



ASX RELEASE

29 January 2013

QUARTERLY ACTIVITIES REPORT

for the Period Ended 31 December 2012

The Board of Prairie Downs Metals Limited (“**Prairie**” or “**the Company**”) is pleased to present its December 2012 quarterly report.

HIGHLIGHTS

- *The Company announced an initial Exploration Target of **1.1 - 1.3 billion tonnes**¹ of high quality thermal coal estimated at the Company’s Lublin Coal Project*
- *In-situ coal qualities range from 5,888kcal/kg - 6,894kcal/kg with Ash ranging from 8.4% - 18.2% on a Gross Air Dried basis*
- *The Exploration Target was prepared by leading UK based consultants, Wardell Armstrong International Limited (“WAI”), utilising substantial historical exploration and technical data, including over 200 boreholes in and around the Lublin Coal Project*
- *WAI has also completed a geological model. Following this, WAI are now preparing an initial resource estimate, which is expected to be finalised in the coming weeks*
- *Following completion of the geological model, the Company is currently in the process of engaging a drilling contractor for a drilling campaign to commence in early to mid-2013*
- *The Company will continue to strengthen its management team by progressively making a number of key appointments*
- *CSA Global completed a review of all exploration data for the Prairie Downs Base Metals Project (“BMP”) and their initial report contains a number of positive findings. Recommendations for further exploration activity are currently being assessed*
- *Prairie continues to hold 10,000,000 fully paid ordinary shares in Papillon Resources Limited (ASX: PIR)(“Papillon”). The Company notes further recent announcements of Papillon’s strong drilling results at its flagship Fekola Project*

¹Exploration Targets: The estimates of exploration target sizes in this announcement are in accordance with the guidelines of the JORC Code (2004) and should not be misunderstood or misconstrued as estimates of Mineral Resources. The potential quantity and quality of the exploration targets are conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

LUBLIN COAL PROJECT

In August 2012, Prairie successfully secured four (4) coal licenses covering 182km² (18,200Ha) located in South East Poland in the Lublin Coal Basin (refer to Figure 1 below):



Figure 1: Project Location Map in Poland

The Lublin Coal Basin is an established coal province with coal mining activities dating back to 1982 with established infrastructure, including power and rail. The Project is situated adjacent to the Bogdanka coal mine which is operated by Lubelski Węgiel Bogdanka S.A. (“LWB”).

LWB has successfully been able to demonstrate that the Lublin Coal Basin has the potential to host a new generation of large scale coal projects and has recently expanded its production levels to approximately 8 million tonnes per annum (targeting production of 11.5 million tonnes per annum by 2014) of high quality thermal coal.

Prairie's Coal Project is comprised of four (4) concession blocks, being:

Area Name	No. of Boreholes*	Lease Area#
Kulik (K-4-5)	32	47km ²
Cycow (K-6-7)	33	41km ²
Syczyn (K-8)	33	43km ²
Kopina (K-9)	36	49km ²

*Note some boreholes lie on boundary between lease areas and have been included in each area
Rounded to the nearest km²

