



**PIKE RIVER COAL LIMITED**  
ANNUAL REVIEW 2009



**PRODUCTION  
RAMPING-UP**



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# Chairman's OVERVIEW



“Demand for hard coking coal is recovering, due mainly to record imports by China this calendar year...”

Pike River is now a producer of premium hard coking coal and is developing its underground mine at the same time as export coking coal markets are recovering from an international downturn.

This time last year, we were looking at our first coal export shipment in the first quarter of 2009 at record prices of US\$300 per tonne. The world economic downturn changed that, coal demand and prices came down, and Pike River itself faced an unexpected setback when a rockfall in the new ventilation shaft interrupted development progress.

With first income delayed, Pike River launched a \$45 million share and option offer in March 2009 which was eventually over-subscribed. It was heartening to hear so many supportive comments from shareholders at eleven packed meetings we held around the country to explain what was happening.

Since then good progress has been made with repairing the main shaft and restoring mine ventilation and production of coal resumed in June 2009. Pike River has also worked hard to bed down the new mining machinery and efforts are now focused on upskilling new mining crews to lift performance.

In the ongoing ramp-up to full production, the company has maintained a good safety record, captured national attention for its efforts to safeguard the environment, and made real contributions to the South Island's West Coast economy.

Positive achievements include completion of all surface infrastructure, contracting sales of our coal to Japan and India at US\$128 tonne through to March 2010, and starting to stockpile our first export shipment.

Pike River will be entering the export market at a good time. Demand for hard coking coal is recovering, due mainly to record imports by China this calendar year and international spot prices are currently trading above the contract price.

Every effort is being made to ensure investors benefit from the company achieving full production status, planned for the April to June 2010 quarter.

John Dow  
Chairman  
Pike River Coal Limited

# Production Ramp-Up AND MI



Raise-boring the main ventilation shaft

“Full ventilation for men and machines is now being provided by the main ventilation shaft ...”

We have had to overcome several unexpected challenges in establishing our new mine since the breakthrough to coal in October last year.

Not able to be predicted were the geological conditions causing a rockfall in the ventilation shaft, subject of an insurance claim<sup>1</sup>, and ‘teething’ issues with new heavy coal cutting machines requiring modifications.

The rockfall in the ventilation shaft was bypassed in early June 2009, allowing mining to re-commence and the machinery issues have now largely been resolved, at the manufacturers cost. Only the replacement tracks for both 60 tonne continuous mining machines are outstanding, and due for delivery shortly.

Full ventilation for men and machines is now being provided by the main ventilation shaft and a 450mm diameter slimline shaft which has now been cased and provides additional ventilating air to pit bottom.

Pike River’s production ramp-up re-commenced in early June 2009, but progress has been slower than expected.

Countermeasures taken by the company to lift performance include more intensive maintenance, intensified operator training, and changes to underground work practices following internal and third party review. The mine is working 2 shifts 24

<sup>1</sup> Shaft restoration costs are the subject of an insurance claim for approximately \$3 million



# MINING CHALLENGES



hours per day, 7 days a week in order to meet our production targets, and all our management and staff are focused and committed to this outcome.

Pike River is currently developing pit-bottom by mining a combination of coal faces and also drill and blast faces in stone. Pit-bottom has to be located at the lowest point in the mine, so all coal can be slurried downhill from the future mining operations. This sets the location for pit-bottom, which is within the influence of the main Hawera fault only 180 metres to the east. The geological conditions we encounter just have to be worked through and this area has been slow going as considerable roof support and work in stone has been required.

