ASX RELEASE 29 October 2013

# SEPTEMBER 2013 QUARTERLY REPORT

The Board of Prairie Downs Metals Limited ("**Prairie**" or the "**Company**") (ASX:PDZ) is pleased to present its quarterly report for the period ending 30 September 2013. Highlights during, and subsequent to, the quarter include:

## *HIGHLIGHTS*

- *Scoping Study commenced on the Lublin Coal Project ("**LCP**") which is expected to be completed early to mid-2014*
- *Results from the first two core drill holes are consistent with the preliminary LCP geological model for the target economic seams, with core recoveries in excess of 95% achieved from the high quality 391 coal seam*
- *Further strengthened its executive team in Poland with the appointment of Warsaw based Dr Henryk Jacek Jezierski, a former Chief National Geologist and Deputy Minister of Poland's Ministry of Environment, who will join the Supervisory Board of Prairie's Polish operating subsidiary*
- *Appointment of two senior managers, Mr Lech Lewczuk, who joined the Company as Exploration Manager and Dr Witold Woloszyn, joining as Environmental Director*

### Going Forward

The Company has an exciting quarter ahead with a substantial amount of activity scheduled at the LCP, including:

- *Results expected from initial washability and coal quality testing from first core samples obtained from the ongoing drilling program*
- *Continuation of the first phase drilling program and Scoping Study, which will provide further clarity on potential product specifications, washabilities, operating and capital costs and production targets*
- *Appointment of a globally recognised environmental consulting firm to commence the environmental impact assessment for the LCP*
- *Further strengthening of Polish management team and appointment of key executives*

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## LUBLIN COAL PROJECT

The LCP consists of four coal licences covering 182km$^2$ located in South East Poland in the Lublin Coal Basin (refer Figure 1 below).

