



23 November 2009

2009 AGM – MANAGING DIRECTORS ADDRESS

Introduction

Good afternoon and may I start by thanking all of you for attending today. I know it is somewhat of a hike and your efforts are much appreciated.

The location of this annual general meeting is perhaps illustrative of the unique operation we have at Pike River Coal – how many other companies have the ability to meet with and address their investors in such a pristine and stunning environment?

The journey you made here today is reflective of the journey we have made as a company over the past few years. There have been twists and turns along the way, challenging terrain and surprises around a few corners.

Review of Operations

I'd like to now address some of the challenges we have faced over the past year and also highlight our many positive achievements.

Pike River is a unique company in some respects, but we face much the same challenges as any new mining venture. We fully recognize that some of our issues in the past year have been time consuming and expensive to fix, but investors can take comfort in the fact that we have overcome every challenge struck and are now fast approaching the time of our first export shipment of coal.

You will all be aware that since our breakthrough to coal in October last year, we experienced a rockfall in the ventilation shaft that interrupted development. This was unusual.

We were dealing with complex geological conditions in an area close to the Hawera fault, which with the benefit of hindsight, were not able to be accurately predicted. Even though our independent consultants had done detailed analysis of core samples from holes drilled from the surface through the rock before the shaft was constructed, the rock towards the bottom of the shaft did not behave as predicted.

This incident is subject to an insurance claim and, most importantly, it was resolved relatively quickly. The ventilation shaft was repaired and we moved on.

Without getting overly-technical, I think it's important to note that the subsequent complications we faced with the geology in our mining areas were unavoidable.

Our underground in-seam drilling identified a faulted zone called a "graben" just in front of our pit-bottom development. This graben wasn't picked up by two earlier holes drilled from the surface, because those holes sat neatly, albeit unfortunately, on either side of the graben.

The coal is still there, underneath the graben, and we had no choice but to drill and blast roadway tunnels through this particular zone of hard rock to get back into coal for our first hydro-mining operations. This has slowed our access to the main hydro mining areas and delayed our three mining machines from cutting coal.

Since we first entered the coal seam, we have used a specialised drill contractor to undertake in-seam drilling in the coal ahead of operations, so we can predict this kind of situation.

Our decision to employ this particular mining technique is being rewarded. In the past six months, we have drilled five kilometres of drill holes underground which have been defining where the coal seam lies. Using in-seam drilling saw us last month locate coal 50 metres earlier than anticipated to the west of pit-bottom and drilling in coal continued from this point for a further 400 metres. We have now commenced drilling out to the first hydro-panel in preparation for the commencement of hydro-mining in the April – June quarter 2010.

We expect to be through the rock graben, which is about 100 metres wide, and back into coal in early January 2010.

On the machinery front, we are making all the necessary modifications to the heavy coal mining machines that will ensure greater operating reliability and enhanced performance, and we have intensified operator training so all of our mine crews are continually upskilling. Modifications on the first of the two continuous miners have been completed and returned to operations. The second machine has nearly completed its upgrade and the German manufacturer has completely replaced the track systems on both continuous miners at their cost. The track systems on these 60 tonne machines are considerably more advanced than bulldozer tracks for instance. They have special levelling systems for the steeper terrain at Pike River, which will have long-term benefits vastly outweighing some of the teething problems we have had to work through.

Funding

Once the mine is in full operation, the hitches encountered would normally be managed from operating cashflow. However, because they were encountered during ramp-up Pike River found itself in the position of requiring additional funding. Our export shipments were delayed, which led to our April 2009 rights issue and the current need for a minimum of \$20 million in additional working capital.

As you know, the April rights issue was over-subscribed and the Board of Directors and I would like to thank you for your support during this period. It is heartening to know we are well-supported by a loyal and understanding shareholder base. You are in tune with what this company is about; there is a good understanding of the risks involved in mining and an appreciation that this is a long-life project.

The Board is very carefully weighing up the alternatives for the additional \$20 million working capital, which include debt and equity. These additional funds are not required until February next year.

We are also progressing an extension to the production condition applying to the convertible bonds (US\$27.5 million or NZ \$39 million at current exchange rates) held by Liberty Harbor, part of a Goldman Sachs asset management group. A technical review of key mining issues was completed last week by a technical advisor to Liberty Harbor. They have not identified any major concerns with our mine operation. Based on the response from Liberty Harbor to date, we believe the condition will be extended to 30 June 2010, although commercial terms are still to be addressed.

It is relevant to note that the bonds can be converted by Liberty Harbor into ordinary Pike River shares at a price of \$1.08 per share at any time until maturity in March 2011. So there is a reasonable option value for Liberty Harbor in those bonds.

The Pike River Board is satisfied that, given the operating status of the mine, the state of international coking coal markets and its ability to raise further funding to the extent necessary, Pike River will be able to fund the costs of the production delays and/or any bond redemption obligations, which would not arise until end February 2010 at earliest.

Milestones/Achievements

Our successes over the past 12 months demonstrably outweigh our difficulties and I am pleased to be able to report significant progress in a number of key areas.

Our breakthrough to coal came in October '08. Since then we have completed 1,400 metres of roadways to the west of the Hawera Fault (1,000m in stone and 360m coal), we have installed pit-bottom infrastructure, constructed the ventilation shafts, finished the \$20 million coal preparation plant (now undergoing commissioning), constructed a \$10 million rail loadout facility at Ikamatua and successfully commissioned the 10 kilometre slurry pipeline that pipes coal down to the coal preparation plant.

In a nutshell, all the infrastructure is now in place for mining approximately 1 million tonnes of coal a year, for at least the next 18 years.

