Interim Financial Report for the Half-Year Ended 31 December 2018

Śródroczny raport finansowy za drugie półrocze zakończone 31 grudnia 2018

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

PRINCIPAL OFFICES:

PD Co sp. z. o.o. (Warsaw):
Ul. Wspolna, 35 lok. 4
00-519 Warsaw

Karbonia S.A. (Czerwionka – Leszczyny):
Ul. 3 Maja 44,
44-230 Czerwionka - Leszczyny

London:
Unit 3C, 38 Jermyn Street
London SW1Y 6DN
United Kingdom
Tel: +44 207 487 3900

Australia (Registered Office):
Level 9, BGC Centre
28 The Esplanade
Perth WA 6000
Tel: +61 8 9322 6322
Fax: +61 8 9322 6558

SOLICITORS:

Poland:
DLA Piper Wiater sp.k.

United Kingdom:
DLA Piper UK LLP

Australia:
DLA Piper Australia

AUDITOR:

Poland:
Ernst & Young Audyt Polska sp. z. o.o.

Australia:
Ernst & Young – Perth

BANKERS:

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

Australia:
Australia and New Zealand Banking Group Ltd

SHARE REGISTRIES:

Poland:
Komisja Nadzoru Finansowego (KNF)
Plac Powstańców Warszawy 1, skr. poczt. 419
00-950 Warszawa
Tel: +48 22 262 50 00

United Kingdom:
Computershare Investor Services PLC
The Pavilions, Bridgewater Road
Bristol BS99 6ZZ
Tel: +44 370 702 0000

Australia:
Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth WA 6000
Tel: +61 8 9323 2000

STOCK EXCHANGE LISTINGS:

Poland:
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 2018 ("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:

Possible Prairie and JSW Co-Operation

- During the half-year, Prairie and JSW jointly reported that JSW's due diligence had confirmed semi-soft coking coal quality at Jan Karski which JSW could potentially utilise, and had also indicated the technical feasibility and potential synergies in accessing Debiensko via JSW's existing infrastructure. JSW estimates such synergies could potentially enable production within 18 months from all relevant permits and concession amendments being granted.
- Prairie and JSW signed an extension to a non-disclosure agreement ("NDA") in order to discuss a deal structure and commercial terms for any co-operation or transaction and for the adaption of mine plans for both Debiensko and Jan Karski to align with JSW's development concepts and to maximise potential synergies.
- There can be no certainty as to whether any transaction(s) will be agreed, or the potential form of such transaction(s). The Company will continue to comply with its continuous disclosure obligations and will make announcements to the market as required.

Debiensko Mine (Premium Hard Coking Coal)

- In December 2016, following the acquisition of Debiensko, Prairie applied to the Ministry of Environment to amend the 50-year Debiensko mining concession to extend the time stipulated in the mining concession for first production of coal from 2018 to 2025. In January 2019, Prairie received a final "second instance" decision from the Ministry of Environment that has denied the amendment application.
- The 50-year Debiensko mining concession remains in place and Prairie will strongly defend its position and continue to take relevant actions to pursue its legal rights regarding the Debiensko concession amendment, which includes an appeal that has been filed with Poland's Administrative Court.

Jan Karski Mine (Semi-Soft Coking Coal)

- Poland's Supreme Administrative Court finally and fully rejected Bogdanka's administrative complaints against Poland's Ministry of Environment regarding the refusal of Bogdanka's 2013 application for a mining concession over the K-6-7 deposit at Jan Karski.
- The Supreme Administrative Court has also upheld the 2016 Regional Administrative Court decision that obliged the Ministry of Environment to approve Prairie's Addendum No.3 for the K-6-7 deposit. Addendum No.3 is a detailed resource estimate for the K-6-7 deposit according to Polish geological reporting standards and is based on the results of Prairie's exploration program at the deposit.

Corporate

- Cash on hand of $8.6 million and CD Capital's right to invest a further $68 million as a cornerstone investor.

DIRECTORS REPORT

(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Debiensko Mine

The Debiensko Mine ("Debiensko") is a permitted, 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 Ministry of Environment ("MoE") granted a 50-year mining concession for Debiensko.

In October 2016, Prairie acquired Debiensko with a view that a revised development approach would potentially allow for the early mining of profitable premium hard coking coal seams, whilst minimising upfront capital costs. Prairie has proven expertise in defining commercially robust projects and applying international standards in Poland. The fact that Debiensko is a former operating mine and its proximity to two neighbouring coking coal producers in the same geological setting, reaffirms the significant potential to successfully bring Debiensko back into operation.

Update on Concession Amendment Application

In December 2016, following the acquisition of Debiensko, Prairie applied to the MoE to amend the 50-year Debiensko mining concession.

The purpose of the concession amendment was to extend the time stipulated in the mining concession for first production of coal from 2018 to 2025. Prairie has now received a final "second instance" decision from the MoE that has denied the Company's amendment application. Not meeting the production timeframe stipulated in the concession does not automatically infringe on the validity and expiry date of the Debiensko mining concession, which is June 2058. Prairie also holds a valid environmental consent decision enabling mine construction and continues to have valid tenure and ownership of land at Debiensko. In accordance with Polish law, the concession authority is required to provide an achievable and reasonable timeframe to remedy any non-compliance taking into account the nature of the non-compliance. Nevertheless, the second instance decision may result in the commencement of proceedings by the MoE to limit or withdraw the Debiensko mining concession.