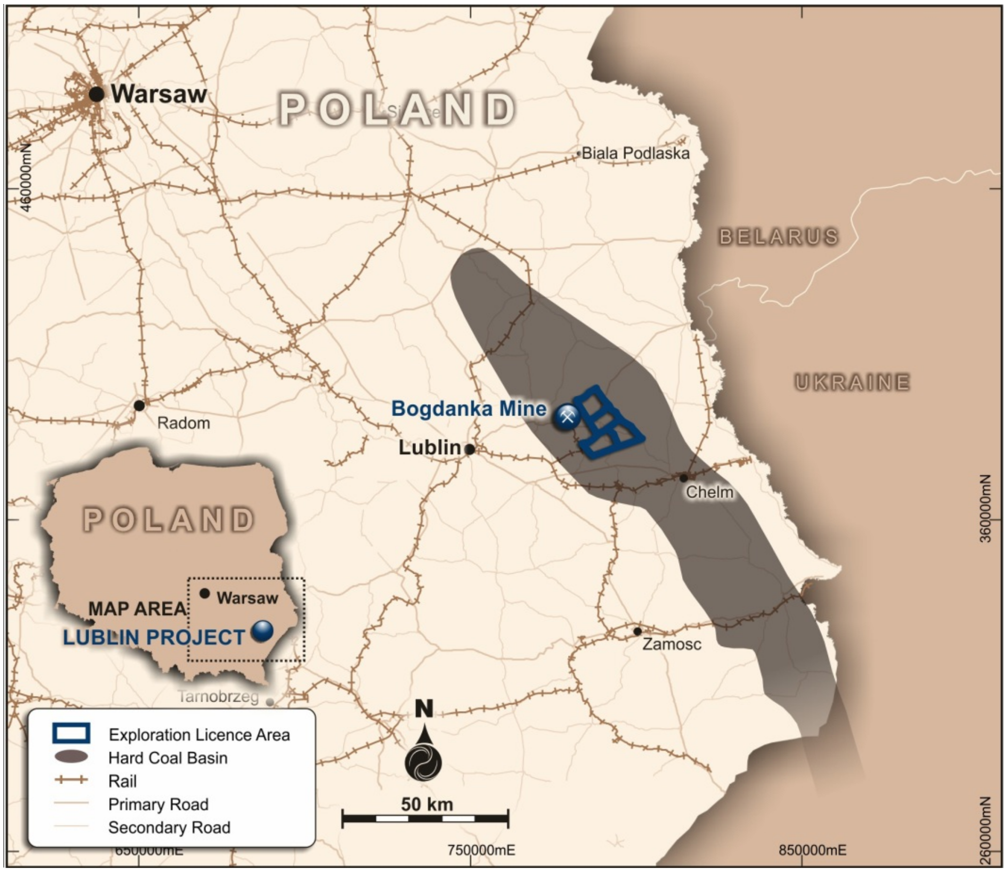


***Figure 1: LCP Location Map in Poland***

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 LCP 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 2015) of high quality thermal coal.

A maiden Inferred Coal Resource Estimate (“**Resource**”) of 1.6 billion tonnes of high quality thermal coal has been estimated at the LCP during the year. The Resource was based on the review and modelling of over 200 boreholes in around the Company’s coal exploration concessions.

## Scoping Study

The Company continues to progress the mining Scoping Study ("**Scoping Study**") on the LCP. The Scoping Study will be completed by independent consultants WAI, a leading geological and mining consulting firm highly regarded in the international coal sector. WAI have extensive experience in deep coal mining, particularly in Eastern and Central Europe, where they most recently completed the Expert Report in support of the IPO of Polish coal producer Jastrzębska Spółka Węglowa ("**JSW**").

The Scoping Study will examine the following key areas:

- Revised JORC Coal Resource estimate;
- Mine production scenarios and scheduling;
- Mine access;
- Coal handling, processing and surface infrastructure requirements;
- Environmental and Social assessment; and
- Operating and capital cost evaluation.

Given WAI's expertise in the region, and the significant data available to the Company, including immense industry knowledge gained from thirty years of operating history at the neighbouring Bogdanka coal mine, timely completion of the Scoping Study is expected in early to mid-2014. Upon completion and review of the Scoping Study, the Company will look to progress towards a pre-feasibility study, and initiate discussions with potential offtake partners from the region.

