Prairie Mining
Limited

Interim Financial Report for the Half-Year Ended 31 December 2016

ABN 23 008 677 852

CORPORATE DIRECTORY

DIRECTORS:

Mr Ian Middlemas	Chairman
Mr Benjamin Stoikovich	Director and CEO
Ms Carmel Daniele	Non-Executive Director
Mr Thomas Todd	Non-Executive Director
Mr Mark Pearce	Non-Executive Director
Mr Todd Hannigan	Alternate Director

COMPANY SECRETARY:

Mr Dylan Browne

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DIRECTORS' REPORT

The Directors of Prairie Mining Limited present their report on the Consolidated Entity consisting of Prairie Mining Limited ("Company" or "Prairie") and the entities it controlled during the half-year ended 31 December 2016 ("Consolidated Entity" or "Group").

DIRECTORS

The names and details of the Company's Directors in office at any time during the half-year and until the date of this report are:

Directors:	
Mr Ian Middlemas	Chairman
Mr Benjamin Stoikovich	Director and CEO
Ms Carmel Daniele	Non-Executive Director
Mr Thomas Todd	Non-Executive Director
Mr Mark Pearce	Non-Executive Director
Mr Todd Hannigan	Alternate Director
Mr Emil Morfett	Non-Executive Director (resigned 31 July 2016)

Unless otherwise shown, all Directors were in office from the beginning of the half-year until the date of this report.

OPERATING AND FINANCIAL REVIEW

Operations

Highlights during, and subsequent to, the end of the half-year include:

Debiensko Hard Coking Coal Project

- Acquired the Debiensko Hard Coking Coal Project ("Debiensko" or "Project"), a fully permitted, hard coking coal project located in the Upper Silesian Coal Basin in the south west of the Republic of Poland.
- Transformational acquisition marking Prairie's entry into the hard coking coal sector, complementing Prairie's advanced Jan Karski Mine, and creating a multi-project coal development company based in Poland to supply European industry.
- Commenced a scoping study ("Scoping Study") for Debiensko which will evaluate options for the near term development of profitable coal seams whilst minimising upfront capital costs. Results for the Scoping Study are expected to be finalised in the coming days.
- Completed a Maiden Coal Resource Estimate ("CRE") of 301 million tonnes of hard coking coal at Debiensko.
- Results from a fully cored borehole drilled at Debiensko during 2015/16 confirmed historical data indicating that Debiensko hosts a range of premium quality hard coking coals comparable to internationally traded benchmark coking coals.

Jan Karski Mine

- Prairie and China Coal signed a landmark Strategic Co-operation Agreement to advance the financing and construction of Prairie's Jan Karski Mine in Poland.
- Under the terms of the agreement, China Coal No.5 Construction Company Ltd ("China Coal") and Prairie intend to complete a Bankable Feasibility Study ("BFS") in the second half of 2017, which will provide the basis for an EPC contract and a construction-funding package for the Jan Karski Mine.
- The Strategic Co-operation Agreement demonstrates the increasing economic collaboration between Poland and China following China's proposed "One Belt, One Road" development strategy and highlights Poland's importance as a "One Belt Economy" for accessing key European markets.
- Permitting process for the mining concession application continues.

Other

- Coking coal continues to be classified by the European Commission as the third most economically important "critical raw material" for the European economy.
- Cash on hand of $13.1 million and CD Capital's right to invest a further A$68 million as a strategic partner places Prairie in an excellent financial position to progress with its planned development activities at Debiensko and the Jan Karski Mine.

DIRECTORS' REPORT (Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Debiensko Hard Coking Coal Project

During the half-year, the Company acquired Debiensko, a fully permitted, hard coking coal project located in the Upper Silesian Coal Basin in the south west of the Republic of Poland. The Project is located approximately 40 km from the city of Katowice and 30 km from the Czech Republic. The transaction was completed by Prairie purchasing all of the issued shares in Karbonia S.A. ("Karbonia")

Debiensko is bordered by the Knurow-Szczyglowice mine in the north west and the Budryk mine in the north east, both owned and operated by Jastrzębska Spółka Węglowa S.A. ("JSW"), Europe's leading producer of hard coking coal.

The Debiensko mine was originally opened in 1898 and was operated by various Polish mining companies until 2000 when mining operations were suspended due to a major government led restructuring of the coal sector caused by a downturn in global coal prices. In early 2006 New World Resources Plc ("NWR") acquired Debiensko and commenced planning in order for the Project to comply with Polish mining standards and with the aim of accessing and mining hard coking coal seams. In 2007, the Minister of Environment of Poland approved the development plan and in 2008 granted NWR a 50-year mine license for Debiensko.

Debiensko is fully permitted with established on-site facilities including rail, road and power infrastructure, comprehensive historical drilling data and all environmental consents. As a brownfield development project with significant historical capital investment Debiensko is positioned to become a meaningful, regional hard coking coal producer in the near-term.

Scoping Study Underway

During the half-year, Prairie commenced work on a scoping study ("Scoping Study") in accordance with the JORC Code (2012) at Debiensko which is expected to be completed in the coming days. The Scoping Study will be completed to international standards and will focus on near term production opportunities with minimal upfront capital.

Prairie has appointed Royal HaskoningDHV to complete the Scoping Study given their extensive and recent track record of successful involvement in European underground coal projects in the UK, Kazakhstan and Poland, including Prairie's Jan Karski Mine.

Maiden Coal Resource Estimate

Subsequent to the end of the half-year, Prairie completed a maiden CRE at Debiensko which will be used by the Company to support the Scoping Study which will target the highest quality, most laterally extensive and most readily accessible coal seams.

The CRE is reported in accordance with the JORC Code (2012) and comprises 93 million tonnes ("Mt") in the Indicated Category as part of a total CRE of 301Mt. The CRE is based on seven of the thicker, more consistent hard coking coal seams within the Debiensko licence area.

Debiensko Hard Coking Coal Resource Estimate (air dried basis)			
Seam	**Indicated (Mt)**	**Inferred (Mt)**	**Total Coal Resource In-Situ (Mt)**
401/1	20	22	**42**
402/1	-	53	**53**
403/1	-	34	**34**
403/2	-	39	**39**
404/1	-	30	**30**
404/9	35	20	**55**
405	38	10	**48**
Total	**93**	**208**	**301**

* Rounding errors may occur
* The Indicated and Inferred Resource tonnage calculations are reported with geological uncertainty of +/-10% and +/-15% respectively

Coal Quality

Debiensko has attractive coal quality parameters, within all seams, with the proven potential to produce high quality hard coking coal. The resource estimate does not present washed coal quality results but instead presents only raw unwashed coal parameters.

