIM FINANCIAL REPORT
31 DECEMBER 2016

CONTENTS

CORPORATE DIRECTORY

Directors

Mike Ralston
Derek Lenartowicz
Michael Hale

Company Secretary

Daniel Kendall

Auditors

BDO Audit (WA) Pty Ltd
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SUBIACO WA 6008

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DIRECTORS' REPORT

Your Directors present their financial 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 period to the half-year ended 31 December 2016.

Directors

The names of the Directors of the Company in office at any time during the half-year or since the date of this report are noted below:

Derek Lenartowicz
Executive Chairman

Mike Ralston
Managing Director

Piotr Kosowicz – *Resigned 28 November 2016*
Executive Director

Michael Hale
Non-Executive Director

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

Results and Review of Operations

During the half-year ended 31 December 2016, the Group:

- Invested time and resources in evolving the Pre-Feasibility study (PFS) on the Sawin thermal coal project, and commenced a final two drill hole campaign to assist with coal quality and ultimately to assist in applying for a mining concession;
- Progressed the PFS at the Nowa Ruda coking coal project;
- Relinquished the Mariola 1 concession, with the focus now ultimately on the Sawin and Nowa Ruda Projects;
- Completed a sale of its residual interest in the Elsienora Projects to Alkane Resources for $75,000;
- Terminated its royalty agreement with Balkan Mining Pty Ltd for consideration of $50,000;
- Raised $700,000 before costs at a price of $0.05 per share; and
- Commenced discussions with a number of financiers in regards to financing mine construction.

Events occurring after the reporting period

The Company executed another convertible loan agreement with Ample Skill Limited post balance date amounting to $7,000,000, with a four year term and interest at 5% with a conversion price of $0.03 per share. At the date of this report $1,000,000 has been drawn down on the facility.

With exceptions to those noted above, there have been no other matters or circumstances that have arisen since 31 December 2016 that have significantly affected, or may significantly affect:

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

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the Group's auditors, BDO Audit (WA) Pty Ltd, to provide the Directors with an independence declaration in relation to the review of the half-year financial report. This independence declaration forms part of the Directors' Report and is included on page 6.

Signed in accordance with a resolution of the Directors, made pursuant to Section 306(3) of the *Corporations Act 2001,* On behalf of the Directors.

Mike Ralston
Managing Director
SUBIACO
Date: 14 March 2017

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF BALAMARA RESOURCES LIMITED

As lead auditor for the review of Balamara Resources Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 14 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the half-year ended 31 December 2016

	Note	31 December 2016 $	31 December 2015 $
Revenue			
Interest revenue		8,037	12,727
Other income		125,000	
		133,037	12,727
Administrative expenses		(317,906)	(601,693)
Exploration costs expensed as incurred	6	(1,658,277)	(2,410,102)
Foreign exchange gain/(loss)		(4,022)	(614)
Director and employee costs		(361,195)	(456,567)
Share-based payments	10	-	(932,840)
Interest expense		(411,267)	(117,373)
Write-off of capitalised exploration expenditure	6	(9,564,880)	-
Consultancy costs		(261,894)	(305,761)
Professional services		(57,891)	(67,731)
		(12,504,295)	(4,879,954)
Loss before income tax expense		(12,504,295)	(4,879,954)
Income tax expense		-	-
Loss for the half-year		(12,504,295)	(4,879,954)
Other comprehensive income/(losses) for the half-year			
Items that may be realised through profit or loss:			
Foreign currency translation reserve		(317)	259,248
Total comprehensive loss for the half-year		**(12,504,612)**	**(4,620,706)**
Net loss is attributable to:			
Owners of Balamara Resources Limited		(12,498,887)	(4,878,112)
Non-controlling interests		(5,408)	(1,842)
		(12,504,295)	**(4,879,954)**
Total comprehensive loss is attributable to:			
Owners of Balamara Resources Limited		(12,502,824)	(4,618,207)
Non-controlling interests		(1,788)	(2,499)
		(12,504,612)	**(4,620,706)**
Basic and diluted loss per share from continuing operations attributable to the ordinary equity holders of the company (cents per share):		(1.78)	(0.70)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 31 December 2016