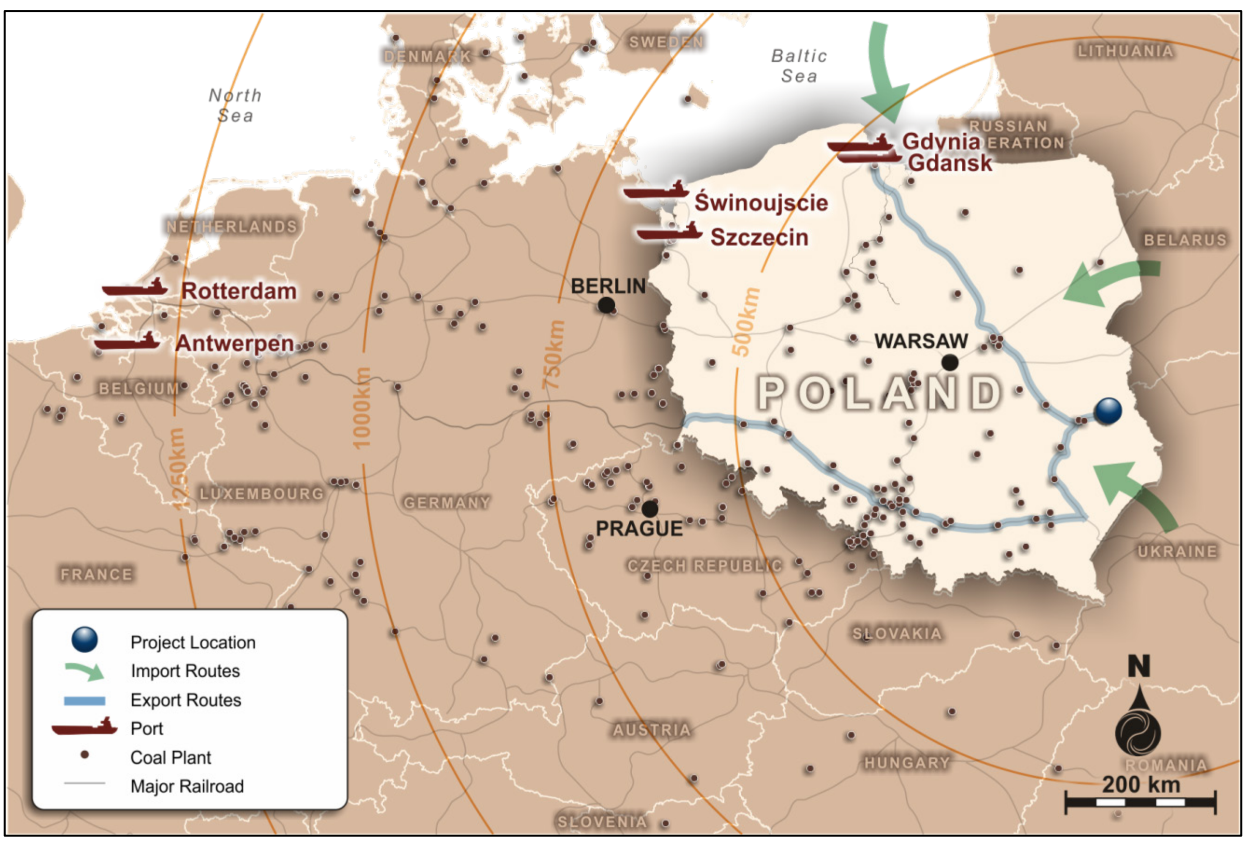


***Figure 2: Strategic Location of Lublin Coal Project***

## Drilling Program

The first two core holes (Borowo and Kopina 1) are part of an ongoing drilling program which was designed to enhance the LCP's geological model and delineate outer boundaries of the various coal seams, validate historical drilling conducted during the 1970's and 80's, and to update the coal quality and washability database within the exploration concessions.

The results of deep rotary drilling, down-hole geophysical surveys and drill core logging of the initial two boreholes (Kopina 1 and Borowo) have provided core recoveries in excess of 95% from the 391 coal seam in both boreholes. The 391 seam represents the largest Inferred Resource Estimate at 327 million tonnes and the highest quality of coal. The geological observations to-date are consistent with the historical borehole logs including the higher quality target economic seams 379, 382 and 391.

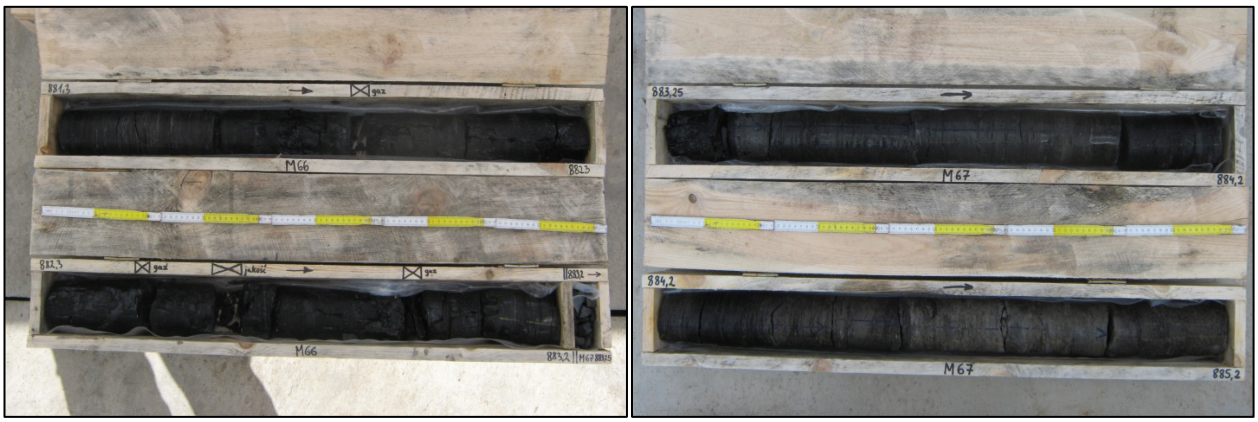


***Figure 3: 391 Coal Seam Core Intersected at Borowo drill hole***

PQ core drilling will allow for a full suite of coal quality and washability testing to be performed, providing critical input into the potential yields and product quality used for the Scoping Study. Results from this exploration program will also be used in updating the geological model resulting in a potential upgrade of category to the Resource.

