



NEWS RELEASE | 8 March 2017

## MARKETING STUDY CONFIRMS LARGE PRICE AND COST ADVANTAGES FOR DEBIENSKO'S PREMIUM HARD COKING COAL

### HIGHLIGHTS:

- **Marketing Study by CRU confirms Debiensko's premium hard coking coal will have large pricing and cost advantages when selling to steel makers across Central Europe and wider EU**
- **Estimated cost to deliver product from the Debiensko mine to a major regional customer in Central Europe of only US\$4.60 per tonne, providing a large pricing and cost advantage compared to imported hard coking coal from:**
  - **Australia (49% of European imports) – delivery cost of US\$37.70 per tonne;**
  - **USA (29% of European imports) – delivery cost of US\$33.50 per tonne; and**
  - **Russia (5% of European imports) – delivery cost of US\$26.20 per tonne.**
- **15Mt annual coking coal demand at nearby coking plants in Poland, Czech Republic, Slovakia and Austria**
- **Existing link to national rail network provides low cost transportation of Debiensko's premium hard coking coal to regional customers. Independent study also confirms that over 4Mtpa of rail transport capacity is immediately available on the existing railway network**
- **Coking coal remains third most economically important "Critical Raw Material" for the European economy based on the European Commissions' Critical Raw Material list**
- **Results of the Debiensko Marketing Study will be incorporated into the current Scoping Study, which is due to be published in the coming weeks**

Prairie Mining Limited ("Prairie" or "Company") is pleased to announce a recently completed Marketing Study for the Company's 100% owned Debiensko Hard Coking Coal Mine ("Debiensko") has confirmed premium hard coking coal produced at Debiensko will attract strong regional demand and will benefit from a significantly lower cost of delivery to Central European customers compared to coking coal imported from the international seaborne market. Accordingly, hard coking coal sales from Debiensko will secure a substantial "netback" price advantage.

The Company recently commissioned CRU Consulting ("CRU") to complete a review of the European coking coal market. The CRU study, together with various independent and internal studies regarding coal quality and railway transport, will be incorporated into the ongoing Debiensko Scoping Study.

Commenting on the positive conclusions of the Marketing Study, Prairie's Chief Executive Officer Ben Stoikovich stated:

***"In 2016, Europe imported approximately 40Mt of hard coking coal, of which 49% came from Australia. It costs over US\$37 per tonne to transport coal from Queensland in Australia and to deliver it into a steelworks in Central Europe can take up to 60 days. Coal from the Debiensko mine can be delivered to these same steelworks for less than US\$5 per tonne in under 24 hours."***

***This provides the Debiensko mine with a massive inherent cost advantage for delivery to target regional customers in Central Europe. These large transport costs savings have historically been shared between the producer and the steel maker, with the producer achieving a higher sales price than suppliers outside of Europe, with the steel makers benefitting from cost savings and reduced delivery time. On a like-for-like basis, hard coking coal from the Debiensko mine will enjoy netback pricing US\$15 per tonne above typical FOB Australia or USA hard coking coal benchmarks, however there is potential to increase netback pricing even more during negotiations with offtakers. This is expected to significantly enhance the economics of the Debiensko mine, and indicates that Debiensko hard coking coal sales will enjoy strong demand among regional customers."***