	Note	31 December 2016 $	30 June 2016 $
Current assets			
Cash and cash equivalents	4	141,482	1,184,541
Trade and other receivables		129,930	404,745
Other assets	5	28,301	105,938
Total current assets		**299,713**	**1,695,224**
Non-current assets			
Other assets	5	64,805	65,584
Plant and equipment		58,472	69,284
Exploration and evaluation assets	6	100,000	9,866,027
Total non-current assets		**223,277**	**10,000,895**
Total assets		**522,990**	**11,696,119**
Current liabilities			
Trade and other payables	7	2,994,340	2,553,025
Borrowings	8	7,655,044	7,464,447
Total current liabilities		**10,649,384**	**10,017,472**
Non-current liabilities			
Provisions		19,571	20,000
Total non-current liabilities		**19,571**	**20,000**
Total liabilities		**10,668,955**	**10,037,472**
Net assets / (liabilities)		***(10,145,965)***	***1,658,647***
Equity			
Issued capital	9	80,676,464	79,976,464
Reserves		2,011,138	2,511,414
Accumulated losses		(92,617,458)	(80,614,910)
Capital and reserves attributable to owners of Balamara Resources Limited		**(9,929,856)**	**1,872,968**
Non-controlling interests		(216,109)	(214,321)
Total equity / (deficiency in equity)		***(10,145,965)***	***1,658,647***

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Issued capital	Share-based payments reserve	Foreign currency translation reserves	Convertible note reserve	Reserve for transactions with NCI	Accumulated losses	Total	Non-controlling interest	Total equity
	$	$	$		$	$	$	$	$
Balance at 1 July 2016	79,976,464	1,579,536	(272,391)	1,281,887	(77,618)	(80,614,910)	1,872,968	(214,321)	1,658,647
Comprehensive income for the half-year									
Loss for the half year	-	-	-	-	-	(12,498,887)	(12,498,887)	(5,408)	(12,504,295)
Foreign currency translation	-	-	(3,937)	-	-	-	(3,937)	3,620	(317)
Total comprehensive loss for the half year	-	-	(3,937)	-	-	(12,498,887)	(12,502,824)	(1,788)	(12,504,612)
Transactions with owners in their capacity as owners:									
Share based payments	22,750	(496,339)	-	-	-	496,339	22,750	-	22,750
Value of conversion rights on convertible notes issued	-	-	-	-	-	-	-	-	-
Transaction costs relating to convertible note	-	-	-	-	-	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-
Issue of shares, net of transaction costs	677,250	-	-	-	-	-	677,250	-	677,250
Balance at 31 December 2016	**80,676,464**	**1,083,197**	**(276,328)**	**1,281,887**	**(77,618)**	**(92,617,458)**	**(9,929,856)**	**(216,109)**	**(10,145,965)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the half-year ended 31 December 2015

	Issued capital $	Share-based payments reserve $	Foreign currency translation reserves $	Convertible note reserve	Reserve for transactions with NCI $	Accumulated losses $	Total $	Non-controlling interest $	Total equity $
Balance at 1 July 2015	79,989,197	646,696	(268,228)	190,755	(77,618)	(69,477,696)	11,003,106	(198,102)	10,805,004
Comprehensive income for the half-year									
Loss for the half year	-	-	-	-	-	(4,878,112)	(4,878,112)	(1,842)	(4,879,954)
Foreign currency translation	-	-	259,904	-	-	-	259,904	(656)	259,248
Total comprehensive loss for the half year	-	-	259,904	-	-	(4,878,112)	(4,618,208)	(2,498)	(4,620,706)
Transactions with owners in their capacity as owners:									
Share based payments	-	932,840	-	-	-	-	932,840	-	932,840
Value of conversion rights on convertible notes issued	-	-	-	534,353	-	-	534,353	-	534,353
Transaction costs relating to convertible note	(16,029)	-	-	-	-	-	(16,029)	-	(16,029)
Transactions with non-controlling interests	-	-	-	-	-	-	-	(8,525)	(8,525)
Issue of shares, net of transaction costs	-	-	-	-	-	-	-	-	-
Balance at 31 December 2015	**79,973,168**	**1,579,536**	**(8,324)**	**725,108**	**(77,618)**	**(74,355,808)**	**7,836,062**	**(209,125)**	**7,626,937**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2016

	Note	Half-year 2016 $	Half-year 2015 $
Cash flows from operating activities			
Payments to suppliers and employees		(385,625)	(1,288,005)
Exploration expenditure		(1,354,096)	(2,684,329)
Interest received		8,037	12,727
Interest paid		-	-
Net cash flows used in operating activities		**(1,731,684)**	**(3,959,606)**
Cash flows from investing activities			
Payments for plant and equipment		(4,773)	(9,931)
Net cash flows used in investing activities		**(4,773)**	**(9,931)**
Cash flows from financing activities			
Proceeds from issue of share capital		700,000	-
Proceeds from Borrowings		-	3,500,000
Transaction costs		-	(105,000)
Net cash flows provided by financing activities		**700,000**	**3,395,000**
Net increase/(decrease) in cash and cash equivalents		(1,036,457)	(574,537)
Exchange rate adjustment		(6,602)	4,297
Cash and cash equivalents at beginning of the half-year		1,184,541	1,669,039
Cash and cash equivalents at end of the half-year	4	**141,482**	**1,098,798**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