Table 1: Lublin Coal Project Concessions Historical Drilling

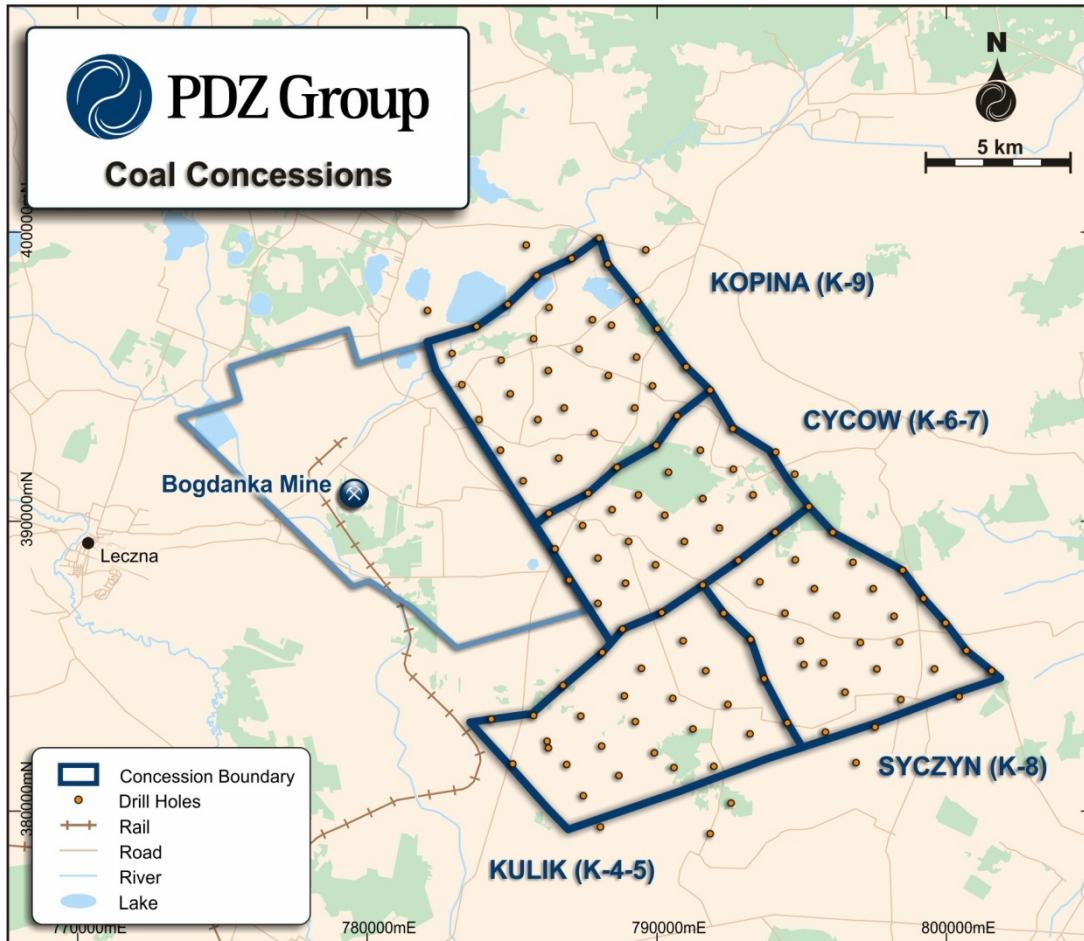


Figure 2: Map showing borehole locations



The Lublin Coal Project area was subject to exploration activities undertaken by the Polish Government and its agencies during the 1970's and 1980's. These activities consisted of regional geological mapping and drilling programs which demonstrated the region is highly prospective and has the potential to host a large scale thermal coal deposit.

The licences are valid for three (3) years and may be further extended upon satisfying a drilling program as outlined by the Polish Ministry of Environment.

Initial Exploration Target

UK based Wardell Armstrong International Limited ("WAI") was appointed to review existing geological data and to undertake the preparation of an Exploration Target at the Lublin Coal Project.

As announced, on 8 November 2012, WAI have determined an initial Exploration Target of **1.1 to 1.3 billion tonnes**¹ of high quality thermal coal. Ongoing geological modelling of the historical data is expected to enable the delineation of an initial Coal Resource Estimate on the Lublin Coal Project in the coming weeks. The expectant coal seam qualities for this Exploration Target range from 5,888kcal/kg - 6,894kcal/kg on a Gross Air Dried basis with Ash ranging from 8.4% - 18.2%.

Figure 3 shows the coal seams within the proposed lease areas that have consistent seam thicknesses of greater than 1.0m and are included within the exploration target calculation.

A total of 20 coal seams have thicknesses greater than 1.0m, from seam 369 to seam 397. Six of these seams, namely 377, 378, 379, 380, 382 and 391 contain the greatest volumes of coal (refer Figure 3) however, in some instances these seams are restricted by other constraining factors. These six seams range from seam 377 with an approximate minimum depth of 700m to seam 391 at an approximate maximum depth of 1,085m.

Exploration Target Assumptions

At the time it was announced, no computerised geological model had yet been created for the Exploration Target. However, with the geologically simple and laterally consistent nature of the target it is the opinion of WAI that a 2D plan was geologically sufficient for an Exploration Target in accordance with the JORC Code.

The Exploration Target estimation was carried out by the geological block method with the following conditions:

- Coal blocks within 100m of the base of the Jurassic are excluded;
- Areas where the coal seam thickness is less than 1.0m are excluded; and
- Coal in zones near faults are also excluded from the estimation.