Prairie has scrutinised the historical data and incorporated data from the recently drilled Debiensko 12 borehole to produce this estimate and confirm the hard coking coal quality. Furthermore, the CRE focuses on seven of the thicker, more laterally extensive coals. Further seams of potentially workable thickness occur but are generally not laterally extensive enough to warrant inclusion at this stage. Coal qualities for the target seams are given in the table below.

Coal Quality Parameters at Debiensko

Seam	Parameters	Indicated			Inferred		
		Range		Weighted Average	Range		Weighted Average
		From	To		From	To	
401/1	Moisture%	0.33	1.24	0.68	0.45	1.25	0.60
	Ash%	3.15	24.24	9.24	5.89	24.03	7.47
	VM%	24.69	31.51	27.75	20.86	31.92	25.42
	Sulphur%	0.37	1.60	0.74	0.48	1.58	0.63
	GCV	26,478	34,082	31,416	26,543	33,584	32,881
402/1	Moisture%	-	-	-	0.10	1.02	0.62
	Ash%	-	-	-	3.47	29.68	11.49
	VM%	-	-	-	19.36	31.61	25.28
	Sulphur%	-	-	-	0.27	2.18	0.72
	GCV	-	-	-	23,547	33,797	30,538
403/1	Moisture%	-	-	-	0.35	1.02	0.66
	Ash%	-	-	-	3.73	23.74	11.52
	VM%	-	-	-	16.73	32.13	25.83
	Sulphur%	-	-	-	0.29	0.75	0.49
	GCV	-	-	-	27,511	32,627	31,017
403/2	Moisture%	-	-	-	0.35	1.12	0.73
	Ash%	-	-	-	3.25	33.36	11.38
	VM%	-	-	-	23.64	31.28	26.75
	Sulphur%	-	-	-	0.40	1.87	0.67
	GCV	-	-	-	22,328	33,760	30,581
404/1	Moisture%	-	-	-	0.25	1.10	0.65
	Ash%	-	-	-	6.50	27.38	12.89
	VM%	-	-	-	17.81	31.58	25.04
	Sulphur%	-	-	-	0.35	0.81	0.54
	GCV	-	-	-	25,432	33,025	30,012
404/9	Moisture%	0.56	0.76	0.68	0.53	0.86	0.69
	Ash%	9.45	19.54	11.75	9.65	19.89	13.80
	VM%	20.97	32.95	26.80	15.57	31.05	23.20
	Sulphur%	0.20	1.14	0.60	0.20	1.14	0.41
	GCV	29,145	32,516	31,269	29,067	32,748	30,604

DIRECTORS' REPORT (Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Debiensko Hard Coking Coal Project (Continued)

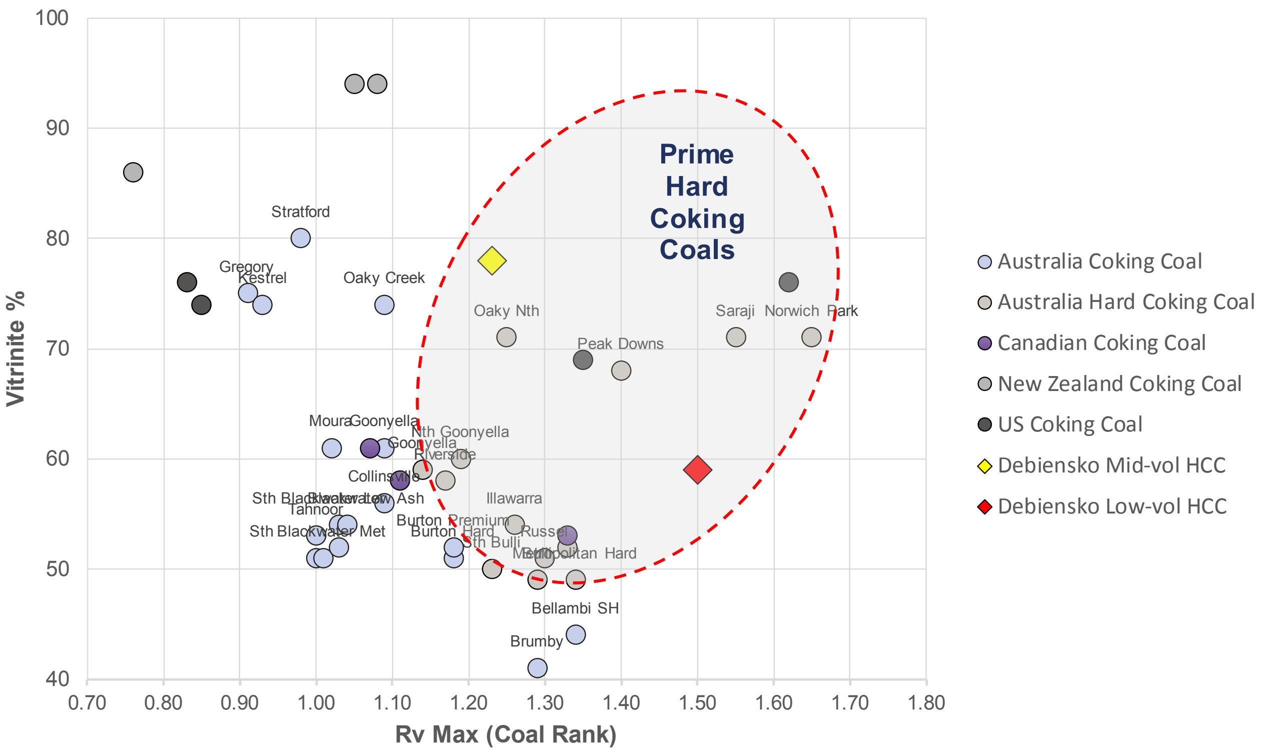
Coal Quality (Continued)

Coal Quality Parameters at Debiensko							
Seam	**Parameters**	**Indicated**			**Inferred**		
		Range		**Weighted Average**	**Range**		**Weighted Average**
		From	**To**		**From**	**To**	
405	**Moisture%**	0.35	1.09	0.65	0.48	0.87	0.65
	Ash%	5.63	17.40	9.61	5.42	12.47	9.17
	VM%	19.40	28.33	23.52	15.33	28.70	22.47
	Sulphur%	0.29	0.48	0.35	0.27	0.93	0.37
	GCV	29,760	34,137	32,198	31,538	34,113	32,427

All analyses are given on an air dried basis except for volatile matter which is on a dry ash free basis.

A fully cored borehole was drilled by the previous owners in 2015/2016 and a suite of modern coking tests were performed on select seams. Preliminary coal quality analysis from this borehole indicates that a range of premium hard coking coals can be produced from the Project that will be in high demand from European steelmakers. Two premium hard coking coal specifications have been delineated at Debiensko, namely Medium volatile matter hard coking coal ("Mid-vol HCC") and Low volatile matter hard coking coal ("Low-vol HCC").

