Prairie Mining Limited

Interim Financial Report for the Half-Year Ended 31 December 2017

Śródroczny raport finansowy za drugie półrocze zakończone 31 grudnia 2017

ABN 23 008 677 852

CORPORATE DIRECTORY | ZBIÓR DANYCH KORPORACYJNYCH

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 Dylan Browne	Company Secretary

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Australia:
Ernst & Young – Perth

BANKERS:

Poland:
Bank Zachodni WBK S.A. – Santander Group

Australia:
Australia and New Zealand Banking Group Ltd

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STOCK EXCHANGE LISTINGS:

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Warsaw Stock Exchange – GPW Code: PDZ

United Kingdom:
London Stock Exchange (Main Board) – LSE Code: PDZ

Australia:
Australian Securities Exchange – ASX Code: PDZ

CONTENTS | ZAWARTOŚĆ

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 2017 ("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

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 Mine (Premium Hard Coking Coal)

- The newly appointed Prime Minister, Mateusz Morawiecki, officially presented the Ministry of Development's "Program for Silesia" which included a strategy for the re-start of a major coking coal mine in the Upper Silesian region, where the Debiensko Mine ("Debiensko") is located, and highlighted the positive social and economic impacts that mine development would have on the region.
- Mine site redevelopment planning continued at the Debiensko to advance with completion of initial demolition works, pre-qualification of study contractors, and preparation for an infill drill program to increase JORC Measured and Indicated Resources.
- Prairie continued discussions with regional steel makers and coke producers for future coking coal sales and offtake.
- Hard coking coal prices continued to trade at price levels above US$225/t FOB Australia.
- Market analysts forecast underinvestment in new coking coal mine development has potential to result in sustained high coking coal prices.
- European Commission continues to designate coking coal as a Critical Raw Material in its 2017 review.

Jan Karski Mine (Semi-Soft Coking Coal)

- Prairie's use of modern exploration techniques continues to transform the Jan Karski Mine ("Jan Karski") with latest drilling results re-affirming the capability of the project to produce high value ultra-low ash semi-soft coking coal.
- Environmental permitting for Jan Karski advanced following successful submission of the Environmental and Social Impact Assessment ("ESIA") to the Lublin Regional Environment Directorate for Environmental Consent.
- Spatial development plan approved at Jan Karski meaning the rezoning of 56 hectares of agricultural land for industrial use is complete allowing for construction of a mine site, shafts and associated surface infrastructure.
- Preparation of the Mining Concession application is underway and anticipated to be lodged in the coming weeks, subject to the Company being issued with Environmental Consent.
- China Coal's technical studies for the construction of Jan Karski have significantly advanced and Prairie is currently reviewing study documents provided by China Coal. The studies will be revised to incorporate the latest coal quality results from drilling at Jan Karski as well as any conditions stipulated in the Environmental Consent and the Mining Concession to be granted for Jan Karski.

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Corporate

- In July 2017, Prairie and CD Capital completed an additional investment of US$2.0 million ($2.6 million) in the form of a non-redeemable, non-interest-bearing convertible loan note ("Loan Note 2").
- Cash on hand of $15.1 million and CD Capital's right to invest a further $68 million as a cornerstone investor, plus with the Strategic Co-operation Agreement between Prairie and China Coal for financing and construction of Jan Karski, Prairie is well positioned to progress with its planned development activities at Debiensko and Jan Karski.

Debiensko Mine

Debiensko is a hard coking coal project located in the Upper Silesian Coal Basin in the south west of the Republic of Poland. It is approximately 40 km from the city of Katowice and 40 km from the Czech Republic.

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 SA ("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 terminated 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 for Debiensko to comply with Polish mining standards, with the aim of accessing and mining hard coking coal seams. In 2008, the Minister of Environment of Poland ("MoE") granted a 50-year mine license for Debiensko.

Premium Quality Hard Coking Coal

Preliminary analysis indicates that a range of premium hard coking coals that will be in high demand from European steelmakers can be produced from Debiensko. This analysis is based on historical data, neighbouring operational coking coal mines and the results of a suite of modern coking tests performed on selected seams from a fully cored borehole drilled by the previous owners in 2015/16. Two premium hard coking coal specifications have been delineated from select seams at Debiensko, namely Medium volatile matter hard coking coal ("Mid-vol HCC") and Low volatile matter hard coking coal ("Low-vol HCC"). Future study phases will determine the precise Debiensko premium hard coking coal quality specification on a year by year basis depending on the final adopted mine plan, mining schedule and extent of coal blending.