Prairie will strongly defend its position and continue to take relevant actions to pursue its legal rights regarding the Debiensko concession, which includes an appeal that has been filed with Poland's Administrative Court. Furthermore, Prairie has formally notified the Polish government that there exists an investment dispute between Prairie and the Polish Government. Prairie's notification calls for prompt negotiations with the government to amicably resolve the dispute, and indicates Prairie's right to submit the dispute to international arbitration in the event the dispute is not resolved amicably. The dispute arises out of certain measures taken by Poland in breach of the Energy Charter Treaty, the UK-Poland Bilateral Investment Treaty and the Australia-Poland Bilateral Investment Treaty.

The Company advises that it is not in a position to comment on the potential size of the claim that may be made against the Polish Government should the dispute not be resolved amicably. Prairie will update the market when it is in a position to do so.

Prairie can confirm that it is taking all necessary actions to preserve its rights and protect its investments in Poland. We remain hopeful that the dispute with the Polish Government can be resolved amicably. The Company will consider any other actions necessary to ensure its rights are preserved.

Prairie will continue to update the market in relation to this matter as required.

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Jan Karski Mine

The Jan Karski Mine ("Jan Karski") is a large scale semi-soft coking coal project located in the Lublin Coal Basin in south east Poland. The Lublin Coal Basin is an established coal producing province which is well serviced by modern and highly efficient infrastructure, offering the potential for low capital intensity mine development. Jan Karski is situated adjacent to Lubelski Węgiel BOGDANKA S.A.'s ("Bogdanka") Bogdanka coal mine which has been in commercial production since 1982 and is the lowest cost hard coal producer in Europe.

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 ("SSCC"), known as Type 34 coal in Poland whilst confirming Jan Karski as a globally significant SSCC / Type 34 coking coal deposit with the potential to produce a high value ultra-low ash SSCC with a coking coal product split of up to 75%.

Key benefits for the local community and the Lublin and Chelm regions associated with the development, construction and operation of Jan Karski have been recognised as the following:

- creation of 2,000 direct employment positions and 10,000 indirect jobs for the region once operational;
- increasing skills of the workforce 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.

Positive Rulings in Supreme Administrative Court

Poland's Supreme Administrative Court has finally and fully rejected Bogdanka's administrative complaints against Poland's MoE regarding the refusal of Bogdanka's 2013 application for a mining concession over the K-6-7 deposit at Jan Karski.

This Supreme Administrative Court decision is final, cannot be appealed and has upheld the 2016 Regional Administrative Court decision that confirms the original 2015 decision, which denied Bogdanka's mining concession application. It has been concluded that granting a mining concession to Bogdanka would be a serious violation of the provisions of Poland's Geological and Mining Law ("GML"), and would be contrary to the rule of law as embodied in the Polish constitution.

In a second ruling, the Supreme Administrative Court has upheld the 2016 Regional Administrative Court decision that obliged the MoE to approve Prairie's submitted Addendum No.3 for the K-6-7 deposit. Addendum No.3 is a detailed resource estimate for the K-6-7 deposit according to Polish geological reporting standards and is based on the results of Prairie's exploration program at the deposit. This complaint was brought against the MoE by Prairie in 2015.

The Court's ruling will now be passed back to the MoE, and the MoE is obliged to promptly reassess the original decision taking into account the court's verdict i.e., to issue a positive decision approving Addendum No.3.

The significance of this Supreme Administrative Court decision is that Bogdanka's 2018 application for a mining concession over K-6-7 is now entirely inadmissible under Polish law (Bogdanka's application was suspended following an injunction awarded in Prairie's favour (see news release dated 26 April 2018) and requires the MoE to reject Bogdanka's mining concession application).

The Supreme Administrative Court's rulings re-affirm, beyond doubt, that Bogdanka's claims over K-6-7 are without merit and inadmissible. The Board notes that Bogdanka's claims have been rejected by the Polish courts in multiple rulings. Furthermore, the Court's decision obliging the MoE to approve Addendum No.3 demonstrates that the MoE has acted illegally and failed to correctly implement Poland's own mining laws.

Injunction against Poland's Ministry of Environment Remains in Force

In April 2018, Prairie commenced legal proceedings against the MoE due to its failure to grant Prairie a Mining Usufruct Agreement over the concessions which form the Jan Karski Mine and in order to protect the Company's security of tenure over the project.

Pursuant to the initiated legal proceedings:

- the Polish Civil Court ruled in Prairie's favour by granting an injunction preventing the MoE from granting prospecting, exploration or mining concessions and concluding usufruct agreements with any other party until full court proceedings are concluded; and
- the decision provides security of tenure over the Jan Karski concessions and effectively safeguards Prairie's rights at the project until full court proceedings have concluded which are anticipated to take 12 months or more to complete.

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

CORPORATE

Possible Co-Operation between Prairie and JSW

Discussions continued throughout the half-year and remain ongoing between Prairie and JSW. JSW's due diligence process at Jan Karski has confirmed that part of the "Lublin" deposit contains semi-soft coking coal (Type 34), which can be potentially utilised by JSW.

JSW has stated that due diligence at Debiensko has also indicated the technical feasibility and potential synergies of accessing initial seams at the Debiensko deposit utilising the existing infrastructure at JSW's adjacent Knurow-Szczyglowice mine. Exploiting those synergies would require modifications to project configuration and obtaining relevant approvals, including concession modifications. JSW estimates that access via the Szczyglowice mine potentially enables the production of hard coking coal (Type 35) from Debiensko in up to 18 months from the time that relevant administrative permits and concession amendments are granted.