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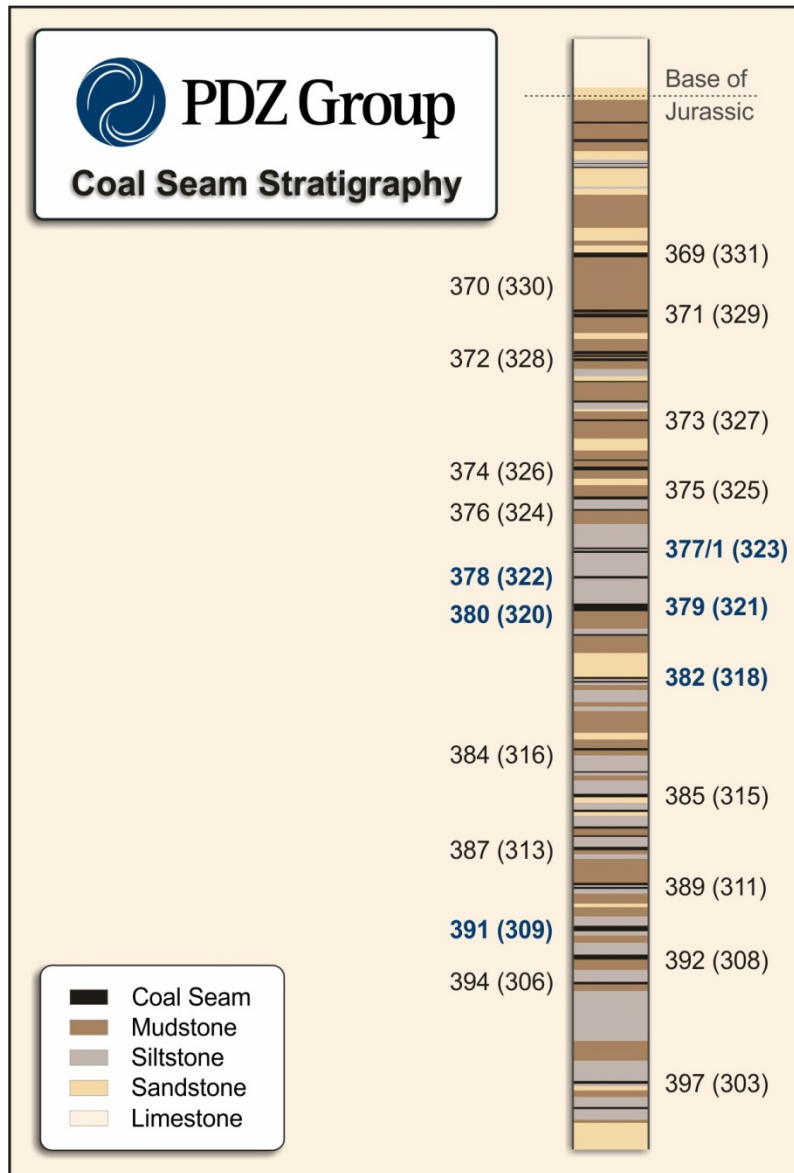


Figure 3: Coal Seam Stratigraphy – Target Seams in blue

Exploration and Development Strategy

WAI will now complete the geological modeling required to delineate the Company's initial Coal Resource Estimate. This work is expected to be completed over the coming weeks.

WAI and the Company believe that the Project has the potential to host a large scale thermal coal deposit with export quality thermal coal. Prairie is planning a drilling campaign to commence in early 2013 focused initially on validating the historical exploration data and confirming the quality of coal.



PRAIRIE DOWNS BASE METALS PROJECT (“BMP”)

The BMP is 100% owned by Prairie and is comprised of two tenements covering an area of 550km², located approximately 60 kilometres southwest of Newman in the Pilbara region of Western Australia (see Figure 4). These tenements host a zinc, lead and silver deposit that is located in zones adjacent to the Prairie Downs regional fault.

The current BMP zinc, lead, silver deposit and the extensive mineralisation and alteration along the Prairie Downs fault demonstrates the potential for the project to host a much larger lead-zinc deposit.

The Company appointed expert consultants CSA Global (“CSA”) to conduct a comprehensive review of all historical exploration data, including the recent drilling programs funded by Ivernia, to evaluate the effectiveness of exploration to date and to develop a strategy to advance the BMP. Drilling by Ivernia Ltd during 2010 and 2011 encountered significant intersections of zinc-lead-silver mineralisation for which a resource has not yet been estimated.

The CSA program of work included:

- Review of the status and results of recent exploration and resource definition drilling programs;
- Assessing the effectiveness of recent exploration in prioritising and testing targets;
- Identifying and prioritising inadequately tested targets and new targets arising from the data assessment; and
- Designing effective and appropriate drilling programs to test these targets and target definition programs to refine new targets.