Both Debiensko's Mid-vol and Low-vol HCC lie within the range of premium hard coking coals produced globally. Indications are that the Mid-vol HCC at Debiensko is present between 850 m to 1,000 m from surface and the Low-vol HCC is present 1,000 m to 1,300 m below surface i.e. at depths similar to adjacent operating mines owned by JSW - the largest coking coal producer in Europe

Re-start of a Coking Coal mine included in "Program for Silesia" and new political appointments in Poland

Prairie notes that during the half-year, the Polish Government appointed a new Prime Minister, Mr Mateusz Morawiecki, who immediately prior to his current role, was Deputy Prime Minister and Minister of Finance in Poland. Prairie also notes that in January 2018, a new Minister of Environment, Mr Henryk Kowalczyk, was appointed as part of a cabinet reshuffle under the new Prime Minister. In Poland, responsibility for exploration and Mining Concessions is the responsibility of the MoE.

Following his appointment, Prime Minister Mateusz Morawiecki, presented the Polish Ministry of Development's "*Program for Silesia*" ("Program") – a strategic document which anticipated the re-construction of a coking coal mine in the region of Upper Silesia, where Debiensko is located. The Program details the creation of 1,500 direct jobs in the region and indicates the social and economic benefits of re-construction of a coking coal mine, to potentially be funded by foreign and Polish capital.

Preparation for the Next Phase of Project Studies

Following completion of a 28 shallow geo-technical drill program during the period, Prairie continued to analyse the drill hole data which will be used for engineering design of foundations of structures associated with the shafts, coal handling and preparation plant ("CHPP") and other surface facilities. These holes are essential in order to assess the soil conditions, properly design structural foundations and thus provide more accurate pricing in the tenders as required for a feasibility study.

Pre-qualification of contractors for the major components of the next phase of Debiensko studies also continued throughout the period including contractors for the:

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Debiensko Mine (Continued)

Preparation for the Next Phase of Project Studies (Continued)

- In-fill drilling program (to update measured and indicated resources);
- CHPP;
- Shafts and bulk coal winder;
- Desalination plant; and
- Surface facilities.

Demolition works continued throughout the period specifically targeting old structures including walkways and old administrative buildings. To date, Prairie has completed demolition works on a number of old surface structures of the former Debiensko mine including the bathhouse, switchgear building and locomotive garage.

Jan Karski Mine

Latest Drill Results Affirm Jan Karski as a Semi-Soft Coking Coal Project

Prairie's use of modern exploration techniques continues to transform Jan Karski with latest drill results re-affriming the capability of the the project to produce high value ultra-low ash semi-soft coking coal, known as Type 34 coal in Poland.

The coking coal quality results are superior to the drill results announced in May 2017, and further confirm that Jan Karski is a globally significant semi-soft coking coal ("SSCC") / Type 34 coking coal deposit with the potential to produce a high value ultra-low ash SSCC with an exceptional CSR and a high 75% coking coal product split.

Submission of ESIA & Initiation of Public Consultation

An application for issuing the environmental decision together with the ESIA was submitted to the Regional Director for Environmental Protection ("RDOS") in Lublin in October 2017. Taking into account the RDOS's additional comments the motion and ESIA were supplemented in late November 2017. The Environmental Consent process has now officially been initiated by RDOS.

Prairie is now waiting for approval of the ESIA in the form of an Environmental Consent decision, which is the last component to meet all formal requirements to apply for the Mining Concession for construction for Jan Karski.

As part of the environmental permitting process, Prairie initiated public consultations in three municipalities, including Wierzbica, Siedliszcze and Cyców. Presentations on Jan Karski's development plans were given by Mr Miroslaw Taras (Prairie's Group Executive), Witold Wołoszyn (Prairie's Environmental and Planning Manager) and specialists from the international environmental consulting group, Multiconsult Polska who prepared the ESIA. Key advantages for the local community related to employment opportunities and social benefits associated with the development, construction and operation of Jan Karski including:

- creation of 2,000 direct employment positions and 10,000 indirect jobs for the region once operational;
- increasing skills of the workforce and through the implementation of International Standard training programmes;
- stimulating the development of education, health services and communications within the region; and
- building a mine that creates new employment for generations to come and career paths for families to remain in the region.

China Coal Progress and Financing Discussions

In November 2017, the Company hosted a delegation in Poland including China Coal No.5 Construction Company Ltd ("China Coal") and the Chinese Government's officially authorised coal mine design institute Jinan Mine Design Institute, during which locally provided content for construction of Jan Karski was finalised alongside domestic Polish specialists, subcontractors and partners who will provide relevant Polish content.