Subsequent to the half-year end, Prairie and JSW signed an extension to an NDA, with the term of the NDA now ending on 28 September 2019, in order to discuss a deal structure and commercial terms for any co-operation or transaction and for the adaption of mine plans for both Debiensko and Jan Karski to align with JSW's development concepts and to maximise potential synergies

There can be no certainty as to whether any transaction(s) or co-operation will be agreed, or the potential form of such transaction(s) or co-operation. It is emphasised that any potential transaction(s), should they occur, may be subject to a number of conditions including, but not limited to, obtaining necessary corporate approvals, consents and approvals related to funding, consents from Poland's Office of Competition and Consumer Protection (UOKiK) if required, and any other requirements that may relate to the strategy, objectives and regulatory regimes applicable to the respective issuers.

Results of Operations

The net loss of the Consolidated Entity for the half-year ended 31 December 2018 was $2,274,344 (31 December 2017: $5,297,797). 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 $1,820,738 (31 December 2017: $4,047,621), 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;

(ii) Business development expenses of $228,795 (31 December 2017: $512,267) which includes expenses relating to the Group's investor relations activities during the six months to 31 December 2018 including brokerage fees, public relations, digital marketing, travel costs, attendances at conferences and business development consultant costs;

(iii) Non-cash share-based payment gain of $162,766 (31 December 2017: expense of $200,422) 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 2018, 3.1 million unvested performance rights were forfeited with $1.3 million being reversed from the reserve to profit and loss;

(iv) Non-cash fair value loss of nil (31 December 2017: $212,687) attributable to the conversion right of the original CD Capital convertible loan note ("Loan Note 1") previously accounted for as a financial liability at fair value through profit and loss which was derecognised during the 2018 financial year following the conversion of Loan Note 1. The instrument was a non-cash derivative liability which was settled during the previous financial year via the issue of 44,776,120 Ordinary Shares and 22,388,060 unlisted options exercisable at $0.60 each on or before 30 May 2021 ("CD Options") to CD Capital pursuant to the investment agreement completed in September 2015.

    The Company did not pay any cash to settle the liability with the Company's cash reserve unaffected by the derecognition of the conversion right; and

(v) Revenue of $290,957 (31 December 2017: $441,023) consisting of interest revenue of $115,747 (31 December 2017: $189,164) and the receipt of $175,210 (31 December 2017: $251,859) of gas and property lease income derived at Debiensko.

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Financial Position

At 31 December 2018, the Group had cash reserves of $8,582,124 (30 June 2018: $11,022,333).

At 31 December 2018, the Company had net assets of $10,037,917 (30 June 2018: $12,445,698) a decrease of approximately 19% compared with 30 June 2018. This is largely attributable to the decrease in cash reserves following operating expenditure.

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:

- Continue in its discussions with JSW with respect to potential co-operation regarding Debiensko and Jan Karski; and
- Continue project permitting activities including obtaining an Environmental Consent Decision at Jan Karski.

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. Furthermore, Prairie will continue to take all necessary actions to preserve the Company's rights and protect its investments in Poland, if and as required. 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:

- *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, in July 2015, Prairie 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 by Poland's MoE.

  The approved Geological Documentation covers areas of all four 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. As a result of the Exclusive Right, Prairie was the only entity with a legal right to lodge a Mining Concession application over Jan Karski for the period up and until 2 April 2018. Under the Polish GML, a Mining Concession application comprises the submission of a Deposit Development Plan ("DDP"), approval of a spatial development plan (rezoning of land for mining use) and an Environmental Consent decision. Prairie has previously announced that the DDP and spatial development plans for Jan Karski have already been approved. However, as of the date of this report, Prairie has not yet received the required Environmental Consent decision, which remains pending. Prairie completed an Environmental and Social Impact Assessment and made submissions to RDOS for an Environmental Consent decision in October 2017. Prairie has not been able to apply for a Mining Concession for Jan Karski due to the delay in the issuance of an Environmental Consent decision. However, the Environmental Consent proceedings continue to progress and the Company has received notice from the RDOS to provide supplementary information to the originally submitted Environmental & Social Impact Assessment. There are no assurances that the Environmental Consent Decision will be awarded to the Company.

  The approval of Prairie's Geological Documentation in 2015 also conferred upon Prairie the legal right to apply for a Mining Usufruct Agreement over Jan Karski for an additional 12-month period beyond April 2018, which precludes any other parties being granted any licence over all or part of the Jan Karski concessions. Under Polish law, the MoE is strictly obligated, within three months of Prairie making an application for a Mining Usufruct Agreement, to grant the agreement. It should be noted that the MoE confirmed Prairie's priority right in two written statements (i.e. in a final administrative decision dated 11 February 2016 and in a formal letter dated 13 April 2016). Prairie applied to the MoE for a Mining Usufruct Agreement over Jan Karski in late December 2017. As of the date of this report the MoE has not made available to Prairie a Mining Usufruct Agreement for Jan Karski, therefore breaching the three-month obligatory period for the agreement to be concluded.

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years (Continued)

Advice provided to Prairie concludes that failure of the MoE to grant Prairie the Mining Usufruct Agreement is a breach of Polish law. Accordingly, the Company commenced legal proceedings against the MoE through the Polish courts in order to protect the Company's security of tenure over the Jan Karski concessions. Since the MoE has not provided a decision within three months from submission of Prairie's Mining Usufruct application, the Polish civil court has the power to enforce conclusion of a Usufruct Agreement in place of the MoE. In the event that a Mining Usufruct Agreement is not made available to the Company on acceptable terms or the Company does not enter into a Mining Usufruct Agreement for any other reason, other parties may be able to apply for exploration or mining rights for all or part of the Jan Karski concession area. However, given that the Civil Court has approved Prairie's motion for an injunction against the MoE, as described above, the MoE is now prevented from entering into a Usufruct agreement or concession with any other party besides Prairie until the full court proceedings are concluded.