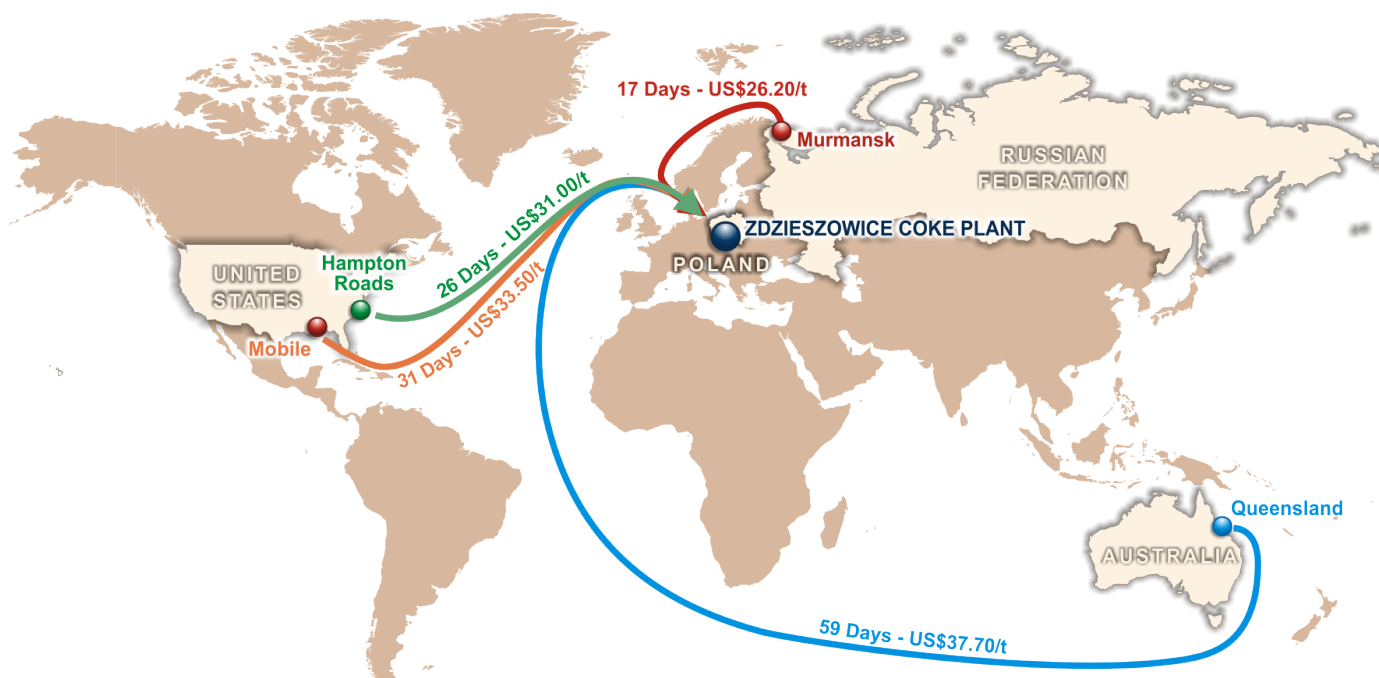


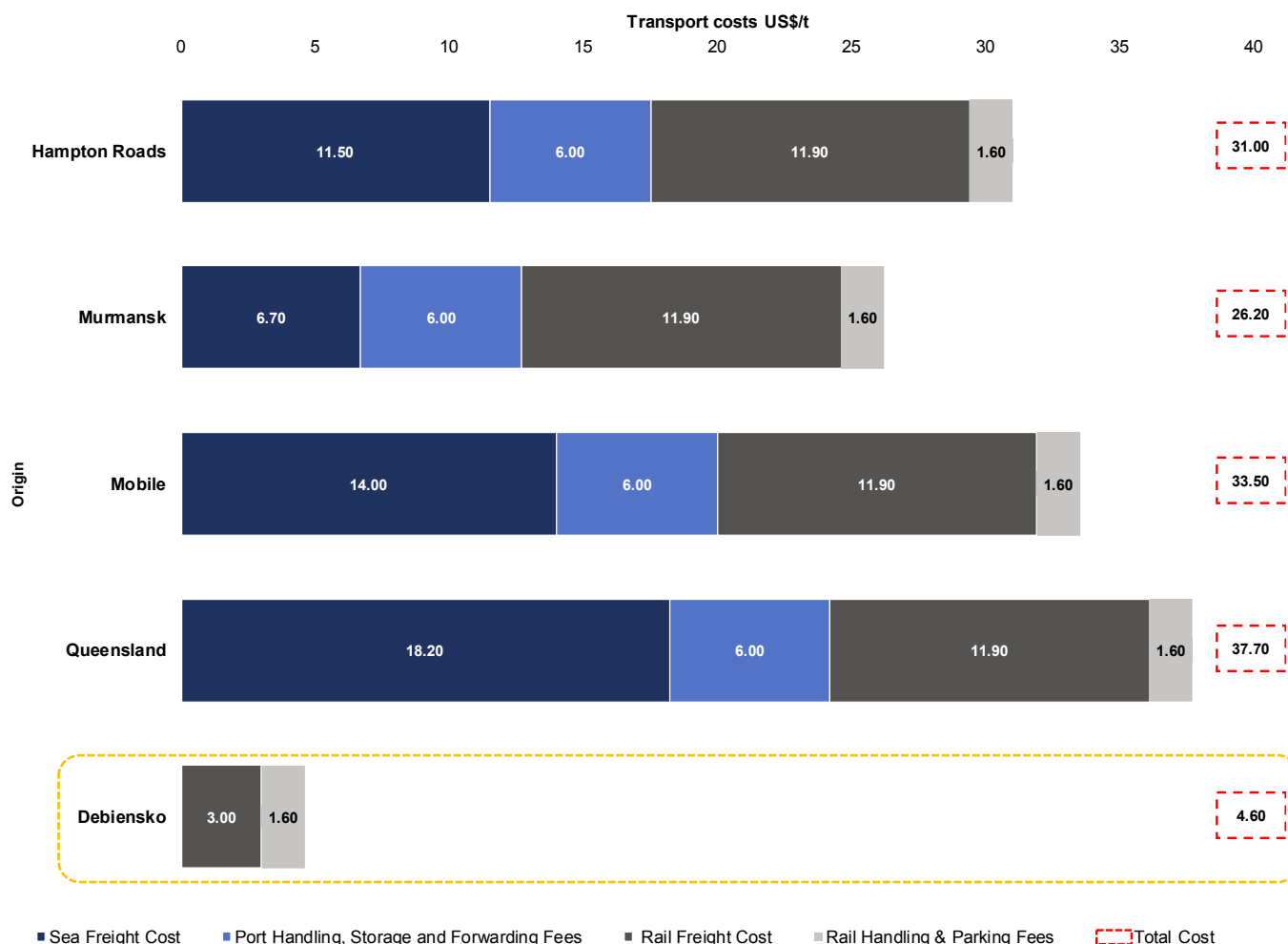
Figure 1: Estimated Time and Costs to Deliver Imported Hard Coking Coal to the Zdzieszowice Coke Plant in Poland

## NETBACK PRICING ADVANTAGE

The CRU study included a comparison of the cost of importing hard coking coal from Australia, USA and Russia delivered into Polish steelworks. CRU used ArcelorMittal's Zdzieszowice coke plant, the largest coke plant in Central Europe, as a representative benchmark to estimate delivery costs.

Coal imported for delivery to Zdzieszowice from the international seaborne market is purchased at the prevailing FOB price at the country of origin. Transportation costs incurred to deliver coal to the port of Swinoujscie, Poland, include sea freight, port handling, storage and forwarding costs. Subsequently, the coal needs to be transported approximately 600km by rail to the Zdzieszowice coke plant which incurs further freight charges. The coal requires up to 60 days to reach the coke plant from Australia and approximately 30 days from the USA. It is also handled multiple times, with greater potential for increased degradation and fines generation.

In comparison, Debiensko is only 70km from the Zdzieszowice coke plant and directly linked by rail. Transportation costs for Debiensko's coal to Zdzieszowice are estimated to be less than US\$5/t.