The borehole was fully cored to 30 m below seam 407/4. All core was subject to detailed logging and core photography. Seam thicknesses and depths have been confirmed by a suite of geophysical logs while coal seams were analysed by accredited laboratories in Poland.



Source: Industry Reports

Figure 1 – Premium Coking Coals

Medium Volatile Matter Hard Coking Coal

The quality of Mid-vol HCC from Debienkso compares favourably with the Australian Goonyella hard coking coal brand, and with medium volatile coals produced in Poland today by JSW. This coal features good rheological properties and coke yield, with reasonably low sulphur levels. Prairie's assessment is that Mid-vol HCC from the Debiensko project would receive premium pricing in European and international markets.

Debiensko Medium Volatile Matter Hard Coking Coal Comparison to International Benchmarks

Quality	Debiensko* (Poland)	Goonyella (Australia)	Oaky Creek (Australia)	Elkview (Canada)	Tuhup (Indonesia)	Pittston (USA)	Borynia-JSW (Poland)	Pniowek-JSW (Poland)
Ash (%)	3.2	8.9	9.5	9.5	7.0	8.0	8.5	8.5
Volatile Matter (%)	25.0	23.8	24.5	23.5	26.5	26.0	24.8	27.0
Sulphur (%)	0.56	0.56	0.60	0.50	0.70	0.85	0.65	0.60
Phosphorous (P) in Coal (%)	0.025	0.025	0.070	0.07	0.02	0.019	0.059	0.050
Free Swelling Index (FSI)	8½	8	8½	7½	9	8	7½	8½
CSR (%)	63	66	67	70	60	-	-	-
Fluidity (ddpm)	1200	1100	5000	150	450	-	up to 2300	up to 3000
C daf (%)	86	88.4	86.8	81.2	-	88.0	-	-
Rv Max	1.23	1.17	1.10	1.22	1.18	1.10	1.20	1.10
Vitrinite (%)	78	58	75	55	96	76	-	-

Low Volatile Matter Hard Coking Coal

Debiensko's Low-vol HCC is similar to other internationally traded low volatile matter hard coking coals, including brands such as Peak Downs (BHP Billiton Mitsubishi Alliance – BMA) and Hail Creek (Rio Tinto) produced in Australia. Whilst the Coke Strength after Reaction (CSR) is anticipated to be slightly lower than these Australian coals, the quality of Debiensko Low-vol HCC is anticipated to be in-line with coal produced at JSW's Jas-Mos mine in Poland, which is used as a stabilizing and leaning component of nearly every coal blend for production of blast furnace coke in the region.

DIRECTORS' REPORT (Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Debiensko Hard Coking Coal Project (Continued)

Debiensko Low Volatile Matter Hard Coking Coal Comparison to International Benchmarks								
Quality	**Debiensko* (Poland)**	**Peak Downs (Australia)**	**German Creek (Australia)**	**Hail Creek (Australia)**	**Blue Creek - No.7 (USA)**	**Buchanan (USA)**	**Neryungri (Russia)**	**Jas-Mos (Poland)**
Ash (%)	9.5	10.0	9.5	8.9	9.0	5.3	10.0	7.8
Volatile Matter (%)	20.5	20.5	19.0	20.5	19.9	18.7	19.3	21.4
Sulphur (%)	0.30	0.60	0.54	0.4	0.71	0.73	0.21	0.56
Free Swelling Index	7½	8½	8½	7	8½	8½	8	7½
Fluidity (ddpm)	128	275	400	300l	1113	100	18	200
C daf (%)	80	89.1	88.6	88.2	91	-	80.8	-
Rv Max	1.5	1.40	1.45	1.26	1.48	1.63	1.50	1.40
Vitrinite (%)	59	68	73	54	70	76	81	-

Jan Karski Mine

China Coal Strategic Co-operation Agreement

In November 2016, Prairie and China Coal, the second largest coal mining company in China and one of the world's most advanced and prolific shaft sinking and total underground coal mine construction companies, signed a landmark Strategic Co-operation Agreement to advance the financing and construction of Prairie's Jan Karski Mine in Poland.

Under the terms of the agreement, China Coal and Prairie intend to complete a BFS by mid-2017, which will provide the basis for an Engineering, Procurement, Construction ("EPC") contract and a construction-funding package for the Jan Karski Mine.

Prairie and China Coal have been in discussions since 2014 regarding the potential for collaboration in designing and constructing the Jan Karski Mine.

The Strategic Co-operation Agreement was signed confirming the intention of the parties to, on a best efforts basis:

(i) complete a BFS by mid-2017, which will form the basis of Chinese bank credit approval for project finance;

(ii) based on the results of the BFS, enter into a complete EPC contract under which China Coal will construct the Jan Karski Mine; and

(iii) incorporate relevant Polish content into the design and construction phases, which will include working with a range of Polish specialists, sub-contractors and business partners.

It is the intention of the parties to enter into future binding agreements for China Coal to construct the Jan Karski Mine once the Bankable Feasibility Study is completed successfully and indicative financing terms are given by financing institutions.

Mining Concession Application & Project Permitting

Prairie is currently working towards completing a mining concession application which, in Poland, comprises the submission of a Deposit Development Plan ("DDP"), an Environmental Social Impact Assessment ("ESIA") that is to be approved by regional authorities and approval of a spatial development plan (rezoning of land for mining use). The DDP is a Polish standard mine technical-economic study as prescribed in the Polish mining regulations. Under Polish law, the environmental consent decision must be obtained prior to granting of the mining concession. The environmental consent decision is issued by a specialised environmental authority (the Regional Director for Environmental Protection).

The Company is currently progressing with the mining concession application process and intends to formally lodge a mining concession application for the Jan Karski Mine over the next 12 months.

Prairie Downs Base Metals Project ("BMP")

During the half-year, Prairie altered the terms of the farm-in agreement ("Farm-In Agreement") with Marindi Metals Limited ("Marindi") for the sale of the BMP. Under the terms of the Farm-In Agreement, Marindi can earn a 100% interest in the BMP by electing to pay Prairie in three cash instalments as follows: (i) $0.5 million (received on 27 May 2015); (ii) $0.325 million (received 30 September 2016); and (iii) $0.325 million on or before 31 March 2017.

The Farm-In Agreement allows Prairie to focus 100% of its time and resources on its Polish coal operations. Upon completion, Prairie will retain a 2.5% Net Smelter Royalty.