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(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Jan Karski Mine (Continued)

China Coal Progress and Financing Discussions (Continued)

China Coal's non-JORC technical studies for the construction and funding of the Jan Karski Mine have significantly advanced and Prairie is currently reviewing study documents ("Studies") received from China Coal subsequent to the half-year end. In accordance with the Strategic Co-operation Agreement between Prairie and China Coal, the Studies will form the basis for provision of debt financing out of China for the construction and development of Jan Karski. The Studies are being undertaken in accordance with Chinese official mine design and banking standards for coal mine projects, and to comply with domestic Polish engineering standards and standards for mechanical and electrical equipment. The terms of the Environmental Consent and Mining Concession for Jan Karski will be incorporated into the final engineering design, as well as results from the latest coal quality and hydrogeological drilling works being conducted by the Company.

Prairie and China Coal continue to advance discussions with Chinese banks to provide debt facilities to fund construction of the Project and enter into a complete Engineering, Procurement, and Construction ("EPC") contract under which China Coal would construct the Jan Karski Mine.

Results of Operations

The net loss of the Consolidated Entity for the half-year ended 31 December 2017 was $5,297,797 (31 December 2016: $5,337,988). 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 $4,047,621 (31 December 2016: $2,565,889), 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) completed drilling at Jan Karski which re-affirmed the capability of the project to produce SSCC; (ii) permitting activities continued at Jan Karski including submission of an ESIA and approval of spatial development plans which will form the basis of a Mining Concession application; (iii) substantial advancement of China Coal's technical studies for construction of the Jan Karski Mine; and (iv) mine site redevelopment planning continued at Debiensko including advancement of demolition works pre-qualification of study contractors and preparation for an infill drill program to increase JORC Measured and Indicated Resources;

(ii) Business development expenses of $512,267 (31 December 2016: $484,478) which includes expenses relating to the Group's investor relations activities during the six months to 31 December 2017 including brokerage fees, public relations, digital marketing, travel costs, attendances at conferences and business development consultant costs;

(iii) Other expenses of nil (31 December 2016: $500,236) 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 acquisition of Karbonia in 2016;

(iv) Non-cash share-based payment expenses of $200,422 (31 December 2016: $167,060) 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. At 31 December 2017 1.2 million unvested performance rights were forfeited;

(v) Non-cash fair value loss of $212,687 (31 December 2016: $1,847,018) which is attributable to the non-cash fair value movements on the conversion right of the first CD Capital convertible loan note ("Loan Note 1") accounted as a financial liability at fair value through profit and loss. This financial liability increases in size as the share price of the Company increases. With the share price increasing by some 8% during the half-year, the size of the loss attributable to the financial liability has increased. When Loan Note 1 converts into shares and the CD Options are issued, the financial liability will be reclassified from a liability to equity and will require no cash settlement by the Company; and

(vi) Revenue of $441,023 (31 December 2016: $403,179) consisting of interest revenue of $189,164 (31 December 2016: $208,330) and the receipt of $251,859 (31 December 2016: $194,849) of gas and property lease income derived at Debiensko.

DIRECTORS REPORT

(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Financial Position

At 31 December 2017, the Group had cash reserves of $15,146,766 (30 June 2017: $16,826,854) and with CD Capital's right to invest a further $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 Jan Karski.

At 31 December 2017, the Company had net assets of $10,634,740 (30 June 2017: $13,095,130) a decrease of approximately 19% compared with 30 June 2017. This is largely attributable to the decrease in cash, the increase in other financial liabilities coupled with the loss for the six months to 31 December 2017.

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 Jan Karski 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:

- 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 discussions with regional steel makers and coke producers for future coking coal sales and offtake at Debiensko;
- Formally lodge a Mining Concession application for Jan Karski in the coming weeks, subject to the Company being issued with Environmental Consent;
- Furthering discussions with a select group of Chinese financing institutions as China Coal nears completion of its Studies; and
- Based on the results of the Studies, 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* – As at 31 December 2017, the Company has cash in excess of $15 million which places it in an excellent position to conduct its current planned exploration and development activities at Debiensko and Jan Karski. 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, 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 ("CD Options") to be held in the Company. There is however no guarantee that CD Capital would take up this right in the future (or exercise the CD 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.

  The Company has also signed a Strategic Co-operation Agreement with China Coal for the financing and construction of Jan Karski. Subsequent to the end of the half-year, China Coal and Prairie continue to advance towards completion the Studies, which will provide the basis for an EPC contract and finalising a term sheet with Chinese financing institutions for a construction funding package for Jan Karski.

