PIKE RIVER COAL

28 November 2008

AGM – Managing Directors Address

Introduction

First of all, the Directors and I wish to thank you all for making the long trek up to the mine site today.

The strong interest and support shown by shareholders has been a most encouraging feature in the development of our premium hard coking coal mine.

I think we all have a sense that this is a special mine, in an unusual environment, and with a valuable product.

We were pleased that the new Minister for Economic Development, Hon. Gerry Brownlee was here yesterday to formally open the Pike River mine. Mr Brownlee is the third most senior cabinet minister and is also Minister for Energy and Resources.

Achievements

Now that we have struck coal and, are into production, it is timely to reflect on the achievements of the past year:

- Pike River is an operating mine
- the infrastructure is built including a $20 million coal preparation plant and a nearly complete $12 million rail loadout facility at Ikamatua
- the heavy mining cutting machinery is in place including two $5 million continuous miners and a $4 million roadheader
- 18-year transport contracts are in place for coal transport to the export port at Lyttelton
- and the funding is in place.

For that, I want to acknowledge the efforts of our General Manager Peter Whittall, our management team and all our staff in getting us there. There has certainly been plenty of midnight oil burnt!

Our safety record has been excellent, with no serious harm incidents suffered by staff or contractors on the mine development during the year. In fact there have been none since first construction commenced on the access road three years ago.

Tunnelling to Coal

I also acknowledge our contract tunnelling company, McConnell Dowell, who won this year's New Zealand Contractors Federation national award for projects over $20 million for their tunnelling achievements at Pike River.

It has not been easy and as you know, there were delays in breaking through to coal.

news release

It bears emphasising that we have cut 2.3 kilometres under a rugged mountain to reach the largest and most valuable hard coking coal deposit in the country. Another 500 metres of large tunnel ways were excavated adjacent to the main tunnel to house our pumping and coal handling infrastructure.

Tunnelling took two years to complete.

For the first two kilometres of the access tunnel – the second largest in NZ since the 197 0's – it was a case of just constantly plugging away through highly variable rock conditions, requiring intense roof support.

The most frustrating period came after we cut through the Hawera fault and found ourselves, as expected, in a zone of crushed rock.

However, the crushed area was more than double the expected 60 metres, requiring further roof support and slowing us down. When added to a few machinery teething difficulties, the tunnel seemed like it was crawling along at times.

So it was with great excitement that on 17 October our crew made the break-through to coal and you may have seen the widespread coverage on television that night and in the newspapers.

We were delayed but we have delivered an operating coal mine generally as anticipated at the time of the 2007 Initial Public Offer (IPO).

Production Targets and Coal Markets

During the current ramp-up period we have been constantly refining the mine plan to make up for time lost during tunnelling and overcoming new challenges. For example, we have deferred some roadway development in pit-bottom so we can commence hydro-mining sooner than otherwise would be the case. However, despite every effort not all time has been recovered and the tunnel has continued to progress more slowly than expected since the break-through to coal.

What this means is that we expect to undershoot our 200,000 tonne production target this financial year (to 30 June 2009) by about 20%. Hydro-mining is still expected to commence in June 2009.

Casting back to our IPO in the middle of 2007, a price of US$100 per tonne was forecast for coal we would be mining in 2008.

In fact coking coal prices took off earlier this year on the back of increasing demand by steel mills and some factors restricting coal supply. Those factors related largely to Australia - extreme flooding in Queensland and ongoing rail and port capacity limitations for coal exports.

Pike River signed sales contracts for US$300 per tonne for the first coal produced by the end of March 2009. This was virtually triple the expected price.

The commodities boom resulted in the higher coal prices, but also led to cost increases around the world. Cost increases in the international coal mining industry have been at least 10 percent, year on year, in the past two years. We anticipate similar pressures at Pike River, although falling prices for fuel and some other key inputs should provide some relief.

The coal mining industry is also not immune to the world economic downturn. Spot prices for hard coking coal have recently fallen quite significantly as steel demand and prices have dropped. Share prices of coal companies around the world, including Pike River, have followed suit.

Stimulus packages, such as the US$586 billion investment in infrastructure and housing over the next 2 years, recently announced by the Chinese government, may assist in supporting steel and coking coal demand from mid 2009 onwards.

Analysts currently have a wide range of predicted outcomes for next year's hard coking coal price negotiations. In such uncertain and fast-moving times it is not possible to provide an accurate prediction – we will have to wait for the conclusion of contract pricing negotiations - typically around March each year.

What we do know is that Pike River will benefit from the significant depreciation in the NZ dollar, which will buffer lower coal prices. The kiwi dollar has dropped against the United States dollar by about 30% in the past six months (from above 80 cents to 55 cents against the USD) and some banks are picking that it could go lower.