Results of Operations

The net loss of the Consolidated Entity for the half-year ended 31 December 2016 was $5,337,988 (31 December 2015: $6,922,405). Significant items contributing to the current half-year loss and the substantial differences from the previous half-year include to the following:

(i) Exploration and evaluation expenses of $2,595,437 (31 December 2015: $2,357,273), which is attributable to the Group's accounting policy of expensing exploration and evaluation expenditure incurred by the Group subsequent to the acquisition of rights to explore and up to the commencement of a bankable feasibility study for each separate area of interest. As a direct result of exploration and evaluation activities conducted during the half-year, the Group achieved key milestones including (i) commencement of a scoping study at Debiensko; (ii) signing a landmark Strategic Co-operation Agreement to advance the financing and construction of the Jan Karski Mine; and (iii) progression of the mining concession application for the Jan Karski Mine;

(ii) Business development expenses of $484,478 (31 December 2015: $954,178) which includes expenses relating to the Group's investor relations activities during the six months to 31 December 2016 including brokerage fees, travel costs, attendances at conferences and business development consultant costs;

(iii) Expenses incurred in acquiring Karbonia of $500,236 (31 December 2015: nil) which relates to legal, accounting and other consultant costs in relation to the extensive due diligence and legal process conducted by the Company to effectively execute the transaction;

(iv) Non-cash share-based payment expenses of $167,060 (31 December 2015: $706,221) due to incentive securities issued to key management personnel and other key employees and consultants of the Group as part of the long-term incentive plan to reward key management personnel and other key employees and consultants for the long term performance of the Group. The expense results from the Group's accounting policy of expensing the fair value (determined using an appropriate pricing model) of incentive securities granted on a straight-line basis over the vesting period of the options and rights. The decrease in share-based payment expenses in 2016 compared to 2015 is attributable to the fact that there was no grant of incentive securities during the six months to 31 December 2016 coupled with forfeiture of 1.2 million unvested performance rights;

(v) Non-cash fair value loss of $1,847,018 (31 December 2015: $2,385,080) which is attributable to a $1,847,018 loss (31 December 2015: nil) on the conversion right of the Convertible Notes accounted as a financial liability at fair value through profit and loss. There was a nil (31 December 2015: $2,385,080) fair value loss on the B2Gold Corp financial assets at fair value through profit and loss as the Company sold its entire holding during the 30 June 2016 financial year; and

(vi) Other income of $519,849 (31 December 2015: nil) is attributable to the receipt of $325,000 (31 December 2015: nil) pursuant to the Farm-In Agreement with Marindi and the receipt of $194,849 (31 December 2015: nil) of gas and property income derived since acquiring Karbonia in October 2016.

DIRECTORS' REPORT (Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Financial Position

At 31 December 2016, the Group had cash reserves of $13,076,770 (30 June 2016: $18,063,119) and with CD Capital's right to invest a further A$68 million in the Company as a strategic partner, this places the Group in a strong financial position to continue with its planned development activities at Debiensko and the Jan Karski Mine.

At 31 December 2016, the Company had net assets of $12,492,235 (30 June 2016: $17,815,760) a decrease of 30% compared with 30 June 2016. This is largely attributable to the investment made in Karbonia coupled with the loss for the six months to 31 December 2016.

Business Strategies and Prospects for Future Financial Years

Prairie's strategy is to create long-term shareholder value by creating synergies and developing both Debiensko and the Jan Karski Mine in Poland.

To date, the Group has not commenced production of any minerals. To achieve its objective, the Group currently has the following business strategies and prospects:

- complete and publish the Scoping Study on Debiensko, which is scheduled for completion in the coming weeks;
- Commence a focused in-fill drill program to increase JORC measured and indicated resources to support future feasibility studies for Debiensko;
- Deliver a re-engineered mine plan to produce a feasibility study to international standards with a focus on near term production at Debiensko;
- Continue to advance financing discussions with global project finance banks and potential offtakers to structure a development financing package for the Jan Karski Mine;
- Progress with the mining concession process and formally lodge a mining concession application for the Jan Karski Mine;
- Continue other required project development activities including land acquisition at the Jan Karski Mine;
- Continue with Bankable Feasibility Study at the Jan Karski Mine which is scheduled to be completed in the second half of the year; and
- based on the results of the BFS, enter into a complete EPC contract under which China Coal will construct the Jan Karski Mine.

All of these activities are inherently risky and the Board is unable to provide certainty of the expected results of these activities, or that any or all of these likely activities will be achieved. The material business risks faced by the Group that could have an effect on the Group's future prospects, and how the Group manages these risks, include the following:

- *The Company's activities will require further capital in future years* – The Company currently has cash in excess of $13 million which places it in an excellent position to conduct its current planned development activities at Debiensko and the Jan Karski Mine. However, the ability of the Company to finance capital investment in future years for the construction and future operation of the Company's projects is dependent, among other things, on the Company's ability to raise additional future funding either through equity or debt financing. Any failure to obtain sufficient financing in the future may result in delaying or indefinite postponement of any future construction of the projects or even a loss of property interest (in the future). The key items which the Company would require further funding in future years would be for the construction of the mines at each project. In this regard however, and pursuant to the CD Capital investment agreement, CD Capital has a first right to invest a further $55 million in any future fund raise conducted by the Company, plus CD Capital will have the ability to inject a further $13 million through the exercise of $0.60 options in the Company. There is however no guarantee that CD Capital would take up this right in the future (or exercise their options). There is also a risk that the Company's obligation to offer CD Capital a first right of refusal on any future fund raising could prejudice the Company's ability to raise funds from investors other than CD Capital. However, the Company considers that it would not be necessary to undertake such development actions until it has secured financing to do so and the timing for commencement of such actions would accordingly depend on the date that such financing is secured. If, in the unlikely event that future financing cannot be secured, the Group has the flexibility and ability to significantly reduce its ongoing expenditure.

Furthermore, the Company's board of directors has a successful track record of fundraising for natural resources projects, including large scale coal projects, and has completed successful financing transactions with strategic partners, large institutional fund managers, off-take partners and traders and project finance lenders.

There is however no guarantee that the then prevailing market conditions will allow for a future fundraising or that new investors will be prepared to subscribe for ordinary shares or at the price at which they are willing to do so in the future. Failure to obtain sufficient future financing may result in delaying or indefinite postponement of appraisal and any development of the Company's projects in the future, a loss of the Company's personnel and ultimately a loss of its interest in the projects. There can be no assurance that additional future capital or other types of financing will be available, if needed, or that, if available, the terms of such future financing will be favourable to the Company.

If the Company obtains debt financing in the future, it will be exposed to the risk of leverage and its activities could become subject to restrictive loan and lease covenants and undertakings. If the Company obtains future equity financing other than on a pro rata basis to existing Shareholders, the future percentage ownership of the existing Shareholders may be reduced, Shareholders may then experience subsequent dilution and/or such securities may have preferred rights, options and pre-emption rights senior to the Ordinary Shares. There can be no assurance that the Company would be successful in overcoming these risks in the future or any other problems encountered in connection with such financings.