To cap it off, we have full recruitment of 146 staff required for the current stage of operations. We have only to recruit about 15 more staff for hydro-mining operations. Pike River has recently recruited two more senior managers. One of these will fill the key role of Production Manager that will assist us with our goal to continually improve our processes and safely deliver our production targets. The other senior operations position has been filled by a highly experienced Australian mine manager and Deputy Chief Inspector of Mines in the Australian coal industry.

High Quality Coking Coal in Paparoa Seam

This time last year, I announced we were about to commence the first exploration at Pike River into the Paparoa Seam for more than two decades.

I am pleased to confirm that recent testing of the Paparoa seam shows exciting potential. The three potentially workable coal seams drilled earlier in the year on the eastern side of the permit have, encouragingly, a very low sulphur content, low ash content and very high fluidity. This makes Paparoa coal a prime hard coking coal and good for blending with coal extracted from the Brunner seam. Nine metres of coal was intersected by the new corehole drilled through these three seams.

It is early in the exploration phase, but based on drill results and outcrop samples, there could be up to eight million tonnes of recoverable prime hard coking coal in this seam. A 12 month drilling programme down into the Paparoa seam, conducted from within the Brunner seam as it is developed, should kick off about mid next-year. The objective is to determine more accurately, what level of resource we have and to look at the development potential here.

Looking Ahead

The next year promises to be very significant for Pike River. It will mark the beginning of the next phase of our journey: export and full production.

As agreed with our Indian customers, they are set to receive our first export shipment of premium hard coking coal - a 20,000 to 30,000 tonne cargo - in the January-March quarter 2010. You will have seen a large stockpile of coal on your way up here. That's more than 17,000 tonnes and part of our inaugural export shipment.

2010 will also be milestone by the fact it will be, notwithstanding any unforeseen setbacks, the first period of full production. Steady-state production will mean hydro-mining is up and running and once this is underway, our rate of production will increase considerably. Pike River's state-of-the-art hydro monitors will cut coal at a rate of around 2,200 tonnes per day: that's about 800,000 tonnes a year. The roadheader and two continuous miners will add another 200,000 tonnes a year on average as they open up the roadways.

The necessary investment has been made so that the Pike River mine can produce an average of 1 million tonnes per year. In some years it is scheduled to reach 1.3 million tonnes.

Pike River has advantages over other New Zealand underground mines. We have the benefit of mining uphill nearly all the time and being able to use gravity to flume and pipe coal out of the mine. We have a single coal seam, much larger hydro-mining pumps; and use long-reach in-seam drilling. The mine is designed to be a bigger mine than all other New Zealand underground mines. The major benefit of hydro-mining is its flexibility – it was designed to operate in mountainous country.

It is pertinent to note that as well as looking forward to our own future developments, the international coal market is making promising soundings – a very good sign going ahead. The current spot price for hard coking coal is US\$160 per tonne and long term prices are forecast at around US\$140 per tonne (approx. NZ \$240 at historical average cross-rate). This is up about NZ\$100 per tonne compared to when we IPO'd – and yet mining and transport FOB (Free-on Board) costs are up by only NZ \$30 per tonne. The maths certainly look attractive!

There is further good news in international steel and coal demand. A report by McCloskey Group, out only days ago, showed US steel production has hit levels not seen for a year. Macquaries are expecting global steel production to grow 10% next year. With hard coking coal a major ingredient in steel production, these are promising signs.

The Asian markets have seen a resurgence in demand for hard coking coal from the beginning of the year, firstly stemming from China followed by India. China is now expected to import more than 20 million tonnes of hard coking coal this calendar year, compared to 2.5 million tonnes last year, a massive increase.

In fact, China and India are projected to account for a combined 39 million tonnes (41%) of the 95 million tonnes of total world demand growth for metallurgical coal between 2008-2020.

You only have to look across the Tasman to see how the market is tightening: congestion is causing problems at Australian ports again, with ships lined up with coal destined for China. Dalrymple Bay had record levels above 80 recently with waiting times out beyond six weeks in some cases.

Closer to home, can I say it is heartening to note this government has injected a refreshingly positive approach to the significance of our nation's mineral resource: they actually acknowledge its value!

The Minister of Energy and Resources has asked officials to undertake an inventory of the minerals on Conservation land. Despite the emotional response whipped up by the usual parties, this is not a signal that the Government is about to rip up and bulldoze its way through our national parks. It is, rather, a very clear signal that the sector is finally receiving appropriate government recognition for its contribution to economic growth and an encouraging sign that this government recognizes the enormous potential in unlocking New Zealand's mineral wealth. We, as coal miners and as exporters, welcome that.

We also welcome the Government's recognition that Pike River is a showcase mine development in the way we have protected our surrounding environment.

Summary

In closing, I hope you come away from today encouraged and excited about the road ahead for Pike River. We certainly are. And I hope I have illustrated that despite the challenges a mining company like ours will invariably face, we have steadily and confidently addressed all of our issues, not once, considering them insurmountable. That's because we don't perceive them as obstacles.

As Henry Ford once said, "obstacles are those frightening things you see when you take your eyes off your goal." We've never been guilty of taking our eye off the goal and we're not about to now.

I have no doubt our journey forward will be marked by further challenges. But as we've done in the past, we will use those challenges to help sharpen our focus and to continually improve our performance. All Pike River staff are working very hard towards achieving our production and profit targets and to ensure that we retain the support of our investors.

Thank you

Gordon Ward
Managing Director

23 November 2009

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Pike River Coal owns the rights to a premium hard coking coal resource located 50 kilometres north-east of Greymouth, New Zealand.

<p>Pike River shares are quoted on the NZSX and the ASX under the code "PRC"; and options are quoted on the NZSX under code "PRCOA", and the ASX under code "PRCO".</p>