Under the terms of the Debiensko Mining Concession issued in 2008 by the MoE (which is valid for 50 years from grant date), commencement of production was to occur by 1 January 2018. In December 2016, following the acquisition of Debiensko, Prairie applied to the MoE to amend the 50 year Debiensko Mining Concession. The purpose of the concession amendment was to extend the time stipulated in the Mining Concession for first production of coal from 2018 to 2025. Prairie has now received a final "second instance" decision from the MoE that has denied the Company's amendment application. However, Prairie does still continue to have valid tenure and ownership of land at Debiensko. Not meeting the production timeframe stipulated in the concession does not automatically infringe on the validity and expiry date of the Debiensko mining concession, which is June 2058. Prairie also holds a valid environmental consent decision enabling mine construction. In accordance with Polish law, the concession authority is required to provide an achievable and reasonable timeframe to remedy any non-compliance taking into account the nature of the non-compliance. Nevertheless, the second instance decision may result in the commencement of proceedings by the MoE to limit or withdraw the Debiensko mining concession. Prairie will strongly defend its position and continue to take relevant actions to pursue its legal rights regarding the Debiensko concession, including an appeal that has been filed with Poland's Administrative Courts and pursuing safeguards and protections under international law. Preliminary advice obtained by Prairie indicates that the MoE's decision is fundamentally flawed, fails to comply with Polish, EU and international law, and demonstrates yet further evidence of the discriminatory treatment faced by Prairie as a foreign investor in Poland.

The MoE's negative "second instance" decision may lead to the commencement of proceedings by the MoE to limit or withdraw the Debiensko concession. Prairie has also filed an appeal to Poland's administrative courts. For this and other reasons, Prairie has formally notified the Polish government that there exists an investment dispute between Prairie and the Polish Government. The dispute arises out of certain measures taken by Poland in breach of the Energy Charter Treaty, the UK-Poland Bilateral Investment Treaty and the Australia-Poland Bilateral Investment Treaty. Prairie's notification calls for prompt negotiations with the government to amicably resolve the dispute, and indicates Prairie's right to submit the dispute and lodge a claim to international arbitration in the event the dispute is not resolved amicably.

There is however no assurance that any such appeals, legal proceedings, disputes, financial claims, applications (or renewals or alterations) of the Company concessions will be successful or that such applications, renewals, alterations, rights and title interests will not be revoked or significantly altered. If such appeals, legal proceedings, disputes, claims, applications, renewals or alterations of concessions applied for are not successful or granted or are in fact revoked as the case may be 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 also the value of the Company's securities.

- *Co-operation between Prairie and JSW may not occur* – The Company and JSW have been in discussions for over 12 months in relation to a co-operation transaction with the current intention to continue negotiations over the coming months, with areas covered including potential deal structure and commercial terms for any co-operation or transaction and adaption of mine plans for both Debiensko and Jan Karski to align with JSW's development concepts and maximise potential synergies. Any transaction(s), should it/they occur, may be subject to a number of conditions including, but not limited to, obtaining positive evaluations and expert opinions, necessary corporate approvals, consents and approvals related to funding, consents from Poland's Office of Competition and Consumer Protection (UOKiK) if required, and any other requirements that may relate to the strategy, objectives and regulatory regimes applicable to the respective issuers, and which could also prevent a transaction from occurring or even completing. The non-occurrence of a transaction could also have a material impact on the value of the Company's securities.

DIRECTORS REPORT

(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years (Continued)

- *The Company's activities will require further capital in future years* – At the date of this report, the Company has cash of approximately $8.6 million. 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 their $0.60 CD Options. 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 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 including during the period when Poland's Supreme Administrative Court has finally and fully rejected their administrative complaints against MoE regarding the refusal of Bogdanka's application for a mining concession over the K-6-7 Exploration Concession. There is however no guarantee that Bogdanka will not seek to file further appeals against future decisions or submit further applications for a Mining Concession over the K-6-7 Exploration Concession.

- *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, foreign ownership of coal projects and the movement to a nationalistic policy may adversely affect the permitting, approvals process, operations and/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. For example, recent legislative changes and proposed legislative changes initiated by Poland's governing Law and Justice party have called into question the independence of the judiciary and subsequently the rule of law in Poland. In December 2017, the Council of Europe's Commission for Democracy through Law ("Venice Commission") found that the cumulative effect of proposed reforms to two laws and recently adopted amendments to a third law "puts at serious risk" the independence of "all parts" of the Polish judiciary.

DIRECTORS REPORT
(Continued)

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years (Continued)

The opinion concerned two drafts recently submitted by the Polish President to the Sejm (Polish Parliament), to amend the Act on the National Council of the Judiciary and the Act on the Supreme Court, as well as recently already adopted amendments to the Act on Ordinary Courts. Additionally, and during the half-year, the European Commission formally notified Poland that it had initiated infringement proceedings against the country because of the adoption of the controversial amendments to the Supreme Court Act.

- *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 18 January 2019, the Company announced that Poland's Supreme Administrative Court had finally and fully rejected Bogdanka's appeal against Poland's MoE regarding the rejection of Bogdanka's 2013 application for a mining concession over the K-6-7 deposit at the Jan Karski;

(ii) On 18 January 2019, the Company announced that it had received a final "second instance" decision from the MoE denying the Company's amendment application to extend the time stipulated in the Debiensko mining concession for first production of coal from 2018 to 2025. Prairie will strongly defend its position and continue to take relevant actions to pursue its legal rights regarding the Debiensko concession, which includes an appeal that has been filed with Poland's Administrative Court; and

(iii) On 13 February 2019, the Company announced that it had formally notified the Polish government that there exists an investment dispute between Prairie and the Government. Prairie's notification calls for prompt negotiations with the government to amicably resolve the dispute, and indicates Prairie's right to submit the dispute to international arbitration in the event the dispute is not resolved.