- *Risk of failure to amend Debiensko mining concession* - The Company's mining exploration and development activities at Debiensko are dependent upon the alteration of, or as the case may be, the maintenance of appropriate licences, concessions, leases, claims, permits and regulatory consents which may be withdrawn or made subject to limitations. The maintaining of concessions, obtaining renewals, or attaining concessions alterations, often depends on the Company being successful in obtaining required statutory approvals for its proposed activities and that the licences, concessions, leases, claims, permits or consents it holds will be renewed and altered as and when required. In this regard the Company has made an application to the Polish Ministry of Environment to amend the Debiensko mining concession to alter the commencement of production from 2018 to 2025. There is no assurance that such applications (or renewals or alterations) of the concession will be granted or that such applications, renewals, alterations, rights and title interests will not be revoked or significantly altered. If such applications, renewals or alterations of concessions applied for are not granted or are in fact revoked in the future, there is a risk that this may have a material adverse effect on the financial performance and operations of Debiensko, the Company and on the value of the Company's securities.
- *Risk of further challenges by Bogdanka* – Since April 2015, Lubelski Wegiel Bogdanka ("Bogdanka") has made a number applications and appeals to the Polish Ministry of Environment ("MoE") seeking a mining concession application over the Company's K-6-7 exploration concession and priority right (only one exploration concession which comprises of the Jan Karski Mine). All applications and appeals previously made by Bogdanka have been outright rejected. However Bogdanka has made a further appeal to the Supreme Administrative Court (with no court hearing being scheduled to date). The Supreme Administrative Court has no authority to grant Bogdanka a mining concession but it may however cancel the MoE's previous rejection decision. If the Supreme Administrative Court does cancel the MoE decision, the MoE will be required to re-assess Bogdanka's mining concession application. These proceedings do not relate to the Prairie's valid and existing priority right to apply for a mining concession over the K-6-7 area. As discussed above Bogdanka has in the past raised several appeals challenging the Company's title to the exploration concessions comprising the Jan Karski Mine. There is therefore no guarantee that Bogdanka will not seek to file further appeals to future decisions taken by government departments in the course of the Jan Karski Mine development timeline.
- *The Company has a limited operating history* – The Company has limited operating history on which it can base an evaluation of its prospects. Despite this, members of the Company's Board of Directors and management team have considerable experience in the exploration, appraisal, funding development and mining of coal projects both globally and in Poland. The future success of the Company is dependent upon a number of factors, including the successful: (i) completion of positive technical and feasibility studies which demonstrates that mining of coal can be economically undertaken; (ii) design, construction and commissioning of the infrastructure required; (iii) progression of permitting and maintenance of title; and (iv) identification of, and agreement with, strategic partners, offtakers and other financiers to fund and assist with the development and operation of mining.

  The prospects of the Company must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly in the mineral exploration sector, which has a high level of inherent uncertainty.

DIRECTORS' REPORT (Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years (Continued)

- *Operations conducted in an emerging market* – The Company's operations are located in Poland and will be exposed to related risks and uncertainties associated with this jurisdiction. Changes in mining or investment policies, laws or regulations (or the application thereof) or shifts in political attitude in Poland, in particular to mining, use of coal, and foreign ownership of coal projects may adversely affect the operation or profitability of the Company. The Company continues to consult with the various levels of Government but there can be no assurances that the future political developments in Poland will not directly impact the Company's operations or its ability to attract funding for its operations. The Company also competes with many other companies in Poland, including companies with established mining operations. Some of these companies have greater financial resources and political influence than the Company and, as a result, may be in a better position to compete with or impede the Company's current or future activities.
- *The Company may be adversely affected by fluctuations in coal prices* – The price of coal fluctuates widely and is affected by numerous factors beyond the control of the Company. Coal prices are currently high compared to previous levels but there is no guarantee that prices will remain at this level in the future. Future production, if any, from the Company's mineral properties and its profitability will be dependent upon the price of coal being adequate to make these properties economic. The Company currently does not engage in any hedging or derivative transactions to manage commodity price risk. As the Company's operations change, this policy will be reviewed periodically going forward.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

(i) On 1 February 2017, the Company announced a maiden CRE of 301 million tonnes of hard coking coal at Debiensko; and

(ii) On 16 February 2017, the Company recouped PLN6.21 million (~$1,985,490) in relation to a prepaid deposit held in escrow due to the unwinding of a transaction entered into by Karbonia when under control by the previous owners, NWR.

Other than the above, there were no significant events occurring after balance date requiring disclosure.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Ernst and Young, to provide the directors of Prairie Mining Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is on page 24 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.

B. Stoik

BEN STOIKOVICH
Director

9 March 2017

Forward Looking Statements

This report may include forward-looking statements. These forward-looking statements are based on Prairie's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Prairie, which could cause actual results to differ materially from such statements. Prairie makes no undertaking to subsequently update or revise the forward-looking statements made in this release, to reflect the circumstances or events after the date of that release.

Competent Person Statements

The information in this report that relates to Exploration Results and Coal Resources was extracted from Prairie's ASX announcement dated 1 February 2017 entitled 'Maiden 301 Million Tonnes Hard Coking Coal Resource Confirmed At Debiensko' which is available to view on the company's website at www.pdz.com.au

The information in in the original ASX announcements that relates Coal Resources is based on, and fairly represents, information compiled or reviewed by Mr Jonathan O'Dell, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy who is a consultant of the Company. Mr O'Dell has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'

Prairie confirms that: a) it is not aware of any new information or data that materially affects the information included in the original ASX announcements and; b) all material assumptions and technical parameters underpinning the Coal Resource included in the original ASX announcement continue to apply and have not materially changed; c) the form and context in which the relevant Competent Persons' findings are presented in this report has not been materially modified from the original ASX announcement.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Prairie Mining Limited, I state that:

In the reasonable opinion of the Directors and to the best of their knowledge:

(a) the attached financial statements and notes thereto for the period ended 31 December 2016 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

(b) The Directors Report, which includes the Operating and Financial Review, includes a fair review of the information required by:

(i) DTR4.2.7R of the Disclosure and Transparency Rules in the United Kingdom, being an indication of important events during the first six months of the current financial year and their impact on the half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

(ii) DTR4.2.8R of the Disclosure and Transparency Rules in the United Kingdom, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have such a material effect; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

B. Stoik

BEN STOIKOVICH
Director

9 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Half-Year Ended 31 December 2016 $	Half-Year Ended 31 December 2015 $
Revenue	**4(a)**	**208,330**	113,950
Other income	**4(b)**	**519,849**	-
Exploration and evaluation expenses		**(2,595,437)**	(2,357,273)
Employment expenses		**(68,774)**	(88,527)
Administration and corporate expenses		**(238,129)**	(247,754)
Occupancy expenses		**(194,583)**	(297,322)
Share-based payment expenses		**(167,060)**	(706,221)
Business development expenses		**(484,478)**	(954,178)
Expenses incurred in acquiring Karbonia		**(500,236)**	-
Remeasurement gain on contingent consideration	**14**	**29,548**	-
Fair value movements	**5**	**(1,847,018)**	(2,385,080)
Loss before income tax		**(5,337,988)**	(6,922,405)
Income tax expense		**-**	-
Net loss for the period		**(5,337,988)**	(6,922,405)
Net loss attributable to members of Prairie Mining Limited		**(5,337,988)**	(6,922,405)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(150,679)**	24,942
Total other comprehensive income/(loss) for the period		**(150,679)**	24,942
Total comprehensive loss for the period		**(5,488,667)**	(6,897,463)
Total comprehensive loss attributable to members of Prairie Mining Limited		**(5,488,667)**	(6,897,463)
Basic and diluted loss per share (cents per share)		**(3.52)**	(4.67)