CSA have now completed their review and have advised the following:

- Reinterpretation of recent exploration results demonstrates that the BMP is part of a very large alteration and mineralisation system within a major regional structure.
- The character of mineralisation is suggestive of a large intrusive-related metal-bearing hydrothermal fluid system;
- Past exploration has mostly focused on the Prairie Deposit itself and testing of a larger target area of the system is recommended;
- An effective targeting model should include better understanding of structural controls and alteration haloes and vectors;
- Further detailed geological and regolith mapping should be conducted to distinguish areas where surface geochemical sampling has been effective and ineffective;
- Where geochemistry has been ineffective, appropriate shallow drilling should be conducted;
- Final definition and prioritisation of drill targets should be based on the results of this work and may incorporate additional 3-D modelling of targets from magnetic, gravity, and Induced Polarisation geophysical data.

The Company will continue to work with CSA to formulate a suitable strategy to further advance the exploration activities at the BMP.

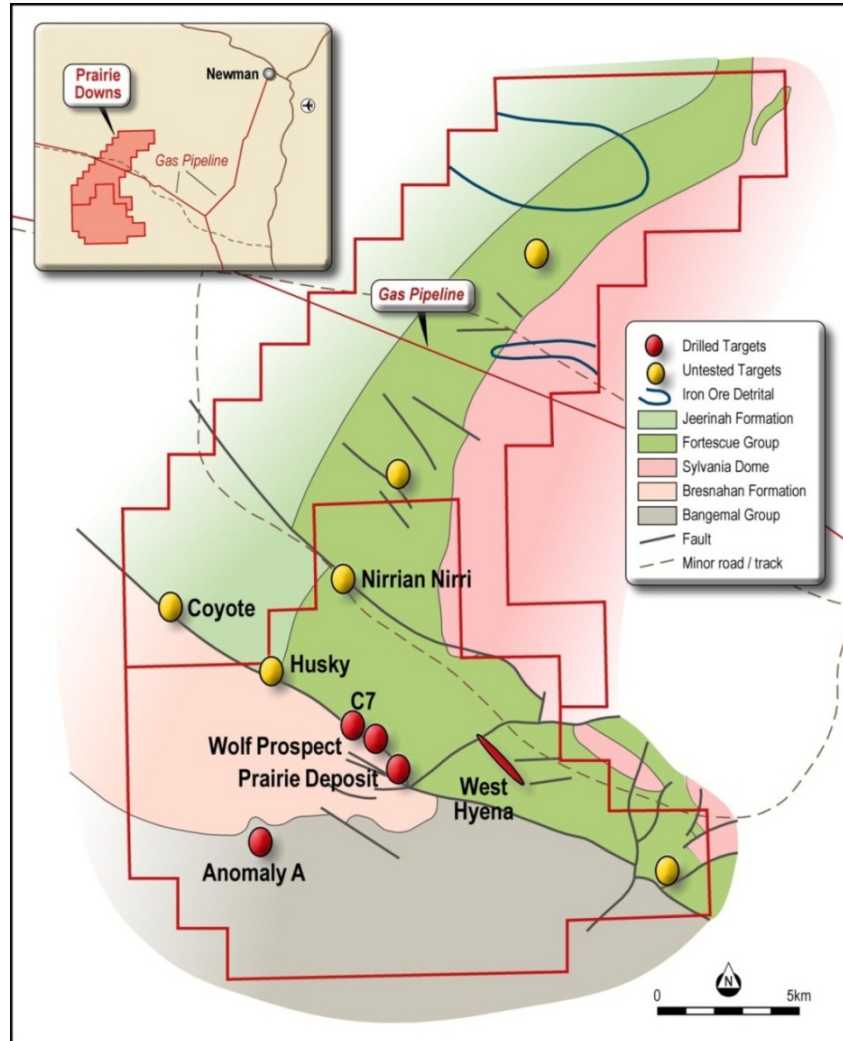


Figure 4: Location map of the BMP with prospect locations

PERENJORI PROJECT (“Perenjori”)

The Perenjori Project is located in the Gullewa Greenstone belt, 270 kilometres northeast of Perth and 65 Km from the Golden Grove zinc-copper-gold deposits. Mineralisation occurs in a felsic volcanic unit which is the same unit that hosts the Golden Grove mine. Perenjori covers a 2km long gossan anomalous in base metals and gold.

During the quarter, the Company engaged Core Geophysics to begin and complete a ground magnetic survey at Perenjori which is intended to review the geology and better define the mineralisation and fault zone of the area.