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 23 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.

B. Stoik

BEN STOIKOVICH
Director

12 March 2019

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 2018 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 2018 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

12 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Half-Year Ended 31 December 2018 $	Half-Year Ended 31 December 2017 $
Revenue	4(a)	**290,957**	441,023
Exploration and evaluation expenses		**(1,820,738)**	(4,047,621)
Employment expenses		**(216,730)**	(260,878)
Administration and corporate expenses		**(138,566)**	(270,671)
Occupancy expenses		**(293,288)**	(234,274)
Share-based payment expenses		**162,766**	(200,422)
Business development expenses		**(228,795)**	(512,267)
Other expenses		**(29,950)**	-
Fair value movements	5	**-**	(212,687)
Loss before income tax		**(2,274,344)**	(5,297,797)
Income tax expense		**-**	-
Net loss for the period		**(2,274,344)**	(5,297,797)
Net loss attributable to members of Prairie Mining Limited		**(2,274,344)**	(5,297,797)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**68,214**	42,842
Total other comprehensive income/(loss) for the period		**68,214**	42,842
Total comprehensive loss for the period		**(2,206,130)**	(5,254,955)
Total comprehensive loss attributable to members of Prairie Mining Limited		**(2,206,130)**	(5,254,955)
Basic and diluted loss per share (cents per share)		**(1.04)**	(3.16)

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 2018

	Note	31 December 2018 $	30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		**8,582,124**	11,022,333
Trade and other receivables	**6**	**778,122**	953,528
Total Current Assets		**9,360,246**	11,975,861
Non-Current Assets			
Property, plant and equipment	**7**	**2,402,928**	2,363,151
Exploration and evaluation assets	**8**	**2,758,785**	2,656,968
Total Non-Current Assets		**5,161,713**	5,020,119
TOTAL ASSETS		**14,521,959**	16,995,980
LIABILITIES			
Current Liabilities			
Trade and other payables		**676,593**	865,265
Provisions	**10(a)**	**448,905**	532,820
Other financial liabilities	**9**	**1,946,687**	1,891,573
Total Current Liabilities		**3,072,185**	3,289,658
Non-Current Liabilities			
Provisions	**10(b)**	**1,411,857**	1,260,624
Total Non-Current Liabilities		**1,411,857**	1,260,624
TOTAL LIABILITIES		**4,484,042**	4,550,282
NET ASSETS		**10,037,917**	12,445,698
EQUITY			
Contributed equity	**11**	**75,486,915**	75,525,800
Reserves	**12**	**3,488,922**	3,583,474
Accumulated losses		**(68,937,920)**	(66,663,576)
TOTAL EQUITY		**10,037,917**	12,445,698

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 2018

	Contributed Equity $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2018	**75,525,800**	**2,486,718**	**1,096,756**	**(66,663,576)**	**12,445,698**
Net loss for the period	**-**	**-**	**-**	**(2,274,344)**	**(2,274,344)**
Other comprehensive income for the half-year					
Exchange differences on translation of foreign operations	**-**	**-**	**68,214**	**-**	**68,214**
Total comprehensive income/(loss) for the period			**68,214**	**(2,274,344)**	**(2,206,130)**
Share issue costs	**(38,885)**	**-**	**-**	**-**	**(38,885)**
Forfeiture of performance rights	**-**	**(1,266,880)**	**-**	**-**	**(1,266,880)**
Recognition of share-based payments	**-**	**1,104,114**	**-**	**-**	**1,104,114**
Balance at 31 December 2018	**75,486,915**	**2,323,952**	**1,164,970**	**(68,937,920)**	**10,037,917**
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)
Issue of convertible notes (Loan Note 2) (Note 11)	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

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 2018

	Half-Year Ended 31 December 2018 $	Half-Year Ended 31 December 2017 $
Cash flows from operating activities		
Payments to suppliers and employees	**(2,675,465)**	(5,078,182)
Proceeds from property and gas sales	**122,475**	248,859
Interest revenue from third parties	**179,715**	202,758
Net cash outflow from operating activities	**(2,373,275)**	(4,626,565)
Cash flows from investing activities		
Purchase of plant and equipment	**-**	(60,008)
Proceeds from sale of property	**-**	495,008
Net cash inflow from investing activities	**-**	435,000
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	**(66,934)**	(61,342)
Net cash inflow/(outflow) from financing activities	**(66,934)**	2,511,477
Net decrease in cash and cash equivalents	**(2,440,209)**	(1,680,088)
Cash and cash equivalents at the beginning of the period	**11,022,333**	16,826,854
Cash and cash equivalents at the end of the period	**8,582,124**	15,146,766

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 2018

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 2018 were authorised for issue in accordance with the resolution of the Directors.

This general purpose condensed financial report for the interim half-year reporting period ended 31 December 2018 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 2018 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 consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets, labilities and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

The Group has updated the classification of expenses to make the Statement of Profit or Loss and other Comprehensive Income more relevant to users of the financial report. This has resulted in the reclassification of some items in the prior year, however, has not impacted the reported loss for the year or earnings per share.

(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 2018, 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 2018.

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

- AASB 9 *Financial Instruments*, and relevant amending standards;
- AASB 15 *Revenue from Contracts with Customers*, and relevant amending standards;
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions;* and
- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*.

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. A discussion on the impact of the adoption of AASB 9 is included below.

(c) Changes in Accounting Policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 30 June 2018, except for new standards, amendments to standards and interpretations effective 1 January 2018 as set out in this note 2(c). The Company has set out below the main changes due to the adoption of AASB 9.