DIRECTORS REPORT

(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years (Continued)

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 maintaining project concessions* - The Company's mining exploration and development activities at Debiensko and Jan Karski 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 MoE, in December 2016, to amend the Debiensko Mining Concession (which is valid until 2058) to alter the commencement of production from 1 January 2018 to 2025. Not commencing production by January 2018 does not immediately infringe on the validity and expiry date of the current Mining Concession, however, the concession authority has the right to request the concession holder to reasonably remove any infringements related to non-conformance with the conditions of a Mining Concession and determine a reasonable date for removal of the infringements (under Polish law, the concession authority is required to provide a reasonable timeframe to remedy any non-compliance taking into account the nature of the non-conformance). Failure to remedy the infringements within any reasonable time frame prescribed by the concession authority may lead to commencement of proceedings to limit or withdraw a concession. A decision from the MoE on the Company's amendment application is currently pending following a change of the Polish Prime Minister in December 2017 and the appointment of a new Minister of Environment in January 2018. Under Poland's Geological and Mining Law, the MoE is required to view any application to modify a concession in the same manner as any initial application for a concession, in that the award of the concession is not in detriment to public interest (building a mine is considered to be in the best interest of the public), does not particularly breach any environmental laws (Karbonia was awarded with Environmental Consent prior to being granted a Mining Concession) and is not in breach of the spatial development plan (Karbonia was granted with spatial approval prior to the award of the Debiensko Mining Concession).

  On 1 July 2015, the Company announced that it had secured the Exclusive Right to apply for a Mining Concession for Jan Karski. As a result of its geological documentation for the Jan Karski deposit being approved, Prairie is currently the only entity that can lodge a Mining Concession application over Jan Karski within a three (3) year period up and until 2 April 2018. The approved geological documentation covers an area comprising of all four of the original Exploration Concessions granted to Prairie (K-4-5, K-6-7, K-8 and K-9) and includes the full extent of the targeted resources within the mine plan for Jan Karski. In this regard, no beneficial title interest was surrendered by the Company when the K-6-7 Exploration Concession expired in 2017. Under Polish mining law, and owing to the Exclusive Right the Company has secured, Prairie is currently the only entity that may apply for and be granted a Mining Concession with respect to the K-6-7 area (the Exclusive Right also applies to the K-4-5, K-8 and K-9 areas of Jan Karski). There is no requirement for the Company to hold an Exploration Concession in order exercise the Exclusive Right and apply for a Mining Concession. In addition, Prairie has the right to apply for and be granted, within 3 months of making an application, a mining usufruct agreement for an additional 12 month period that precludes any other parties being granted a licence over all or part of the Jan Karski concessions. Prairie applied for a mining usufruct agreement in December 2017 with the decision from the Polish MoE still pending. In the event that a mining usufruct agreement is not made available to the Company on acceptable terms or the Company does not enter in to a mining usufruct agreement for any other reason, other parties may be able to apply for a Mining Concession for all or part of the Jan Karski license area.

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years (Continued)

If, however, in a scenario where the MoE does not grant the Company with a mining usufruct in the required timeframe, legal advice sought by Company outlines that the Group will be in a position to file a civil law claim against the Polish authorities which could overturn the authority's decision not to grant Prairie a mining usufruct. In any event, The Company intends to submit a Mining Concession application over the mine plan area at Jan Karski (which includes K-6-7), which is subject to the approval of the MoE, within the coming weeks subject to the Company being issued with Environmental Consent. There is no assurance that the Company will be issued Environmental Consent, however the Company believes that the Environmental Consent application, as submitted in October 2017 and supplemented in November 2017, was complete and complied with formal requirements of the relevant Polish environmental regulations.

There is also no assurance that such applications (or renewals or alterations) of the concessions 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 at Jan Karski, 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 of applications and appeals to the Polish 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.

- *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 current or 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 and/or foreign exchange* – 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. Current and planned development activities are predominantly denominated in Euros and the Company's ability to fund these activates may be adversely affected if the Australian dollar continues to fall against the Euro. The Company currently does not engage in any hedging or derivative transactions to manage commodity price or foreign exchange risk. As the Company's operations change, this policy will be reviewed periodically going forward.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

(i) On 9 February 2018, the Company issued an announcement, following recent press articles, regarding possible co-operation between the Company and JSW to progress the development and exploitation of the Company's Polish coal projects. Prairie confirms that a meeting was held with JSW where preliminary discussions regarding co-operation took place. Discussions are at a very early stage and there can be no certainty as to whether any co-operation will be agreed in the future; and

(ii) On 21 February 2018, the Company released drill results at Jan Karski which re-affirmed the capability of the project to produce high value ultra-low ash semi-soft coking coal.

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

DIRECTORS REPORT
(Continued)

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 22 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.

BEN STOIKOVICH
Director

9 March 2018

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.