The Company will continue to assess its options as results of the survey are finalised.



CORPORATE

Shareholding in Papillon

The Company holds 10,000,000 fully paid ordinary shares in Papillon Resources Limited (ASX: PIR).

Papillon continued to announce strong drilling results during the December quarter at its flagship Fekola Project.

Prairie recognises Papillon's strong strategic position to advance the significant potential of its West African gold assets and looks forward to further progress.

Change in Accounting Policy

The Board has resolved that the policy for accounting for exploration and evaluation expenditure be changed from the policy applied in previous reporting periods.

In previous reporting periods, the costs incurred in connection with the exploration and evaluation of areas with current rights of tenure were capitalised to the Statement of Financial Position.

Under the new policy, except as noted below, exploration and evaluation expenditure is expensed to the Statement of Comprehensive Income as and when it is incurred. Exploration and evaluation costs are only capitalised to the Statement of Financial Position if they result from an acquisition of a project. Exploration and evaluation costs, subsequent to the acquisition of the rights to explore, will now be expensed as incurred, up and until the preparation of a technical feasibility study.

The Directors are of the opinion that the change in accounting policy will provides users of the financial reports with more relevant and no less reliable information as the policy is more transparent and less subjective. The policy is common of smaller exploration companies as exploration and evaluation expenditure is viewed as an on going expense of discovery, until a technical feasibility study has been completed.

An initial assessment (unaudited) of the financial impact indicates that all exploration and evaluation expenses previously capitalised (\$11.74 million at 30 June 2012) to the Statement of Financial Position will be expensed to the Statement of Comprehensive Income, except for costs of \$1.69 million which were incurred in acquiring the BMP. This will result in a net decrease in equity of \$10.05 million. These changes will be applied retrospectively with balances restated accordingly.

General

The Company's cash balance at 31 December 2012 was \$2.43 million and combined with its shareholding in Papillon, Prairie is in a strong financial position to progress with its existing projects.



For further information contact:

Taso Arima

Executive Director

Prairie Downs Metals Limited

Tel: (+61 8) 9322 6322

Fax: (+61 8) 9322 6558

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The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the 'JORC Code') sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves. The information contained in this announcement has been presented in accordance with the JORC Code and any references to "Measured, Indicated and Inferred Resources" are to those terms as defined in the JORC Code.

Information in this announcement that relates to the Lublin Coal Project is based on information compiled by Mr Peter Dryburgh (an employee of independent consultant WAI) who is a Fellow of the Geological Society of London. Mr Dryburgh has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person under the 2004 Edition of the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Dryburgh consents to the inclusion of the data in the form and context in which it appears.

Information in this announcement that relates to the BMP is based on information compiled by Dr Neal Reynolds (an employee of independent consultant CSA) who is a Fellow of the Australian Institute of Mining and Metallurgy. Dr Reynolds has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person under the 2004 Edition of the Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Reynolds consents to the inclusion of the data in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Prairie Downs Metals Limited

ABN

23 008 677 852

Quarter ended ("current quarter")

31 December 2012

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(477)	(807)
(b) development	-	-
(c) production	-	-
(d) administration	(354)	(528)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	34	70
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other –		
(a) Office Rental Income, fee income for provision of geological, camp hire, administration and personnel services	148	308
Net Operating Cash Flows	(649)	(957)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	(200)	(200)
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	5
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(200)	(195)
1.13 Total operating and investing cash flows (carried forward)	(849)	(1,152)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(849)	(303)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	900
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)		
	(a) Share issue transaction costs	-	(54)
	Net financing cash flows	-	846
	Net increase (decrease) in cash held	(849)	(306)
1.20	Cash at beginning of quarter/year to date	3,278	2,734
1.21	Exchange rate adjustments to item 1.20	2	3
1.22	Cash at end of quarter	2,431	2,431

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	157
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Payments include director fees, superannuation and provision of a fully serviced office.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not applicable

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	Nil	Nil
3.2	Credit standby arrangements	Nil	Nil

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	460
4.2	Development	-
4.3	Production	-
4.4	Administration	160
Total		620

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	771	663
5.2 Deposits at call	1,660	2,615
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,431	3,278

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	104,440,598	104,440,598		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	15,750,000 1,250,000 1,500,000	- - -	<i>Exercise price</i> 15 cents 25 cents 40 cents	<i>Expiry date</i> 30 June 2015 30 June 2016 30 June 2016
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date: **29 January 2013**
(~~Director~~/Company secretary)

Print name: **Dylan Browne**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.