1. Statement of significant accounting policies

Basis of preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The interim half-year report does not include full disclosures of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASIC.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below;

Changes in accounting policy

The Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016. A number of new or amended standards became applicable for the current reporting period, however, the group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Going concern

The group has incurred a net loss after tax for the half-year ended 31 December 2016 of $12,504,295 (2015: $4,879,954) and experienced net cash outflows from operating activities of $1,731,684 (2015: $3,959,606). At half year-end the working capital position was a deficit of $10,349,671 (June 2016: deficit of $8,322,248). Of this deficit, an amount of $7,655,044 relates to the convertible note which does not mature until 2019.
The ability of the group to continue as a going concern is dependent on securing additional funds through the issue of further equity, debt or other means to continue to fund its operational activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The half year 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 and for at least the amounts stated in the half year financial report.

The Directors recognise that the group will be dependent on various funding alternatives to meet these commitments, including share placements and/or other alternate methods of funding. If the group is unsuccessful in securing additional funding, then it would need to scale back its current exploration and development programs.

The Directors believe that at the date of signing the half year financial report they have reasonable grounds to believe that having regard to matters set out above, along with the recently executed $7 million convertible loan agreement as disclosed in note 13, the Group will have sufficient funds to meet its obligations as and when they fall due.

Should the Group not be able to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the half year consolidated financial statements. The half year financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the group be unable to continue as a going concern and meet its debts as and when they fall due.

Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

2. Segment information

Description of business segment

The reportable segments are based on aggregated operating segments determined by the similarity of the minerals targeted within that geographic location, 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 emerging coal producer in Poland, whilst remains the holder of some non-core zinc/lead/copper/gold 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 two reportable segments, as the sale of the Balkans projects was finalised during the period.

(i) Segment assets - 31 December 2016

	Poland Exploration $	**Australia Exploration $**	**Total $**
Segments assets	100,000	60,000	160,000

Reconciliation of segment assets to the consolidated balance sheet

Total reportable segment assets	160,000
Cash and cash equivalents	141,482
Trade and other receivables	129,930
Other assets	33,106
Plant and equipment	58,472
Total Assets	**522,990**

(ii) Segment assets - 30 June 2016	**Exploration Poland $**	**Exploration Australia $**	**Total $**
Segments assets	9,866,027	60,000	9,926,027

Reconciliation of segment assets to the balance sheet

Total reportable segment assets	9,926,027
Cash and cash equivalents	1,184,541
Trade and other receivables	404,745
Other assets	111,522
Plant and equipment	69,284
Total assets	**11,696,119**

(iii) Segment profit or loss

	Poland Exploration $	**Australia Exploration $**	**Total $**
Reportable segment loss Dec 2016	(11,222,237)	(920)	(11,223,157)
Reportable segment loss Dec 2015	(2,381,971)	(28,131)	(2,410,102)

2. Segment information (continued)

A reconciliation of reportable segment loss to operating loss before income tax is provided as follows:	**31 December 2016 $**	**31 December 2015 $**
Total loss for reportable segment	(11,223,157)	(2,410,102)
Interest revenue	8,037	12,727
Other income	125,000	-
Administrative expenses	(317,906)	(601,693)
Director & employee costs	(361,195)	(456,567)
Consultancy costs	(261,894)	(305,761)
Professional services	(57,891)	(67,732)
Interest expense	(411,267)	(117,373)
Share-based payments	-	(932,840)
Exploration and evaluation expenditure written off	-	-
Unrealised foreign exchange gain/(loss)	(4,022)	(614)
Loss before income tax from continuing operations	**(12,504,295)**	**(4,879,955)**

3. Fair value of financial instruments

(a) Recurring fair value measurements
The Group does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

(b) Fair values of financial instruments not measured at fair value
The following instruments are not measured at fair value in the balance sheet. If measured at fair value, they would have the following fair values at:

(i) 31 December 2016	**Carrying Amount $**	**Fair Value $**
Current Assets*		
Trade and other receivables	129,930	129,930
Other assets	93,106	93,106
	223,036	223,036
Current Liabilities*		
Trade and other payables	2,994,340	2,994,340
Borrowings	7,655,044	7,286,819
	10,649,384	10,281,159

(ii) 30 June 2016		
Current Assets*		
Trade and other receivables	404,745	404,745
Other assets	171,522	171,522
	576,267	576,267
Current Liabilities*		
Trade and other payables	2,553,025	2,553,025
Borrowings	7,464,447	7,286,819
	10,017,472	9,839,844

*Due to their short-term nature, the carrying amounts of current receivables and current trade and other payables is assumed to equal their fair value.