**Figure 2: Estimated Cost Breakdown for Delivery of Hard Coking Coal to the Zdzieszowice Coke Plant, Poland**

Due to their proximity to Central European coking plants, regional producers such as NWR or JSW have traditionally gained a “netback premium” over FOB Australia or USA benchmark prices, which once adjusted for coal quality differences, equates to approximately 50% of the total transport cost differential. Essentially, an analysis of past practises shows that the coal producer and steel maker “split the difference”. Following this approach, Debiensko would receive in a netback premium of ~US\$15/t above prevailing benchmark prices for Debiensko coal when sold to regional end users compared to imported hard coking coal. However, Prairie believe there is significant potential to increase this netback premium during future discussions with offtakers.

**Table 1: Total Freight to Zdzieszowice**

Port of Origin	Sea freight distance to Swinoujscie	Estimated Shipping Time	Typical Vessel Type	Typical Vessel Size (dwt)	Estimated Sea Freight Cost to Swinoujscie (US\$/t 2017)	Port Handling, Storage and Forwarding Fees (US\$/t)	Total Sea Freight Cost (US\$/t)	Estimated Rail Freight Cost (US\$/t 2017)	Rail Handling & Parking Fees (US\$/t)	Total Freight Costs (US\$/t 2017)
Hampton Roads	3,958	16 days	Panamax	70,000	11.50	6.00	17.50	11.90	1.60	31.00
Murmansk	1,656	7 days	Panamax	70,000	6.70	6.00	12.70	11.90	1.60	26.20
Mobile	5,173	21 days	Panamax	70,000	14.00	6.00	20.00	11.90	1.60	33.50
Queensland	11,858	49 days	Panamax	70,000	18.20	6.00	24.20	11.90	1.60	37.70
<b>Debiensko</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>3.00</b>	<b>1.60</b>	<b>4.60</b>

## REGIONAL HARD COKING COAL DEMAND & TRANSPORT

Prairie intends to utilise the existing rail network to transport its premium hard coking coal to regional steel mills and coking plants. An independent study prepared by Politechnika Śląska (Silesian Technical University) for the Debiensko mine confirms available rail capacity of 4Mtpa on specific routes to be utilised for delivery to European steelmakers.

**Table 2: Select Steel Mills and Coking Plants Connected to Rail Network**

Owner	Coking Plant	Country	Coke Making Capacity (Mt)	Coking Coal Requirement (Mt)	Estimated Rail Distance from Debiensko (km)
ArcelorMittal	Ostrava	Czech	1.53	2.14	60
ArcelorMittal	Zdzieszowice	Poland	4.00	5.60	70
ArcelorMittal	Krakow	Poland	0.70	0.98	125
Carbo Koks	Bytom	Poland	0.24	0.34	50
Zarmen Group	Czestochowa	Poland	0.65	0.91	90
US Steel	Kosice	Slovakia	2.05	2.87	400
Voestalpine	Linz	Austria	1.45	2.03	500