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

(c) Changes in Accounting Policies (Continued)

Impact of Changes – AASB 9 Financial Instruments

The Company has adopted AASB 9 from 1 July 2018 which have resulted in changes to accounting policies and the analysis for possible adjustments to amounts recognised in the Interim Financial Reports. In accordance with the transitional provisions in AASB 9, the reclassifications and adjustments are not reflected in the balance sheet as at 30 June 2018 but recognised in the opening balance sheet as at 1 July 2018. As per the new impairment model introduced by AASB 9, the Company has not recognised a loss allowance on trade and other receivables.

Classification and Measurement

On 1 July 2018, the Company has assessed which business models apply to the financial instruments held by the Company and have classified them into the appropriate AASB 9 categories. The main effects resulting from this reclassification are shown in the table below.

On adoption of AASB 9, the Company classified financial assets and liabilities as subsequently measured at either amortised cost or fair value, depending on the business model for those assets and on the asset's contractual cash flow characteristics. There were no changes in the measurement of the Company's financial instruments.

There was no impact on the statement of comprehensive income or the statement of changes in equity on adoption of AASB 9 in relation to classification and measurement of financial assets and liabilities.

The following table summarises the impact on the classification and measurement of the Group's financial instruments at 1 July 2018:

Presented in statement of financial position	Financial Asset/liability	AASB 139	AASB 9	Reported $	Restated $
Cash and cash equivalents	Bank deposits	Loans and receivables	Amortised Cost	No change	No change
Trade and other receivables/payables	Loans and receivables	Loans and receivables	Amortised Cost	No change	No change
Financial liabilities at amortised cost	Financial liability	Amortised Cost	Amortised Cost	No change	No change

The Company does not currently enter into any hedge accounting and therefore there is no impact to the Company's Interim Financial Reports.

Impairment

AASB 9 introduces a new expected credit loss ("ECL") impairment model that requires the Company to adopt an ECL position across the Company's financial assets at 1 July 2018. The Company's receivables balance consists of GST refunds from the Australian Tax Office, interest receivables from recognised Australian banking institutions and gas and property income from a single customer. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, an impairment loss would be considered immaterial.

The loss allowances for financial assets are based on the assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Given the Company's receivables are from the Australian Tax Office, recognised Australian banking institutions and a single customer with no history of non-payment, the Company has assessed that the risk of default is minimal and as such, no impairment loss has been recognised against these receivables as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (Continued)

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

(c) Changes in Accounting Policies (Continued)

Impact of Changes – AASB 15 Revenue

AASB 15 established a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaced AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations. The Group has adopted AASB 15 from 1 July 2018 which has resulted in changes to its accounting policy. However, there have been no adjustments to amounts recognised in the half-year consolidated financial statements as revenue from customer contracts is considered to be immaterial.

(d) Issued standards and interpretations not early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ended 31 December 2018. Those which may be relevant to the Company are set out in the table below, but these are not expected to have any significant impact on the Company's financial statements:

Standard/Interpretation	Application Date of Standard	Application Date for Company
AASB 16 *Leases*	1 January 2019	1 July 2019
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	1 July 2019
AASB 2017-7 *Amendments – Long-term Interests in Associates and Joint Venture Amendments to IAS 28 and Illustrative Example – Long-term Interests in Associates and Joint Ventures*	1 January 2019	1 July 2019
AASB 2018-1 *Amendments – Annual Improvements 2015-2017 Cycle*	1 January 2019	1 July 2019
AASB 2018-2 *Amendments – Plan Amendment, Curtailment or Settlement (AASB 119)*	1 January 2019	1 July 2019

AASB 16 Leases

AASB 16 Leases will replace existing accounting requirements for leases under AASB 117 Leases. Under current requirements, leases are classified based on their nature as either finance leases which are recognised on the Statement of Financial Position, or operating leases, which are not recognised on the Statement of Financial Position.

Under AASB 16 Leases, the Company's accounting for operating leases as a lessee will result in the recognition of a right-of-use ("ROU") asset and an associated lease liability on the Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard.

Although the Company is yet to complete its assessment, the adoption of AASB 16 is expected to have an immaterial impact on the financial statements of the Company due to the minimal number, if any, of non-cancellable leases currently entered into by the Company which would not fall under a short-term or low value exception.

Transition

The Company will initially apply AASB 16 on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Company can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (Continued)

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

(d) Issued standards and interpretations not early adopted (Continued)

Although the Company is yet to complete its assessment, it is expected that the adoption of AASB 16 will have minimal impact if any on the financial statements of the Company. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend however on future economic conditions, including the Company's borrowing rate, the composition of the Company's lease portfolio, the extent to which the Company elects to use practical expedients and recognition exemptions, and the new accounting policies, which are subject to change until the Company presents its first financial statements that include the date of initial application.

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.

	Half-Year ended 31 December 2018 $	Half-Year Ended 31 December 2017 $
4. REVENUE AND OTHER INCOME		
(a) Revenue		
Interest Income	**115,747**	189,164
Gas and property lease income	**175,210**	251,859
	290,957	441,023

	Half-Year ended 31 December 2018 $	Half-Year Ended 31 December 2017 $
5. FAIR VALUE MOVEMENTS		
Fair value loss on financial liabilities at fair value through profit and loss[1]	**-**	(212,687)

Notes:

[1] The fair value movements were previously as result of the fair value measurements of the conversion rights (i.e. the right to receive Ordinary Shares and the CD Options) associated with Loan Note 1. During the 2018 financial year, Loan Note 1 was converted into Ordinary Shares, the Company issued the CD Options and the associated financial liabilities were reclassified from a liability to equity and required no cash settlement.