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

Prairie Mining Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	31 December 2016 $	30 June 2016 $
ASSETS			
Current Assets			
Cash and cash equivalents		**13,076,770**	18,063,119
Trade and other receivables	6	**2,531,418**	265,635
Total Current Assets		**15,608,188**	18,328,754
Non-Current Assets			
Property, plant and equipment	7	**2,470,660**	98,140
Exploration and evaluation assets	8	**2,483,436**	530,000
Total Non-current Assets		**4,954,096**	628,140
TOTAL ASSETS		**20,562,284**	18,956,894
LIABILITIES			
Current Liabilities			
Trade and other payables	9	**2,118,257**	805,313
Provisions	11	**968,528**	-
Other financial liabilities	10	**3,934,971**	335,821
Total Current Liabilities		**7,021,756**	1,141,134
Non-current Liabilities			
Provisions	11	**1,048,293**	-
Total Non-current Liabilities		**1,048,293**	-
TOTAL LIABILITIES		**8,070,049**	1,141,134
NET ASSETS		**12,492,235**	17,815,760
EQUITY			
Contributed equity	12(a)	**51,347,014**	51,298,932
Reserves	13	**3,009,874**	3,043,493
Accumulated losses		**(41,864,653)**	(36,526,665)
TOTAL EQUITY		**12,492,235**	17,815,760

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Contributed Equity $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2016	**51,298,932**	**3,010,300**	**33,193**	**(36,526,665)**	**17,815,760**
Net loss for the period	**-**	**-**	**-**	**(5,337,988)**	**(5,337,988)**
Other comprehensive income for the half-year					
Exchange differences on translation of foreign operations	**-**	**-**	**(150,679)**	**-**	**(150,679)**
Total comprehensive income/(loss) for the period	**-**	**-**	**(150,679)**	**(5,337,988)**	**(5,488,667)**
Transactions with owners recorded directly in equity					
Issue of ordinary shares	**50,000**	**-**	**-**	**-**	**50,000**
Share issue costs	**(1,918)**	**-**	**-**	**-**	**(1,918)**
Forfeiture of performance rights	**-**	**(396,001)**	**-**	**-**	**(396,001)**
Recognition of share-based payments	**-**	**513,061**	**-**	**-**	**513,061**
Balance at 31 December 2016	**51,347,014**	**3,127,360**	**(117,486)**	**(41,864,653)**	**12,492,235**
Balance at 1 July 2015	36,649,571	2,597,720	22,963	(29,870,996)	9,399,258
Net loss for the period	-	-	-	(6,922,405)	(6,922,405)
Other comprehensive income for the half-year					
Changes in fair value of available-for-sale financial assets	-	-	-	-	-
Deferred tax on available-for-sale financial assets	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	24,942	-	24,942
Total comprehensive income/(loss) for the period	-	-	24,942	(6,922,405)	(6,897,463)
Transactions with owners recorded directly in equity					
Issue of ordinary shares	321,248	-	-	-	321,248
Share issue costs	(6,614)	-	-	-	(6,614)
Issue of convertible notes (Note 12a)	15,000,000	-	-	-	15,000,000
Costs to issue convertible notes	(898,829)				
Transfer from share-based payments	649,300	(649,300)	-	-	-
Lapse of performance rights	-	(8,356)	-	8,356	-
Recognition of share-based payments	-	706,220	-	-	706,220
Balance at 31 December 2015	51,714,676	2,646,284	47,905	(36,785,045)	17,623,820

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

	Half-Year Ended 31 December 2016 $	Half-Year Ended 31 December 2015 $
Cash flows from operating activities		
Payments to suppliers and employees	**(4,890,288)**	(3,961,413)
Proceeds from property and gas sales	**94,849**	-
Interest revenue from third parties	**231,437**	63,416
Net cash outflow from operating activities	**(4,564,002)**	(3,897,997)
Cash flows from investing activities		
Purchase of plant and equipment	**-**	(1,487)
Purchase of controlled entity (note 14)	**(742,367)**	-
Proceeds from Farm-In Agreement	**325,000**	-
Net cash outflow from investing activities	**(417,367)**	(1,487)
Cash flows from financing activities		
Proceeds from issue of shares	**-**	-
Payments for share issue costs	**-**	(13,237)
Proceeds from issues of convertible note	**-**	15,000,000
Payments for issue of convertible note	**-**	(576,450)
Net cash inflow from financing activities	**-**	14,410,313
Net increase/(decrease) in cash and cash equivalents	**(4,981,369)**	10,510,829
Net foreign exchange differences	**(4,980)**	(799)
Cash and cash equivalents at the beginning of the period	**18,063,119**	2,076,409
Cash and cash equivalents at the end of the period	**13,076,770**	12,586,439

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The interim consolidated financial statements of the Group for the half-year ended 31 December 2016 were authorised for issue in accordance with the resolution of the directors on 8 March 2017.

This general purpose condensed financial report for the interim half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of Prairie Mining Limited for the year ended 30 June 2016 and any public announcements made by the Group and its controlled entities during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

(a) Basis of Preparation of Half-Year Financial Report

The financial statements have been prepared on the basis of historical cost, except for the derivative financial instruments that are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

(b) New Standards, interpretations and amendments thereof, adopted by the Group

The accounting policies and methods of computation adopted in the preparation of the consolidated half-year financial report are consistent with those adopted and disclosed in the company's annual financial report for the year ended 30 June 2016, other than as detailed below.

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138);
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle including AASB 5, AASB 7, AASB 119 and AASB 134; and
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity operates in one segment, being mineral exploration. This is the basis on which internal reports are provided to the Chief Executive Officer for assessing performance and determining the allocation of resources within the Consolidated Entity.