The Borowo and Kopina 1 boreholes are the first boreholes to be drilled in the Lublin Coal Basin according to international (JORC Code compliant) and Polish standards. The Company is now in the process of calibrating compliancy between international and Polish reporting standards. This knowledge and the experiences gained by the completion of the first two boreholes will be applied to expedite the remainder of the drilling campaign. The Company currently has two drill rigs on site and has already commenced drilling for the third and fourth boreholes.

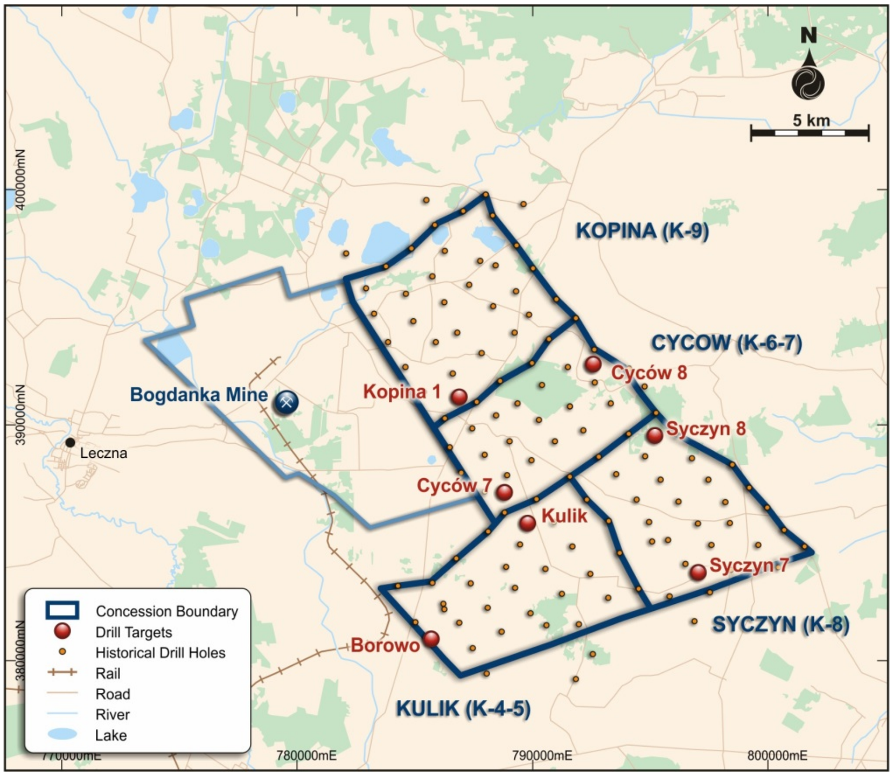


*Figure 4: Planned Drill Hole Locations*

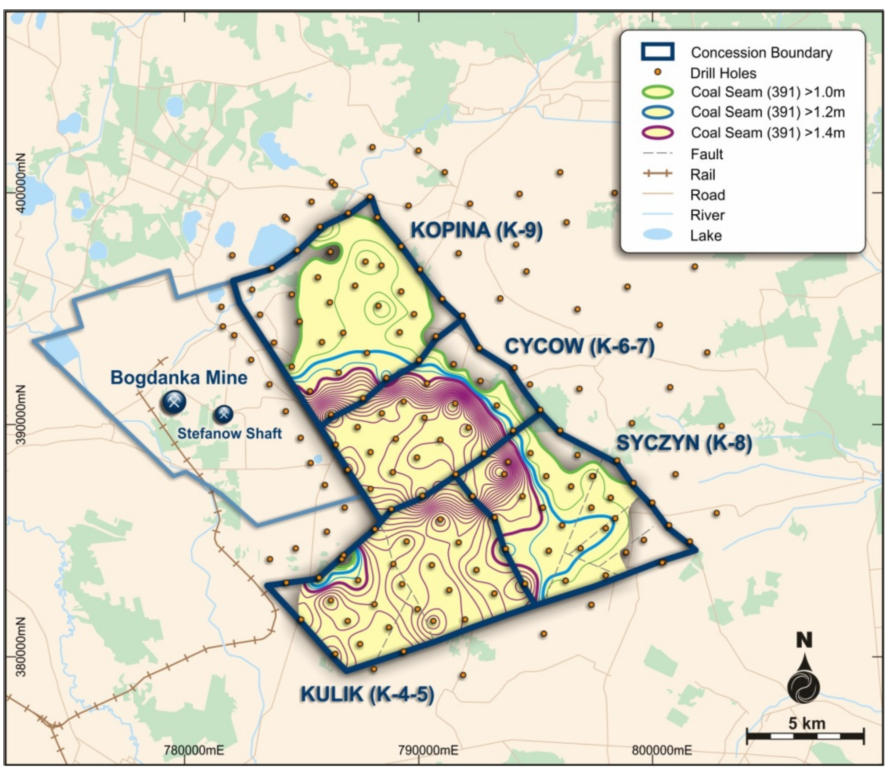


*Figure 5: Lublin Coal Project 391 Seam Contour Map*
(Note: 391 seam isopachs based on historical core and geophysical logs)

## Appointments to Executive and Development Team

Prairie strengthened its Polish executive team with the following appointment:

- **Dr Henryk Jacek Jezierski** – With over 30 years' experience in the Polish mining industry, Dr Jezierski will provide invaluable expertise and guidance during the advancement of the Company's LCP. Dr Jezierski is a former Chief National Geologist and Deputy Minister of Poland's Ministry of Environment.

In addition, two senior appointments were made to Prairie's development team in Poland to expedite the LCP's exploration program and development activities including technical studies and permitting:

- **Mr Lech Lewczuk –** Exploration Manager; has extensive knowledge of Polish coal basin geology and of international and Polish standards for exploration and development activities of coal deposits; and

- **Dr Witold Woloszyn –** Environmental Director; has extensive involvement in Strategic Environmental Assessments and Environmental Impact Assessments for local, regional and national authorities on projects located in and around the Lublin area.