	31 December 2018 $	30 June 2018 $
6. TRADE AND OTHER RECEIVABLES		
Trade receivables	**198,916**	309,545
Accrued interest	**31,686**	38,414
Deposits/prepayments	**355,856**	437,402
GST and other receivables	**191,664**	168,167
	778,122	953,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (Continued)

	31 December 2018 $	30 June 2018 $
7. PROPERTY, PLANT AND EQUIPMENT		
(a) Property, Plant and Equipment		
Gross carrying amount at cost	**2,642,828**	2,605,064
Accumulated depreciation	**(239,900)**	(241,913)
Carrying amount at end of the period	**2,402,928**	2,363,151
(b) Reconciliation		
Carrying amount at beginning of the period, net of accumulated depreciation	**2,363,151**	2,779,526
Additions	**-**	65,450
Disposals/write-offs	**(15,271)**	(457,979)
Depreciation charge	**(48,840)**	(106,716)
Exchange differences on translation of foreign operations	**103,888**	82,870
Carrying amount at end of the period	**2,402,928**	2,363,151

	31 December 2018 $	30 June 2018 $
8. EXPLORATION AND EVALUATION ASSETS		
(a) Areas of Interest		
Jan Karski Mine[1]	**530,000**	530,000
Debiensko Mine[2]	**2,228,785**	2,126,968
Carrying amount at end of the period[3]	**2,758,785**	2,656,968
(b) Reconciliation		
Carrying amount at beginning of the period	**2,656,968**	2,603,172
Exchange differences on translation of foreign operations	**101,817**	53,796
Carrying amount at end of the period[3]	**2,758,785**	2,656,968

Notes:

1 In July 2015, Prairie 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 by Poland's MoE. The approved Geological Documentation covers areas of all four 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. As a result of the Exclusive Right, Prairie was the only entity with a legal right to lodge a Mining Concession application over Jan Karski for the period up and until 2 April 2018. Under the Polish GML, a Mining Concession application comprises the submission of a Deposit Development Plan ("DDP"), approval of a spatial development plan (rezoning of land for mining use) and an Environmental Consent decision. Prairie has previously announced that the DDP and spatial development plans for Jan Karski have already been approved.

However, as of the date of this report, Prairie has not yet received the required Environmental Consent decision, which remains pending. Prairie completed an Environmental and Social Impact Assessment and made submissions to RDOS for an Environmental Consent decision in October 2017. Prairie has not been able to apply for a Mining Concession for Jan Karski due to the delay in the issuance of an Environmental Consent decision. However, the Environmental Consent proceedings continue to progress and the Company has provided to RDOS supplementary information to the originally submitted Environmental & Social Impact Assessment, as requested by RDOS.

The approval of Prairie's Geological Documentation in 2015 also conferred upon Prairie the legal right to apply for a Mining Usufruct Agreement over Jan Karski for an additional 12-month period beyond April 2018, which precludes any other parties being granted any licence over all or part of the Jan Karski concessions. Under Polish law, the MoE is strictly obligated, within three months of Prairie making an application for a Mining Usufruct Agreement, to grant the agreement. It should be noted that the MoE confirmed Prairie's priority right in two written statements (i.e. in a final administrative decision dated 11 February 2016 and in a formal letter dated 13 April 2016). Prairie applied to the MoE for a Mining Usufruct Agreement over Jan Karski in late December 2017. As of the date of this report the MoE has not made available to Prairie a Mining Usufruct Agreement for Jan Karski, therefore breaching the three-month obligatory period for the agreement to be concluded. Advice provided to Prairie concludes that failure of the MoE to grant Prairie the Mining Usufruct Agreement is a breach of Polish law. Accordingly, the Company commenced legal proceedings against the MoE through the Polish courts in order to protect the Company's security of tenure over the Jan Karski concessions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (Continued)

8. EXPLORATION AND EVALUATION ASSETS (Continued)

Since the MoE has not provided a decision within three months regarding Prairie's Mining Usufruct application, the Polish civil court has the power to enforce conclusion of a Usufruct Agreement in place of the MoE. In the event that a Mining Usufruct Agreement is not made available to the Company on acceptable terms or the Company does not enter into a Mining Usufruct Agreement for any other reason, other parties may be able to apply for exploration or mining rights for all or part of the Jan Karski concession area. However, given that the Civil Court has approved Prairie's motion for an injunction against the MoE, as described above, the MoE is now prevented from entering into a Usufruct agreement or concession with any other party besides Prairie until the full court proceeding has concluded (which is expected to take 12 months to conclude).

[2] Under the terms of the Debiensko Mining Concession issued in 2008 by the MoE (which is valid for 50 years from grant date), commencement of production was to occur by 1 January 2018. In December 2016, following the acquisition of Debiensko, Prairie applied to the MoE to amend the 50 year Debiensko Mining Concession. The purpose of the concession amendment was to extend the time stipulated in the Mining Concession for first production of coal from 2018 to 2025. Prairie has now received a final "second instance" decision from the MoE that has denied the Company's amendment application. However, Prairie does still continue to have valid tenure and ownership of land at Debiensko. Not meeting the production timeframe stipulated in the concession does not automatically infringe on the validity and expiry date of the Debiensko mining concession, which is June 2058. Prairie also holds a valid environmental consent decision enabling mine construction. However, the concession authority now has the right to request the concession holder to remove any infringements related to non-compliance with the conditions of the mining concession and determine a reasonable date for removal of the infringements. In accordance with Polish law, the concession authority is required to provide an achievable and reasonable timeframe to remedy any non-compliance taking into account the nature of the non-compliance. Nevertheless, the second instance decision may result in the commencement of proceedings by the MoE to limit or withdraw the Debiensko mining concession. Prairie will strongly defend its position and continue to take relevant actions to pursue its legal rights regarding the Debiensko concession, including filing an appeal to Poland's Administrative Courts and pursuing safeguards and protections under international law. Prairie believes that the MoE's decision is fundamentally flawed, fails to comply with Polish, EU and international law, and demonstrates yet further evidence of the discriminatory treatment faced by Prairie as a foreign investor in Poland. The Company will consider any other actions necessary to ensure its concession rights are preserved, which may result in the Company taking further action against the MoE and the Government of Poland, including invoking the protection afforded to the Company under relevant bi-lateral or multi-lateral investment treaties.