	31 December 2016 $	30 June 2016 $
4. Cash and cash equivalents		
Cash at bank	**141,482**	**1,184,541**

5. Other assets

	31 December 2016 $	30 June 2016 $
Current:		
Prepayments	26,146	87,648
Other investments	2,155	18,290
	28,301	**105,938**
Non-current:		
Office bonds	4,805	5,584
Tenement bonds – Australia*	60,000	60,000
	64,805	**65,584**

*These deposits are lodged with the respective governments, for the grant of the applicable exploration and exploitation leases. As these deposits are in place for the entity's exploration projects, they will be classified as non-current assets.

6. Exploration and evaluation expenditure

	31 December 2016 $	30 June 2016 $
Capitalised:		
Opening balance	9,866,027	10,705,051
Exchange rate movements	(201,147)	(214,024)
Exploration and evaluation expenditure written off*	(9,564,880)	(625,000)
Closing balance	**100,000**	**9,866,027**

During the period the Company has shifted its focus away from Mariola and prioritised its resources to the Sawin and Nowa Ruda projects owing to their increased size, scale and likely higher returns ahead. The Mariola concession exploration license was due for renewal which required a substantial investment into further drilling, which Balamara management did not believe was necessary to make any future decision to mine that asset, hence this was regarded as an inefficient use of funds. Given these financial commitments as required management made the decision to let the concession lapse. The Company's position is protected in that it still has the right to apply for a mining licence at Mariola within the next three years, however as it is not the current focus or priority the Board have taken a conservative approach to write-off the acquisition costs associated with the project.

In accordance with the Groups accounting policy, only acquisition costs are capitalised, whilst all other exploration and evaluation expenditure is expensed as incurred. Refer below for a summary of expenditure incurred;

	31 December 2016 $	31 December 2015 $
Expensed as incurred:		
Drilling costs	388,747	954,653
Assaying and analysis costs	340,081	68,171
Consultancy costs	104,747	429,314
Salaries and wages	538,961	570,188
Concession & other government fees	176,081	232,531
Travel and accommodation	108,740	143,526
Other	920	11,719
	1,658,277	**2,410,102**

	31 December 2016 $	30 June 2016 $
7. Trade and other payables		
Trade payables	1,695,610	1,205,328
Other payables and accruals	1,182,909	1,198,516
Annual leave payable	92,463	125,823
Long service leave payable	23,358	23,358
	2,994,340	**2,553,025**

Trade and other payables are expected to be settled within 12 months. Management estimates that employees will turn over their annual leave within the next 12 months.

8 Convertible note

In January and July 2015 the Company secured $4m and $7m respectively via convertible loans with its major shareholder Ample Skill Limited. Both facilities were fully drawn at 31 December 2016, with $2,250,000 being converted to shares in prior years at the fixed price of $0.03 per share. The notes are unsecured with an interest rate of 5%, convertible into equity of the parent entity at the option of the holder, or repayable by 31 January 2019 and 27 July 2019 respectively. The note is recorded as a current liability, as the holder has the option to convert to equity at any time before maturity. The convertible note is presented in the balance sheet as follows;

Face Value of Notes Issued	8,750,000	8,750,000
Convertible note reserve – value of conversion rights	(1,281,885)	(1,281,885)
Amount converted to issued capital	-	-
	7,468,115	**7,468,115**
Interest expense (*current year*)*	411,145	420,452
Interest expense (*prior years*)*	434,160	13,708
Interest paid/payable (*current year*)	(220,548)	(232,616)
Interest paid/payable (*prior years*)	(245,561)	(12,945)
Transaction costs	(192,267)	(192,267)
Total Liability	**7,655,044**	**7,464,447**

* Interest expense is calculated by applying the effective interest rate of 11.06% to the liability component.

The fair value as at 31 December 2016 of the convertible note liability recognised at amortised cost is $7,286,819 (June 2016: $7,286,819). Discounted cash flow models are used to determine the fair values of convertible notes at amortised cost. Discount rates used on the calculations are based on market interest rates existing at the end of the reporting period, consistent with those used within the recently completed pre-feasibility studies. The discount rate used at 31 December 2016 is 10.3%.