We are also fortunate to have life of mine sales contracts with our two Indian shareholders for approximately 55% of the mine's coal production as well as long term sales contracts with two Japanese steel mills.

Capital Expenditure and Funding Arrangements

From June 2009 all our underground infrastructure is expected to be in place for mining approximately one million tonnes of coal a year – for each of the next 18 years.

We have invested in new, modern machinery and equipment and recruited skilled mining staff to make sure we achieve that target. Nearly all of the $246 million capital expenditure has now been spent or contracted, with just 4% to go.

The last equipment purchased was the hydro-monitor mining equipment – which uses high pressure water to cut coal. Much higher prices for this gear, combined with additional tunnelling and shaft construction costs, resulted in the capital expenditure budget being increased by $23 million on 30 October 2008.

The funding requirement for Pike River is a lot less. Higher contracted coal sales prices and the drop in the NZ dollar are expected to reduce the additional funding needed to approximately $10 million.

I am pleased to advise shareholders today, that this funding has been secured through a credit approved terms sheet for a bank working capital facility. This facility is just subject to completion of formal documentation.

In March this year, despite the international financial market difficulties, we successfully completed a NZ$97 million funding package. In a show of support, shareholders backed a fully subscribed $60 million rights issue at 90 cents per share.

A further US$30 million was raised through convertible bonds issued to Liberty Harbor, part of the Goldman Sachs Asset Management group. Some of those bonds have already been converted into Pike River shares at a cost of $1.17 each.

New Transport Agreement

Another significant achievement during the financial year was the locking down of a long term coal transport solution.

We signed an 18 year coal transport agreement with state owned enterprise, Solid Energy, which provides the twin benefits of an existing proven coal transport route and a priority right to use that transport chain (if there are future capacity limitations). This new deal will see coal being trucked to Ikamatua and then railed 250 kilometres to Port Lyttelton for export.

Environmental

Let me say at this point that we have a strong relationship with the Department of Conservation and we are grateful for the positive approach the Department is taking.

Department of Conservation staff manage crown land in accordance with the relevant laws and regulations. At the same time they have shown a readiness to work through practical construction issues as they arose with us and I would like to record my appreciation for that.

Pike River has, from day one, adopted a strong environmental ethic and we specifically employ skilled staff to help us safeguard the environment.

Because of the special and largely-unspoiled nature of the Paparoa range we have accepted from the outset an obligation to minimise adverse effects from the mining activities. In some areas, such as pest control and native bird restoration programmes, we are successfully improving the environment.

It was with much appreciation that we found our efforts and commitment had not gone unnoticed by the Department of Conservation.

During September 2008 the Department notably awarded Pike River a certificate recognising “the environmental consideration it has demonstrated in the establishment of mining facilities.”

In addition, at the recent 2008 New Zealand Contractors Federation Canterbury Branch award, Ferguson Brothers won the Environment award and the Contractor of the Year for Projects over $1million award for the Pike River access road.

Future Outlook

So with the mine on-track to hit its steady state production rate of 1 million tonnes per annum by mid 2009, we are increasingly being asked – what next?

We are about to commence the first exploration at Pike River into the Paparoa seam for more than two decades, to begin the process of proving up its reserves and coal quality.

As we progress with mining the Brunner seam over the next 18 months we will also drill from underground down another 200 metres to the Paparoa seam, to continue to collect data.

At some point we will have enough information to decide whether the likely reserves justify us tunnelling down to intersect the Paparoa seam.

On current imprecise estimates there could be potential to recover up to another eight million tonnes of hard coking coal from the Paparoa seam which will blend well with the Brunner seam coal.

In terms of future earnings, the reality is that premium hard coking coal is an essential part of steel-making and, while steel production will fluctuate, the interest in our particular type of coking coal is very strong and will remain that way.

Our coal has the lowest ash content in the world and a high fluidity level, which make it a very efficient coal in the steel making process. It also has a very low phosphorous level – a good thing because phosphorous weakens steel.

These factors lead us to believe that Pike River premium hard coking coal will continue to attract a high level of international demand and to obtain the top prices for coking coal.

We will look at any practical and worthwhile new opportunities to expand our coal portfolio.

But the first priority is to get production up to schedule in the Brunner seam and fully bed down our mining operation.

Thank you

Gordon Ward

Chief Executive and Managing Director

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The Pike River mine, about 50 kilometres northeast of Greymouth, is opening up New Zealand's largest known deposit of hard coking coal. The mine is expected to produce an average of one million tonnes a year for at least 18 years once hydro-mining commences in mid 2009.

Pike River shares are quoted on the NZSX and the ASX under the code "PRC"