[3] 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 2018 $	30 June 2018 $
9. OTHER FINANCIAL LIABILITIES		
Financial liabilities at fair value through profit or loss:		
Contingent consideration carried at amortised cost[1]	**1,946,687**	1,891,573

Notes:

[1] In the 2017 financial year 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. 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 $1,946,687 (30 June 2018: 1,891,573) and is disclosed as an other financial liability. The loss arising from the remeasurement in the carrying value of the contingent consideration was $25,164 for the half-year. Exchange differences on translation of foreign operations for the half-year amounted to $29,950.

	31 December 2018 $	30 June 2018 $
10. PROVISIONS		
(a) Current Provisions:		
Provisions for the protection against mining damage at Debiensko[1]	**181,412**	195,463
Annual leave provision	**42,098**	122,251
Other[2]	**225,395**	215,106
	448,905	532,820
(b) Non-Current Provisions:		
Provisions for the protection against mining damage at Debiensko[1]	**1,411,857**	1,260,624
	1,411,857	1,260,624

Notes:

[1] As Debiensko was previously an operating mine, 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 ($225,395) 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 2018 (Continued)

	Note	31 December 2018 $	30 June 2018 $
11. CONTRIBUTED EQUITY			
(a) Issued and Unissued Capital			
212,275,089 (30 June 2018: 212,275,089) fully paid ordinary shares	**11(b)**	**66,679,410**	66,718,295
Loan Note 2 exchangeable into fully paid ordinary shares at $0.46 per share, net of transaction costs[1]		**2,600,012**	2,600,012
Issue of CD Options[2]		**6,207,493**	6,207,493
Total Contributed Equity		**75,486,915**	75,525,800

Notes:

[1] On 2 July 2017, Prairie and CD Capital completed an 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.

[2] On 25 May 2018, following conversion of Loan Note 1 the company issued the CD Options, which are exercisable at $0.60 each on or before 30 May 2021. The options are freely transferable provided the transfer complies with the Corporations Act 2001.

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

Date	Details	Number of Shares	$
1 Jul 18	**Opening Balance**	**212,275,089**	**66,718,295**
Jul 18 to Dec 18	Share issue costs	-	(38,885)
31 Dec 18	**Closing Balance**	**212,275,089**	**66,679,410**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (Continued)

	Note	31 December 2018 $	30 June 2018 $
12. RESERVES			
Share-based payments reserve	**12(a)**	**2,323,952**	2,486,718
Foreign currency translation reserve		**1,164,970**	1,096,756
		3,488,922	3,583,474

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

Date	Details	Number of Incentive Options	Number of Performance Rights	$
1 Jul 18	**Opening Balance**	**1,800,000**	**10,675,000**	**2,486,718**
31 Dec 18	Forfeiture of Performance Rights	-	(3,075,000)	(1,266,880)
Jul 18 to Dec 18	Share-based payments expense	-	-	1,104,114
31 Dec 18	**Closing Balance**	**1,800,000**	**7,600,000**	**2,323,952**

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

- 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 half-year have the following expiry dates:

- 3,200,000 Performance Rights expiring 31 December 2019; and
- 4,400,000 Performance Rights expiring on 31 December 2020.

The Company also has a number of other unlisted securities (not accounted for as share-based payments) on issue which includes the following:

- 22,388,060 CD Options exercisable at $0.60 each expiring 30 May 2021; 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).

13. CONTINGENT ASSETS AND LIABILITIES

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

14. 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 2018 and 30 June 2018, the carrying value of the Group's financial assets and liabilities approximate their fair value. Please refer to notes 5 and 9 for further disclosure.

15. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half-year (31 December 2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (Continued)

16. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

(i) On 18 January 2019, the Company announced that Poland's Supreme Administrative Court had finally and fully rejected Bogdanka's appeal against Poland's MoE regarding the rejection of Bogdanka's 2013 application for a mining concession over the K-6-7 deposit at the Jan Karski;

(ii) On 18 January 2019, the Company announced that it had received a final "second instance" decision from the MoE denying the Company's amendment application to extend the time stipulated in the Debiensko mining concession for first production of coal from 2018 to 2025. Prairie will strongly defend its position and continue to take relevant actions to pursue its legal rights regarding the Debiensko concession, which includes an appeal that has been filed with Poland's Administrative Court; and

(iii) On 13 February 2019, the Company announced that it had formally notified the Polish Government that there exists an investment dispute between Prairie and the Government. Prairie's notification calls for prompt negotiations with the government to amicably resolve the dispute, and indicates Prairie's right to submit the dispute to international arbitration in the event the dispute is not resolved.

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

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the review of the half-year financial report of Prairie Mining Limited for the half-year ended 31 December 2018, 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
Perth
12 March 2019

TH:CT:PDZ:013

AUDITOR'S REVIEW REPORT

EY
Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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 2018, 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 2018 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 2018 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.

TH:CT:PDZ:012

AUDITOR'S REVIEW REPORT
(Continued)

Independence

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

Ernst & Young

T S Hammond
Partner
Perth
12 March 2019

TH:CT:PDZ:012