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 2017 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 2017 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 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Half-Year Ended 31 December 2017 $	Half-Year Ended 31 December 2016 $
Revenue	4(a)	**441,023**	403,179
Other income	4(b)	**-**	325,000
Exploration and evaluation expenses		**(4,047,621)**	(2,565,889)
Employment expenses		**(66,680)**	(68,774)
Administration and corporate expenses		**(487,870)**	(238,129)
Occupancy expenses		**(211,273)**	(194,583)
Share-based payment expenses		**(200,422)**	(167,060)
Business development expenses		**(512,267)**	(484,478)
Other expenses		**-**	(500,236)
Fair value movements	5	**(212,687)**	(1,847,018)
Loss before income tax		**(5,297,797)**	(5,337,988)
Income tax expense		**-**	-
Net loss for the period		**(5,297,797)**	(5,337,988)
Net loss attributable to members of Prairie Mining Limited		**(5,297,797)**	(5,337,988)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**42,842**	(150,679)
Total other comprehensive income/(loss) for the period		**42,842**	(150,679)
Total comprehensive loss for the period		**(5,254,955)**	(5,488,667)
Total comprehensive loss attributable to members of Prairie Mining Limited		**(5,254,955)**	(5,488,667)
Basic and diluted loss per share (cents per share)		**(3.16)**	(3.52)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December 2017 $	30 June 2017 $
ASSETS			
Current Assets			
Cash and cash equivalents		**15,146,766**	16,826,854
Trade and other receivables	**6**	**991,479**	1,094,997
Total Current Assets		**16,138,245**	17,921,851
Non-Current Assets			
Property, plant and equipment	**7**	**2,444,548**	2,779,526
Exploration and evaluation assets	**8**	**2,699,523**	2,603,172
Total Non-Current Assets		**5,144,071**	5,382,698
TOTAL ASSETS		**21,282,316**	23,304,549
LIABILITIES			
Current Liabilities			
Trade and other payables	**9**	**2,011,403**	2,109,127
Provisions	**11(a)**	**616,795**	580,129
Other financial liabilities	**10(a)**	**1,841,338**	1,783,283
Non-cash other financial liabilities	**10(b)**	**4,813,433**	4,600,746
Total Current Liabilities		**9,282,969**	9,073,285
Non-Current Liabilities			
Provisions	**11(b)**	**1,364,607**	1,136,134
Total Non-Current Liabilities		**1,364,607**	1,136,134
TOTAL LIABILITIES		**10,647,576**	10,209,419
NET ASSETS		**10,634,740**	13,095,130
EQUITY			
Contributed equity	**12**	**61,071,856**	58,477,713
Reserves	**13**	**2,501,603**	2,258,339
Accumulated losses		**(52,938,719)**	(47,640,922)
TOTAL EQUITY		**10,634,740**	13,095,130

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 2017

	Contributed Equity $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2017	**58,477,713**	**1,529,894**	**728,445**	**(47,640,922)**	**13,095,130**
Net loss for the period	**-**	**-**	**-**	**(5,297,797)**	**(5,297,797)**
Other comprehensive income for the half-year					
Exchange differences on translation of foreign operations	**-**	**-**	**42,842**	**-**	**42,842**
Total comprehensive income/(loss) for the period	**-**	**-**	**42,842**	**(5,297,797)**	**(5,254,955)**
Transactions with owners recorded directly in equity					
Issue of convertible notes (Loan Note 2) (Note 12)	**2,627,430**	**-**	**-**	**-**	**2,627,430**
Convertible note issue costs	**(27,418)**	**-**	**-**	**-**	**(27,418)**
Share issue costs	**(5,869)**	**-**	**-**	**-**	**(5,869)**
Forfeiture of performance rights	**-**	**(1,134,010)**	**-**	**-**	**(1,134,010)**
Recognition of share-based payments	**-**	**1,334,432**	**-**	**-**	**1,334,432**
Balance at 31 December 2017	**61,071,856**	**1,730,316**	**771,287**	**(52,938,719)**	**10,634,740**
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

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 2017

	Note	Half-Year Ended 31 December 2017 $	Half-Year Ended 31 December 2016 $
Cash flows from operating activities			
Payments to suppliers and employees		**(5,078,182)**	(4,890,288)
Proceeds from property and gas sales		**248,859**	94,849
Interest revenue from third parties		**202,758**	231,437
Net cash outflow from operating activities		**(4,626,565)**	(4,564,002)
Cash flows from investing activities			
Purchase of plant and equipment		**(60,008)**	-
Proceeds from sale of property		**495,008**	-
Purchase of controlled entity	**14**	**-**	(742,367)
Proceeds from sale of base metals project		**-**	325,000
Net cash inflow/(outflow) from investing activities		**435,000**	(417,367)
Cash flows from financing activities			
Proceeds from issue of convertible note		**2,627,430**	-
Payments for issue of convertible note		**(54,611)**	-
Payments for share issue costs		**(61,342)**	-
Net cash inflow from financing activities		**2,511,477**	-
Net decrease in cash and cash equivalents		**(1,680,088)**	(4,981,369)
Net foreign exchange differences		**-**	(4,980)
Cash and cash equivalents at the beginning of the period		**16,826,854**	18,063,119
Cash and cash equivalents at the end of the period		**15,146,766**	13,076,770

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 2017

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 2017 were authorised for issue in accordance with the resolution of the Directors on 7 March 2018.