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

	Half-Year ended 31 December 2016 $	Half-Year Ended 31 December 2015 $
4. REVENUE AND OTHER INCOME		
(a) Revenue		
Interest Income	**208,330**	113,950
	208,330	113,950
(b) Other Income		
Gas sales	**194,849**	-
Farm-In Agreement Income	**325,000**	-
	519,849	-

	Note	Half-Year ended 31 December 2016 $	Half-Year Ended 31 December 2015 $
5. FAIR VALUE MOVEMENTS			
Fair value loss on financial liabilities at fair value through profit and loss	12(a)	**(1,847,018)**	-
Fair value loss on financial assets at fair value through profit and loss		**-**	(2,385,080)
		(1,847,018)	(2,385,080)

	31 December 2016 $	30 June 2016 $
6. TRADE AND OTHER RECEIVABLES		
Trade Receivables	**326,227**	13,271
Accrued interest	**33,358**	56,464
GST and other receivables	**2,171,833**	195,900
	2,531,418	265,635

	Note	31 December 2016 $	30 June 2016 $
7. PROPERTY, PLANT AND EQUIPMENT			
(a) Property, Plant and Equipment			
At Cost		**3,527,805**	1,126,637
Accumulated depreciation		**(1,057,145)**	(1,028,497)
Carrying amount at end of the period		**2,470,660**	98,140
(b) Reconciliation			
Carrying amount at beginning of the period, net of accumulated depreciation		**98,140**	58,097
Acquired on acquisition of Karbonia	14	**2,527,356**	-
Additions		**-**	83,146
Depreciation charge		**(28,648)**	(39,825)
Exchange differences on translation of foreign operations		**(126,188)**	(3,278)
Carrying amount at end of the period		**2,470,660**	98,140

	Note	31 December 2016 $	30 June 2016 $
8. EXPLORATION AND EVALUATION ASSETS			
(a) Areas of Interest			
Jan Karski Mine		**530,000**	530,000
Debiensko Hard Coking Coal Project		**1,953,436**	-
Carrying amount at end of the period[1]		**2,483,436**	530,000
(b) Reconciliation			
Carrying amount at beginning of the period		**530,000**	530,000
Acquired on acquisition of Karbonia	14	**2,047,034**	-
Exchange differences on translation of foreign operations		**(93,598)**	-
Carrying amount at end of the period[1]		**2,483,436**	530,000

Notes:

[1] The ultimate recoupment of costs carried for exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or sale of the respective areas.

	31 December 2016 $	30 June 2016 $
9. TRADE AND OTHER PAYABLES		
Trade creditors	**2,118,257**	805,313
	2,118,257	805,313

Refer to note 14 for the trade and other payables inherited as part of the Karbonia acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016 (Continued)

	Note	31 December 2016 $	30 June 2016 $
10. OTHER FINANCIAL LIABILITIES			
Conversion right attached to convertible note at fair value through profit or loss	12(a)	**2,182,839**	335,821
Contingent consideration at amortised cost	14	**1,752,132**	-
		3,934,971	335,821

	31 December 2016 $	30 June 2016 $
11. PROVISIONS		
(a) Current Provisions:		
Provisions for the protection against mining damage at Debiensko	**231,403**	-
Annual leave provision	**87,380**	-
Other[1]	**649,745**	-
	968,528	-
(b) Non-Current Provisions:		
Provisions for the protection against mining damage at Debiensko	**1,048,293**	-
	1,048,293	-

Notes:

[1] In April 2012, Karbonia signed a power connection contract with the local power grid operator. The purpose of the contract was to connect Karbonia's future mining facilities at Debiensko to the power operator's power lines. The operator has incurred expenses amounting to PLN1,965,500 ($649,745) of which Karbonia would owe to the operator in the event that the contract is terminated (which both parties are entitled to do), or if power is not purchased from Tauron prior 2018.

	Note	31 December 2016 $	30 June 2016 $
12. CONTRIBUTED EQUITY			
(a) Issued and Unissued Capital			
151,858,969 (30 June 2016: 151,608,969) fully paid ordinary shares	12(b)	**38,218,961**	38,170,879
Convertible loan notes exchangeable into fully paid ordinary shares at $0.335 per share[1]		**15,000,000**	15,000,000
Conversion right attached to convertible note[2]		**(968,284)**	(968,284)
Costs incurred to issue convertible note		**(903,663)**	(903,663)
Total Contributed Equity		**51,347,014**	51,298,932

Notes:

[1] In September 2015, Prairie completed an Investment Agreement with CD Capital by way of a private placement by PDZ Holdings (a wholly-owned subsidiary of Prairie which indirectly holds the Jan Karski Mine) of non-interest bearing convertible loan notes ("Convertible Note") with an aggregate principal amount of $15 million to CD Capital, exchangeable for ordinary shares in Prairie at $0.335 per share. The $83 million transaction was approved by shareholders and is structured as follows:

- Issue of the Convertible Note upfront;
- On conversion of the Convertible Notes, grant CD Capital unlisted options in Prairie with an exercise price of A$0.60 per option ("CD Options") for a further investment in Prairie of $13 million once exercised; and
- a priority right for CD Capital to invest a further A$55 million in any future funding conducted by Prairie

Other key terms of the Convertible Note include the following:

- At any time while the Convertible Note is outstanding, CD Capital has the right to convert all or part of the outstanding principal amount of the Convertible Note into shares at the conversion price of $0.335 per share. The Convertible Note must be converted in minimum amounts of $250,000 increments.
- Prairie has the right, whilst no Event of Default exists, to convert all or part of the outstanding principal amount of the Convertible Note into shares at the conversion price of $0.335 per share:

  - in the event of an unconditional takeover of the Company (acquisition of a relevant interest in at least 50% of Prairie shares pursuant to a takeover bid or by an Australian court approving a merger by way of a scheme of arrangement); or
  - at any time 12 months after the date of issue of the Convertible Note (being 19 July 2015) provided that the 30 day VWAP of Prairie's shares exceeds the conversion price of A$0.335 per share;
- The Convertible Note does not provide CD Capital with any right to participate in any new issues of securities.
- If the Company reorganises its capital structure, such as by subdividing or consolidating the number of its shares, conducts a pro-rata offer to existing shareholders or distributes assets or securities to Shareholders, then the conversion price of $0.335 of the Convertible Note will be adjusted so that the number of shares received by CD Capital on conversion of the Convertible Note (assuming that all PDZ Holdings shares issued to CD Capital were exchanged for Prairie shares) is the same as if the Convertible Note were converted prior to relevant event.
- The occurrence of an Event of Default entitles CD Capital to declare the principal amount of the Convertible Note immediately due and payable and exercise any other rights or remedies (including bringing proceedings) against the Group.
- Each of the following events is an "Event of Default" in relation to the Convertible Note:
  - If any representation or warranty made by Prairie is false or misleading which is reasonably likely to be a Material Adverse Effect, and if such breach is capable of remedy, it is not remedied within 45 days;
  - If the Group breaches a covenant or condition of the Convertible Note or Investment Agreement which is a Material Adverse Effect, and if such breach is capable of remedy, it is not remedied within 45 days;
  - An Insolvency Event occurs (i.e. winding up) in relation to the Group;
  - If the Group ceases to carry on a business; or
  - If the Group does not maintain the listing and trading of its shares on at least one of the ASX, LSE or WSE.
- CD Capital may assign, transfer or encumber in whole or in part (in amounts of at least $1 million) its rights under the Convertible Note to any third party by giving written notice to the Prairie Group provided the third party has provided a deed of assumption. Assignment of the Convertible Note will not result in the assignment of the rights and obligations under the Investment Agreement.
- A Material Adverse Effect means a material adverse effect on:
  - the Company or PDZ Holding's ability to perform any of their obligations under the Convertible Note, the Investment Agreement and all other documents to be executed and delivered by CD Capital to PDZ Holdings or the Group ("Transaction document");
  - the validity or enforceability of a Transaction Document; or
  - the assets, business, condition (financial or otherwise), prospects or operations of the Group.
- An Insolvency Event in relation to the Group means:
  - An order being made, or the Group passing a resolution, for its winding up.