## Local Community Support

The Company's ongoing drilling program was honoured by the regional and local authorities with official blessings being conducted by the Catholic Priest of the local Parish. This show of support has been greatly appreciated by the Company and portrays the significance of the Company's activities for the local and regional communities, including the potential economic benefits for the local and regional communities, including the potential economic benefits.


***Figure 6: Kopina 1 completion ceremony with local community leaders***

*Left: Mr Ben Stoikovich, Chief Executive Officer of Prairie, Mr Jan Baczyński vel Mróz, the Mayor of the local Cyców Commune and Mr Janusz Jakimowicz, the President of Prairie's Polish operating subsidiary - Mayor Baczyński vel Mróz was presented with a piece of the initial Kopina 1 coal core.*
*Right: Father Adam Arkadiusz Pudło the Catholic priest of the local St. Joseph Parish blessing the drill site.*

## PRAIRIE DOWNS BASE METALS PROJECT ("BMP")

The BMP is 100% owned by Prairie and is comprised of two tenements (E52/1758 and E52/1926) covering an area of 550km$^2$, located approximately 60 kilometres southwest of Newman in the Pilbara region of Western Australia.

### Joint Venture

During October 2013, Prairie entered into a farm-in agreement with Marindi Metals Pty Ltd ("**Marindi**") to earn an equity interest in the BMP. The farm-in agreement provides for Marindi to farm-in into a joint venture with the Company, on the following terms:

- Earn a 51% interest in the BMP by keeping the exploration licences in good standing over a period of three (3) years;
- Earn a 70% interest in the BMP by spending an further $4 million over an additional three (3) years;
- Earn a 90% interest in the BMP by spending a total of $10 million over an additional three (3) years; and
- In the event Marindi earns a 90% interest, automatic conversion to a 100% interest, with the Company acquiring a 2.5% Net Smelter Royalty on all minerals mined on the BMP.

The Company may elect to maintain its interest at each stage of the farm-in once Marindi has earned a 51% interest.

Marindi may withdraw during the farm-in period at any time by giving 90 days' notice without any liability to expend further moneys, provided Marindi has kept the licences in good standing at the date of withdrawal.