This general purpose condensed financial report for the interim half-year reporting period ended 31 December 2017 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 2017 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 2017, 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 2017.

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

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107; *Statement of Cash Flows* and

- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements to Australian Accounting Standards 2012–2014 Cycle including AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and AASB 12 *Disclosure of Interests in Other Entities*.

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 2017 (Continued)

	Half-Year ended 31 December 2017 $	Half-Year Ended 31 December 2016 $
4. REVENUE AND OTHER INCOME		
(a) Revenue		
Interest Income	**189,164**	208,330
Gas and property lease income	**251,859**	194,849
	441,023	403,179
(b) Other Income		
Sale of base metals project	**-**	325,000
	-	325,000

	Note	Half-Year ended 31 December 2017 $	Half-Year Ended 31 December 2016 $
5. FAIR VALUE MOVEMENTS			
Fair value loss on financial liabilities at fair value through profit and loss[1]	12(a)	**(212,687)**	(1,847,018)

Notes:

[1] The fair value movements are a result of the fair value measurements of the conversion rights (the issue of Ordinary Shares and subsequent issue of CD Options on conversion of Loan Note 1) of Loan Note 1 that needs to be considered and accounted for separately. This financial liability increases in size as the share price of the Company increases. With the share price increasing by approximately 8% during the half-year, the size of the loss attributable to the financial liability has also increased. When Loan Note 1 converts into shares and the CD Options are issued, the liability will be reclassified from a liability to equity and will require no cash settlement by the Company. Please refer to Notes 10 and 12(a) for further disclosure.

	31 December 2017 $	30 June 2017 $
6. TRADE AND OTHER RECEIVABLES		
Trade Receivables	**238,271**	266,389
Accrued interest	**61,582**	75,229
Deposits/prepayments	**370,851**	585,485
GST and other receivables	**320,775**	167,894
	991,479	1,094,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017 (Continued)

	Note	31 December 2017 $	30 June 2017 $
7. PROPERTY, PLANT AND EQUIPMENT			
(a) Property, Plant and Equipment			
Gross carrying amount at cost		**2,635,598**	2,970,271
Accumulated depreciation		**(191,050)**	(190,745)
Carrying amount at end of the period		**2,444,548**	2,779,526
(b) Reconciliation			
Carrying amount at beginning of the period, net of accumulated depreciation		**2,779,526**	98,140
Acquired on acquisition of controlled entity	14	**-**	2,527,356
Additions		**60,008**	184,896
Disposals		**(448,101)**	-
Depreciation charge		**(53,187)**	(65,899)
Exchange differences on translation of foreign operations		**106,302**	35,033
Carrying amount at end of the period		**2,444,548**	2,779,526

	Note	31 December 2017 $	30 June 2017 $
8. EXPLORATION AND EVALUATION ASSETS			
(a) Areas of Interest			
Jan Karski Mine		**530,000**	530,000
Debiensko Mine		**2,169,522**	2,073,172
Carrying amount at end of the period[1]		**2,699,522**	2,603,172
(b) Reconciliation			
Carrying amount at beginning of the period		**2,603,172**	530,000
Acquired on acquisition of controlled entity	14	**-**	2,047,034
Exchange differences on translation of foreign operations		**96,350**	26,138
Carrying amount at end of the period[1]		**2,699,522**	2,603,172

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 2017 $	30 June 2017 $
9. TRADE AND OTHER PAYABLES		
Trade and other payables	**2,011,403**	2,109,127
	2,011,403	2,109,127

	Note	31 December 2017 $	30 June 2017 $
10. OTHER FINANCIAL LIABILITIES			
Financial liabilities at fair value through profit or loss:			
(a) Cash settlement required			
Contingent consideration carried at amortised cost	**14**	**1,841,338**	1,783,283
(b) Non-cash settlement required			
Derivative liability - conversion right attached to Loan Note 1 at fair value through profit and loss[1]	**12(a)**	**4,813,433**	4,600,746

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 with an aggregate principal amount of $15 million to CD Capital, exchangeable for ordinary shares in Prairie at $0.335 per share (Loan Note 1). The $83 million transaction was approved by shareholders and is structured as follows:

- Issue of the convertible note upfront;
- On conversion of the Loan Note 1, agreement to 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.