2 Under AASB 132, the conversion rights (the issue of Ordinary Shares and CD Options on conversion of the Convertible Note) of the Convertible Note needs to be considered and accounted for separately. This embedded derivative is required to be carried at fair value through profit and loss and results in the fair value movements of the conversion rights to be recognised in profit and loss for the period. The fair value of the derivative liability at 30 June 2016 and 31 December 2016 was assessed to be $335,821 and $2,182,839, respectively. The non-cash fair value loss arising from the movement in the derivative was $1,847,018. Please refer to note 5 and 10 for further disclosure.

(b) Movements in fully paid ordinary shares during the past six months

Date	Details	Number of Shares	$
1-Jul-16	**Opening Balance**	**151,608,969**	**38,170,879**
2-Dec-16	Issue of shares to consultant	250,000	50,000
Jul-16 to Dec-16	Share issue costs	-	(1,918)
31-Dec-16	**Closing Balance**	**151,858,969**	**38,218,961**

	Note	31 December 2016 $	30 June 2016 $
13. RESERVES			
Share-based payments reserve	13(a)	**3,127,360**	3,010,300
Foreign currency translation reserve		**(117,486)**	33,193
		3,009,874	3,043,493

(a) Movements in share-based payments reserve during the past six months

Date	Details	Number of Unlisted Options	Number of Performance Rights	$
01-Jul-16	**Opening Balance**	**8,225,000**	**9,397,000**	**3,010,300**
31-Dec-16	Forfeiture of performance rights	-	(1,200,000)	(396,001)
Jul-16 to Dec-16	Share-based payments expense	-	-	513,061
31-Dec-16	**Closing Balance**	**8,225,000**	**8,197,000**	**3,127,360**

14. ACQUISITION OF CONTROLLED ENTITY

On 10 October 2016, the Company completed the acquisition of Karbonia which holds the Debiensko project. The transaction is not deemed to be a Business Combination in accordance with AASB 3 Business Combinations and has been accounted for as an asset acquisition.

The total cost of the acquisition was $2,524,047 and comprised as follows:

	Relative Value on acquisition $
Exploration and evaluation assets	2,047,034
Cash and cash equivalents	27,232
Trade and other receivables	2,387,537
Property, plant & equipment	2,527,356
Trade and other payables	(2,355,738)
Provisions	(2,109,374)
Net Assets Acquired	**2,524,047**
Cost of Acquisition:	
Cash consideration	742,367
Contingent consideration[1]	1,781,680
	2,524,047

Notes:

[1] The Company acquired 100% of the shares of Karbonia for upfront cash consideration of €500,000 (A$742,367) and by agreeing to pay a contingent cash consideration component of €1,500,000 upon certain project specific milestones being achieved, including approval of an amendment of the Debiensko mining concession to extend the start date of commencement of mining operations beyond 2018, and therefore facilitating Prairie's forward work program aimed at defining a "bankable" project at Debiensko according to international standards. As at the acquisition date, the fair value of the contingent consideration was estimated to be €1,200,000 ($1,781,680) based on the probability of meeting the project milestones and being granted approval to amend the Debiensko mining concession. As at the reporting date, and due to fluctuations in the foreign exchange rates between the Euro and Australian Dollar, the carrying value of the contingent consideration was estimated to be $1,752,132 and is disclosed as an other financial liability in note 10. The gain arising from the remeasurement in the carrying value of the contingent consideration was $29,548 for the half-year. Please refer to note 10 for further disclosure.

15. CONTINGENT ASSETS AND LIABILITIES

There have been no changes to contingent assets or liabilities since the date of the last annual report.

16. FINANCIAL INSTRUMENTS

The Group's financial assets and liabilities, which comprise of cash and cash equivalents, trade and other receivables, trade and other payables and other financial liabilities, may be impacted by foreign exchange movements. At 31 December 2016 and 30 June 2016, the carrying value of the Group's financial assets and liabilities approximate their fair value. Please refer to notes 5, 10, 14 and below for further disclosure.

An option pricing model was used to fair value the conversion rights attached to the Convertible Note. This fair value measurement is determined at Level 2 of the fair value hierarchy. For the purposes of valuing the conversion right, the fair value has been determined to be the price that would be received to transfer a liability in an orderly transaction between market participants at the measurement date. The assumptions used to determine the fair value of the conversion rights attached to the Convertible Note are as follows:

31 December 2016 Assumptions	
Exercise price	$0.60
Valuation date share price	$0.38
Dividend yield[1]	-
Volatility[2]	86%
Risk-free interest rate	1.98%
Number of CD Options	22,388,060
Issue date	11-Sep-14
Estimated Expiry date	20-Sep-20
Expected life of CD Option[3]	3.72 years
Discount Applied[3]	50%
Fair value at grant date	$0.098

Notes:

[1] The dividend yield reflects the assumption that the current dividend payout will remain unchanged.

[2] The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome

[3] Based on management's best estimates.

17. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half-year (31 December 2015: nil).

18. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

(i) On 1 February 2017, the Company announced a maiden CRE of 301 million tonnes of hard coking coal at Debiensko; and

(ii) On 16 February 2017, the Company recouped PLN6.21 million (~$1,985,490) in relation to a prepaid deposit held in escrow due to the unwinding of a transaction entered into by Karbonia when under control by the previous owners, NWR.

Other than the above, there were no significant events occurring after balance date requiring disclosure.

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Auditor's Independence Declaration to the Directors of Prairie Mining Limited

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

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review*;* and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Prairie Mining Limited and the entities it controlled during the financial period.

Ernst & Young

G H Meyerowitz
Partner
9 March 2017

GHM:JT:PRAIRIE:006

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Review report to the members of Prairie Mining Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Prairie Mining Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, 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 half-year 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 controls as the directors determine are 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 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 Prairie Mining Limited and the entities it controlled during the half-year, 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 have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

GHM:JT:PRAIRIE:005

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 Prairie Mining Limited is not in accordance with the *Corporations Act 2001*, including:

a) 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

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
9 March 2017