The minimum annual expenditure of the BMP's exploration licences is currently $344,000, with licence E52/1758 due for renewal by 9 December 2013.

### About Marindi

Marindi is led by highly experienced base metal mining executives and has been established to secure prospective exploration base metal assets in low risk jurisdictions.

## CORPORATE

The Company's cash balance at 30 September 2013 was $4.11 million and together with its current shareholding in listed securities, Prairie is in a strong financial position to progress with its existing projects.

***Competent Person Statements***

*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 (2004) and any references to "Measured, Indicated and Inferred Resources" are to those terms as defined in the JORC Code (2004).*

*Information in this announcement that relates to the LCP is based on information compiled by Dr Richard Lowman (an employee of independent consultant Wardell Armstrong LLP which owns Wardell Armstrong International) who is a Fellow of the Geological Society of London. Dr Lowman 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. Dr Lowman consents to the inclusion of the data in the form and context in which it appears.*

*Rule 5.3*

# 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, 01/05/2013

Name of entity

**Prairie Downs Metals Limited**

| ABN | Quarter ended ("current quarter") |
|---|---|
| 23 008 677 852 | 30 September 2013 |

## Consolidated statement of cash flows

| Cash flows related to operating activities | | Current quarter $A'000 | Year to date (3 months) $A'000 |
|---|---|---|---|
| 1.1 | Receipts from product sales and related debtors | - | - |
| 1.2 | Payments for (a) exploration & evaluation | (2,042) | (2,042) |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) administration | (297) | (297) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 66 | 66 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | - | - |
| | **Net Operating Cash Flows** | (2,273) | (2,273) |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | (1) | (1) |
| 1.9 | Proceeds from sale of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.10 | Loans to other entities | - | - |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other (provide details if material) | - | - |
| | **Net investing cash flows** | (1) | (1) |
| 1.13 | Total operating and investing cash flows (carried forward) | (2,274) | (2,274) |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | (2,274) | (2,274) |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 206 | 206 |
| 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)<br>(a) Share issue transaction costs | (2) | (2) |
| | **Net financing cash flows** | 204 | 204 |
| | **Net increase (decrease) in cash held** | (2,070) | (2,070) |
| 1.20 | Cash at beginning of quarter/year to date | 6,170 | 6,170 |
| 1.21 | Exchange rate adjustments to item 1.20 | 12 | 12 |
| 1.22 | **Cash at end of quarter** | **4,112** | **4,112** |

## 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 | 198 |
| 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 executive remuneration, 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 | 1,000 |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | 150 |
| | **Total** | **1,150** |

## 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 | 607 | 1,206 |
| 5.2 | Deposits at call | 3,505 | 4,964 |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.22) | **4,112** | **6,170** |

## 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 | | | | |

## 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) | Amount paid up per security (see note 3) |
|---|---|---|---|---|---|
| 7.1 | **Preference +securities***(description)* | | | | |
| 7.2 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 118,835,879 | 118,835,879 | | |
| 7.4 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs | 1,375,000<br>652,414 | 1,375,000<br>652,414 | $0.15<br>- | $0.15<br>- |
| 7.5 | **+Convertible debt securities***(description)* | | | | |
| 7.6 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted | | | | |
| 7.7 | **Options***(description and conversion factor)* | 14,007,133<br>1,250,000<br>1,500,000<br>1,500,000<br>1,500,000<br>1,500,000 | -<br>-<br>-<br>-<br>-<br>- | *Exercise price*<br>$0.15<br>$0.25<br>$0.40<br>$0.35<br>$0.45<br>$0.60 | *Expiry date*<br>30 June 2015<br>30 June 2016<br>30 June 2016<br>30 June 2017<br>30 June 2017<br>30 June 2017 |
| 7.8 | Issued during quarter | | | | |
| 7.9 | Exercised during quarter | (1,375,000) | - | *Exercise price*<br>$0.15 | *Expiry date*<br>30 June 2015 |
| 7.10 | Expired during quarter | | | | |
| 7.11 | **Debentures** *(totals only)* | | | | |
| 7.12 | **Unsecured notes** *(totals only)* | | | | |

+ 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 October 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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