Due to the conversion terms of the Loan Note 1 and the agreement to issue the CD Options, the Company is required under the accounting standards to account for this conversion factor as a financial derivative liability though profit and loss, despite the Company only having to issue unlisted options (the CD Options) and there being no obligation to extinguish Loan Note 1 using the Company's cash and cash equivalents.

	31 December 2017 $	30 June 2017 $
11. PROVISIONS		
(a) Current Provisions:		
Provisions for the protection against mining damage at Debiensko[1]	**199,374**	245,587
Annual leave provision	**198,011**	124,876
Other[2]	**219,410**	209,666
	616,795	580,129
(b) Non-Current Provisions:		
Provisions for the protection against mining damage at Debiensko[1]	**1,364,607**	1,136,134
	1,364,607	1,136,134

Notes:

[1] With Debiensko being an operating mine previously, Karbonia is required to pay out mining land damages to any surrounding land owner who makes a legitimate claim under Polish law.

[2] 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 PLN597,614 ($219,410) 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 to 30 November 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017 (Continued)

	Note	31 December 2017 $	30 June 2017 $
12. CONTRIBUTED EQUITY			
(a) Issued and Unissued Capital			
167,498,969 (30 June 2017: 167,498,969) fully paid ordinary shares	12(b)	**45,370,939**	45,376,808
Loan Note 1 exchangeable into fully paid ordinary shares at $0.335 per share[1]		**15,000,000**	15,000,000
Conversion right attached to Loan Note 1[2]		**(968,236)**	(968,236)
Loan Note 2 exchangeable into fully paid ordinary shares at $0.46 per share[3]		**2,627,430**	-
Costs incurred to issue the loan notes		**(958,277)**	(930,859)
Total Contributed Equity		**61,071,856**	58,477,713

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 with an aggregate principal amount of $15 million to CD Capital, exchangeable for ordinary shares in Prairie at $0.335 per share (Loan Note 1). The $83 million transaction was approved by shareholders and is structured as follows:

- Issue of the convertible note upfront;
- On conversion of the Loan Note 1, 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.

2 Under AASB 132, the conversion rights (the issue of Ordinary Shares and subsequent issue of CD Options on conversion of Loan Note 1) 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 the fair value movements of the conversion rights are to be recognised in profit and loss for the period. The fair value of the derivative liability at 30 June 2017 and 31 December 2017 was assessed to be $4,600,746 and $4,813,433, respectively. The non-cash fair value loss arising from the movement in the derivative was $212,687. Please refer to Note 5 and 10(b) for further disclosure.

3 On 2 July 2017, Prairie and CD Capital completed an additional investment of US$2.0 million (A$2.6 million) in the form of the non-redeemable, non-interest-bearing convertible Loan Note 2. The Loan Note 2 is convertible into ordinary shares of Prairie at an issue price of A$0.46 per share.

Other key terms of the Loan Note 2 include the following:

- Loan Note 2 is non-interest bearing;
- Loan Note 2 is only repayable in an event of breach of the terms of the Loan Note 2 agreements;
- Loan Note 2 cannot be converted until after 1 April 2018 by either party;
- Prairie has the right, whilst no Event of Default exists, to convert all or part of the outstanding principal amount of Loan Note 2 into shares at the conversion price of $0.46 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 after 1 April 2018 provided that the 30 day VWAP of Prairie's shares exceeds the conversion price of $0.46 per share.
- Loan Note 2 does not provide CD Capital with any right to participate in any new issues of securities.
- CD Capital has the right to convert all or part of the outstanding principal amount of the Notes into shares at the conversion price of $0.46 per share provided that:
  - Loan Note 1 has been converted into Prairie shares; and
  - The CD Options have been exercised into Prairie shares.
- 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 $0.46 of Loan Note 2 will be adjusted so that the number of Prairie shares received by CD Capital on conversion of Loan Note 2 is the same as if Loan Note 2 were converted prior to relevant event.
- The occurrence of an Event of Default entitles CD Capital to declare the principal amount of the Loan Note 2 immediately due and payable and exercise any other rights or remedies (including bringing proceedings) against the Company.
- Each of the following events is an "Event of Default" in relation to the Loan Note 2:
  - 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 Company breaches a covenant or condition of the Notes or associated agreements 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 A$1 million) its rights under Loan Note 2 to any third party by giving written notice to Prairie provided the third party has provided a deed of assumption. Assignment of Loan Note 2 will not result in the assignment of the rights and obligations under the subscription agreement or investment agreement from Loan Note 1.
- A Material Adverse Effect means a material adverse effect on:
  - the Company or PDZ Holding's ability to perform any of their obligations under Loan Note 2, the and all other 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017 (Continued)