Figure 3: Locomotives Passing Debiensko Mine Site

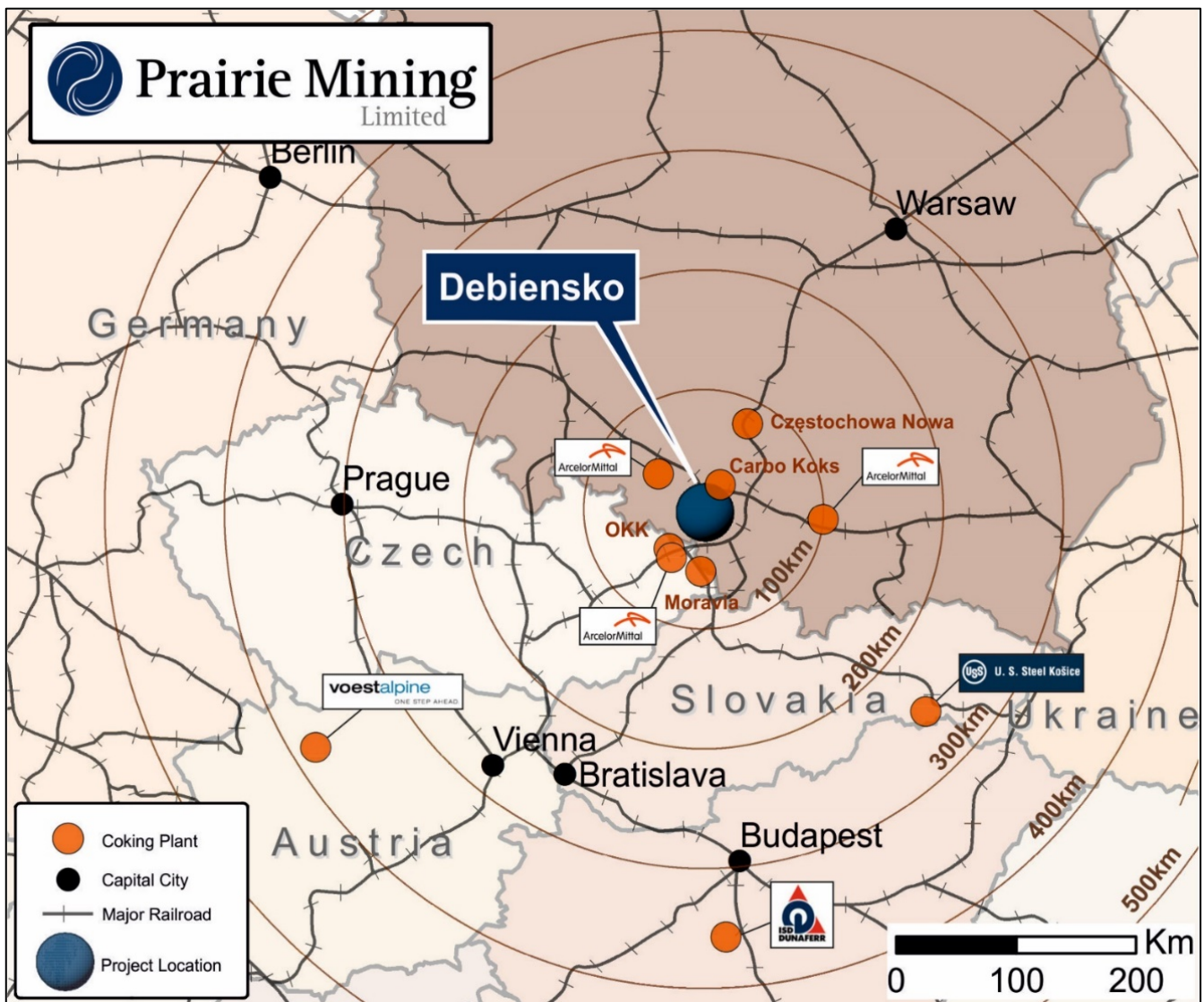


Figure 4: Proximity of coking plants to Debiensko





**Figure 5: Rail Siding at Debiensko Mine Site**



**Figure 6: Coal Wagons at Debiensko Rail Yard**



## EUROPEAN HARD COKING COAL DEMAND

Europe relies heavily on imported hard coking coal. In 2016, Europe consumed over 52Mt of hard coking coal of which over 40Mt had to be imported from outside the continent. Australia and North America alone provided 86% of the imported hard coking coal required by European steel mills.

■ Australia ■ USA ■ Russia (est.) ■ Canada ■ Others

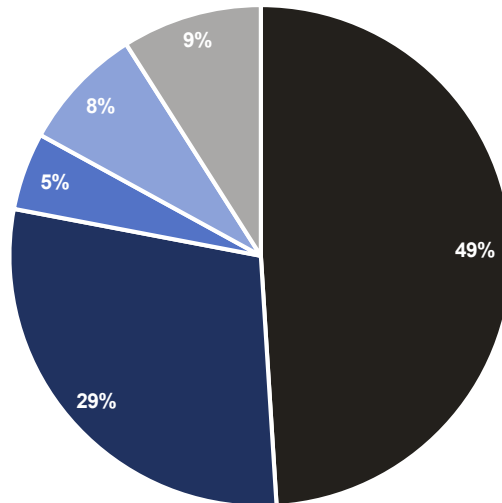


Figure 7: 2016 European Imported Hard Coking Coal

In 2010 and 2014, the European Commission (“EC”) carried out a criticality assessment at European Union (“EU”) level to identify “Critical Raw Materials” based on:

- Economic importance – the proportion of each material associated with industrial mega-sectors such as construction, combined with its gross value added to EU GDP to define the overall economic importance of a material.
- Supply risk – based on accountability, political stability, regulatory quality etc.

The EC concluded that coking coal is a critical raw material for Europe with its economic importance to the continent only surpassed by tungsten and vanadium.

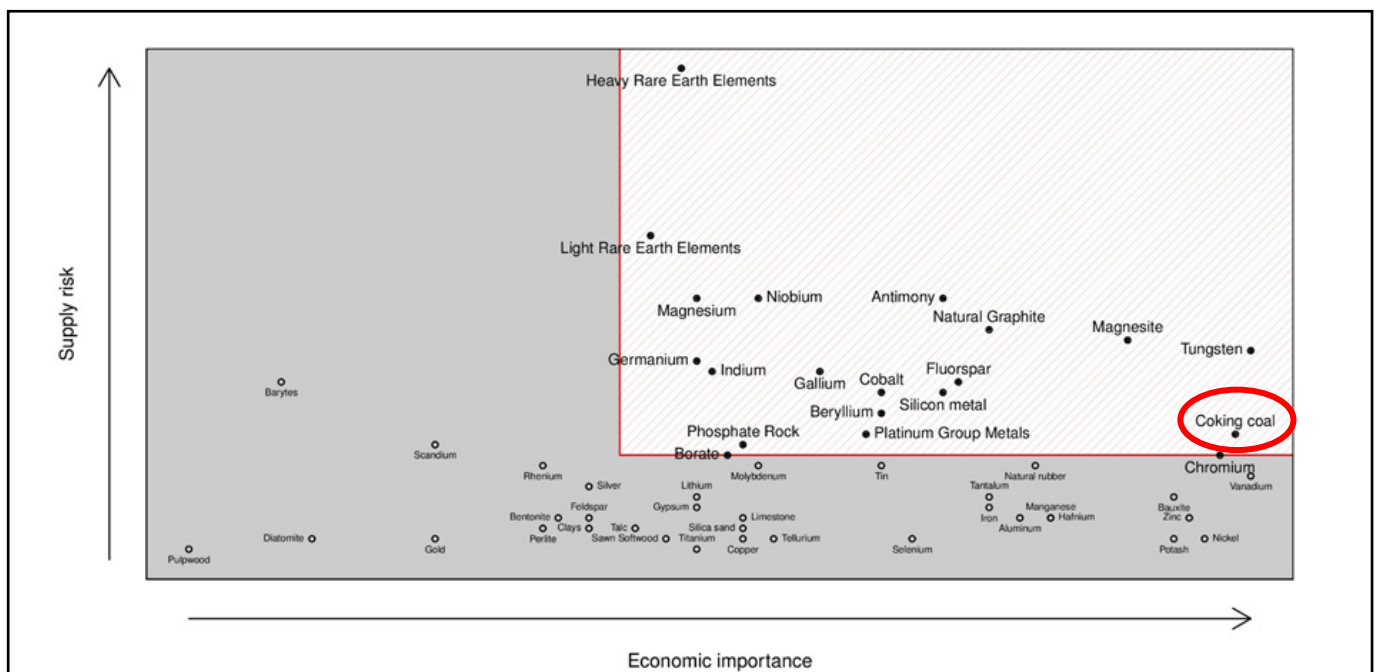


Figure 8: EC Criticality Assessment

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