9. Issued capital

	31 December 2016		30 June 2016	
Movement in ordinary shares	**Number of shares**	**Value $**	**Number of shares**	**Value $**
Opening balance	702,827,922	79,976,464	701,827,922	79,989,197
Placement Shares	6,500,000	325,000	-	-
Share-based payments[1]	455,000	22,750	1,000,000	20,000
Director/employee share scheme[2]	-	375,000	-	-
Capital raising costs	-	(22,750)	-	(32,733)
Closing balance	**709,782,922**	**80,676,464**	**702,827,922**	**79,976,464**

1. *Shares issued in consideration for advisory services in relation to share placement.*
2. *Shares transferred to new investors under the previous Director Share Loan Scheme. Refer to note 10 (ii) for further details.*

10. Share-based payments

(i) Reconciliation of options issued

Date	Details	Number of options	Amount $
01/07/2015	Balance	15,000,000	-
04/09/2015	Incentive options issued to Directors and employees refer to note *(10(iii))*	50,500,000	927,542
26/11/2015	Incentive options issued to employees refer to note *(10(iii))*	300,000	5,298
30/06/2016	*Balance*	65,800,000	932,840
31/12/2016	**Closing Balance**	**65,800,000**	**932,840**

Set out below are the options on issue as at 31 December 2016:

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
22/12/2018	$0.08	15,000,000	-	-	-	-	15,000,000
26/11/2018	$0.10	50,800,000	-	-	-	-	50,800,000
		65,800,000	**-**	**-**	**-**	**-**	**65,800,000**

(ii) Reconciliation of Director/employee share plan

On 29 November 2013, 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 participant, 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 $0.11 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, and the entitlement to the plan is lost once the Director/employee is no longer an eligible participant (leaves the Company).

The share plans approved by shareholders on 29 November 2013 overrides the prior share plan approved by shareholders on 26 August 2011. All shares issued under the original plan have been cancelled, and reissued under the terms of the new plan.

The following table outlines the shares on issue under the Balamara Director Share Plan, and changes during the period:

Directors	Opening balance	Issued during the period	Other decrease	Repayments	Closing balance
No of shares	10,000,000	-	(7,675,000)	-	2,325,000
Value of loan	$1,100,000	-	(844,250)	-	$255,750
Share-based payment amount	$646,696	-	(496,339)*	-	**$150,357**

* During the period 7,675,000 were transferred to sophisticated investors for an amount of $375,000. These shares were part of the previous Director Share Plan, to which the Company Secretary has the rights to transfer shares when a participant is no longer eligible. As at 31 December 2016, there are 2,325,000 shares on issue to which the Company is able to receive cash proceeds for without further diluting its shareholders.

10. Share-based payments (continued)

(iii) Calculation of share-based payments

During the prior period, incentive options were issued to Directors and Employees, aimed at motivating the senior management to increase shareholder wealth. The first issue was made in September 2015, with the latter in November 2015.

	*Issue one**	*Issue two*
Expected volatility (%)	100	100
Risk-free interest rate (%)	2.20	2.20
Exercise price	$0.05	$0.10
Share price at grant date	$0.03	$0.04
Fair value per option at grant date	$0.018	$0.018
Grant date	4 Sept 15	26 Nov 15
Expiry date	4 Sept 19	26 Nov 18
No of Options	50,500,000	30,000
Total tranche value	$927,542	$5,298

*Issue one was later modified to reflect the same terms as Issue 2, however as the original valuation was higher, this is the valuation used for accounting purposes.

11. Related party transactions

There have been no material changes to related party transactions since 30 June 2016.

12. Commitments and contingencies

There have been no other material changes in commitments or contingencies since 30 June 2016.

13. Events occurring after reporting period

The Company executed another convertible loan agreement with Ample Skill Limited post balance date amounting to $7,000,000, with a four year term and interest at 5% with a conversion price of $0.03 per share. At the date of this report $1,000,000 has been drawn down on the facility.

With exceptions to those noted above, there have been no other matters or circumstances that have arisen since 31 December 2016 that have significantly affected, or may significantly affect:

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

DIRECTORS' DECLARATION

In the opinion of the Directors:

(a) the financial statements and notes of the Group as set out on pages 7 to 18:

(i) give a true and fair view of the financial position as at 31 December 2016 and the performance for the half-year ended on that date of the Group; and

(ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting", the Corporations Regulations 2001 and other mandatory reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, as outlined in note 1.

This declaration is made in accordance with a resolution of the Directors made pursuant to Section 303(5) of the Corporations Act 2001.

Mike Ralston
Managing Director

SUBIACO
Date: 14 March 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Balamara Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Balamara Resources Limited, which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Balamara Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Balamara Resources Limited is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO Audit (WA) Pty Ltd

BDO
JPrue

Jarrad Prue

Director

Perth, 14 March 2017