12. CONTRIBUTED EQUITY (Continued)

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

Date	Details	Number of Shares	$
1 Jul 17	**Opening Balance**	**167,498,969**	**45,376,808**
Jul 17 to Dec 17	Share issue costs	-	**(5,869)**
31 Dec 17	**Closing Balance**	**167,498,969**	**45,370,939**

	Note	31 December 2017 $	30 June 2017 $
13. RESERVES			
Share-based payments reserve	**13(a)**	**1,730,316**	1,529,894
Foreign currency translation reserve		**771,287**	728,445
		2,501,603	2,258,339

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

Date	Details	Number of Incentive Options	Number of Performance Rights	$
1 Jul 17	**Opening Balance**	**2,700,000**	**6,800,000**	**1,529,894**
21 Aug 17	Grant of Performance Rights	-	5,775,000	-
15 Sep 17	Grant of Incentive Options	500,000	-	-
31 Dec 17	Forfeiture of Performance Rights	-	(3,150,000)	(1,134,010)
Jul 17 to Dec 17	Share-based payments expense	-	-	1,334,432
31 Dec 17	**Closing Balance**	**3,200,000**	**9,425,000**	**1,730,316**

The Incentive Options outstanding at the end of the half-year have the following exercise prices and expiry dates:

- 1,400,000 Incentive Options exercisable at $0.45 each on or before 30 June 2018.
- 200,000 Incentive Options exercisable at $0.50 each on or before 31 March 2020;
- 900,000 Incentive Options exercisable at $0.60 each on or before 31 March 2020; and
- 700,000 Incentive Options exercisable at $0.80 each on or before 31 March 2020.

The Performance Rights outstanding at the end of the financial year have the following expiry dates:

- 2,575,000 Performance Rights expiring 31 December 2018;
- 2,450,000 Performance Rights expiring 31 December 2019; and
- 4,400,000 Performance Rights expiring on 31 December 2020.

The Company also as a number of other unlisted securities on issue which includes the following:

- A convertible note with a principal amount of $15,000,000, exchangeable into 44,776,120 ordinary shares at a conversion price of $0.335 per share with no expiry date (Loan Note 1);
- An agreement to issue 22,388,060 Options exercisable at $0.60 each expiring 3 years after conversion of Loan Note 1 (CD Options); and
- A convertible loan note with a principal amount of $2,627,430, convertible into 5,711,805 ordinary shares at a conversion price of $0.46 per share with no expiry date (Loan Note 2).

14. ACQUISITION OF CONTROLLED ENTITY

On 10 October 2016, the Company completed the acquisition of Karbonia S.A. which holds Debiensko. The transaction was deemed not to be a Business Combination in accordance with AASB 3 Business Combinations and was 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 ($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 (with a decision still pending), 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 $1,841,338 and is disclosed as an other financial liability in Note 10(a). The loss arising from the remeasurement in the carrying value of the contingent consideration was $18,926 for half-year. Exchange differences on translation of foreign operations for the half-year amounted to $39,129.

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 2017 and 30 June 2017, 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 Loan Note 1 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017 (Continued)

16. FINANCIAL INSTRUMENTS (Continued)

31 December 2017 Assumptions	
Exercise price	$0.600
Valuation date share price	$0.540
Dividend yield[1]	-
Volatility[2]	90%
Risk-free interest rate	2.13%
Number of CD Options	22,388,060
Issue date	21 Sep 2015
Estimated Expiry date	20 Sep 2020
Expected life of CD Option[3]	2.73 years
Discount Applied[3]	25%
Fair value	$0.215

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 2016: nil).

18. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

(i) On 9 February 2018, the Company issued an announcement, following recent press articles, regarding possible co-operation between the Company and JSW to progress the development and exploitation of the Company's Polish coal projects. Prairie confirms that a meeting was held with JSW where preliminary discussions regarding co-operation took place. Discussions are at a very early stage and there can be no certainty as to whether any co-operation will be agreed in the future; and

(ii) On 21 February 2018, the Company released drill results at Jan Karski which re-affirmed the capability of the project to produce high value ultra-low ash semi-soft coking coal.

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

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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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 2017, 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

Ernst & Young

T S Hammond
Partner
9 March 2018

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AUDITOR'S REVIEW REPORT

EY
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Independent auditor's review report to the members of Prairie Mining Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Prairie Mining Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial 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*.

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, anything has come to our attention that causes us to 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 Group's consolidated financial position as at 31 December 2017 and its consolidated financial 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 the Group, 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.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

T S Hammond
Partner
Perth
9 March 2018

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