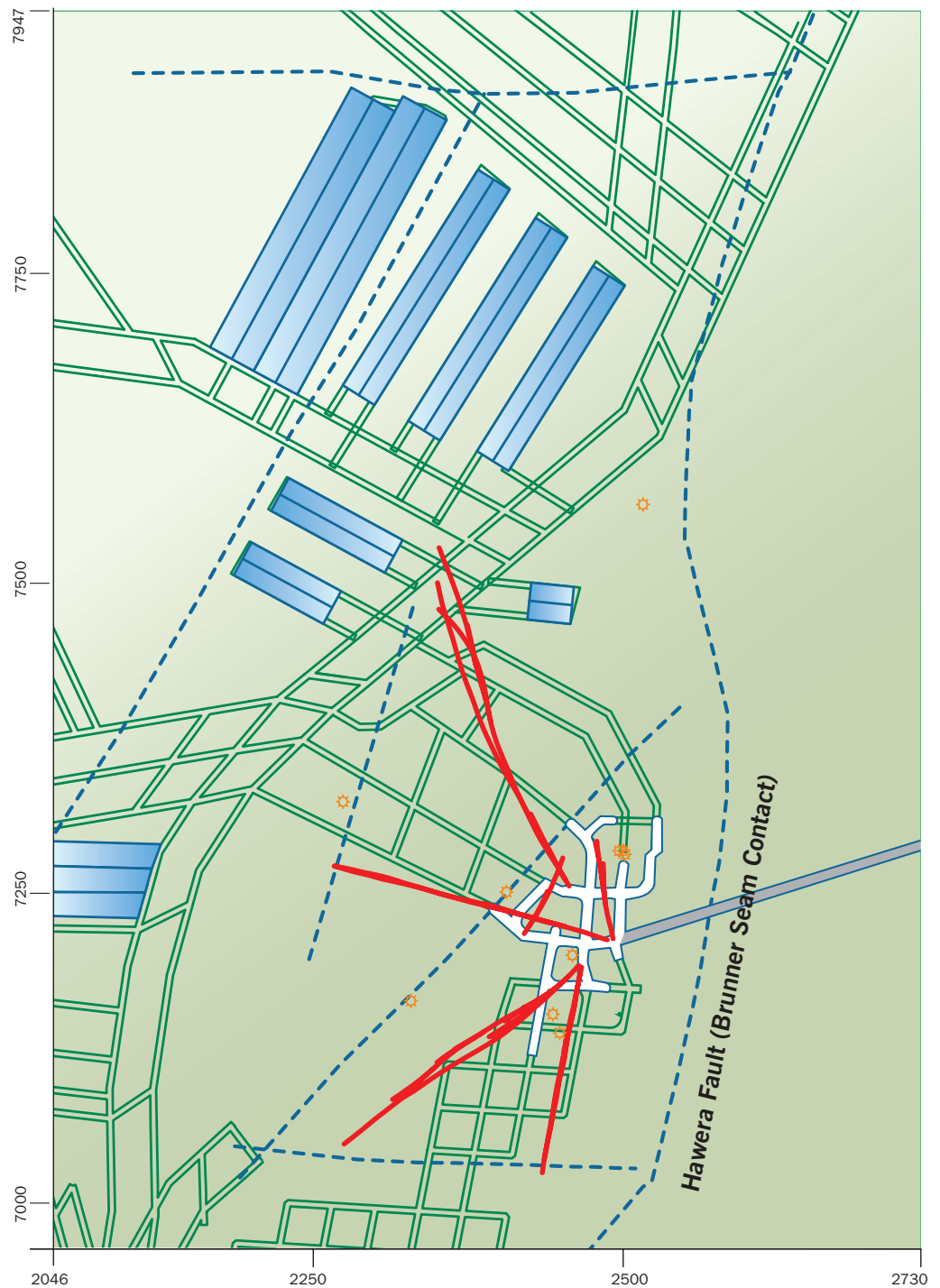
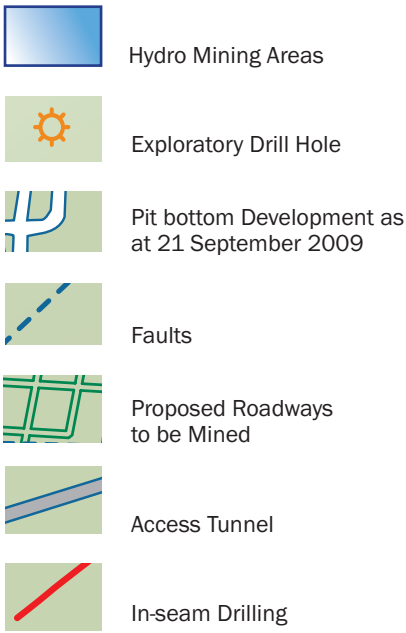
With the benefit of in-seam drilling in July/August 2009, the geological structures identified immediately in front of pit-bottom (in this case faults which have dislocated the coal down and then up again) caused us to re-evaluate and reforecast the time needed to drive roadways to our first hydro-mining area. When combined with our mining experience since early June 2009, the result was to defer timing of coal shipments and sales revenues.

Despite the interruptions and challenges, work has steadily continued in the pit-bottom area, roadways are being opened up in the Brunner seam, and coal has been produced from the mine since June 2009.

Stockpiles are now building up at the coal preparation plant in readiness for trucking to our Ikamatua rail load out facility.

**Pike River mining with a continuous miner**

“Despite the interruptions and challenges, work has steadily continued in the pit-bottom area ...”



“Pike River has firm orders from Japan and India for three-quarters of its output over the next three years...”

The geological faulting complexity encountered so far is expected to reduce as mining moves to the west further away from the Hawera fault and roadway advance rates will improve.

With the first shipment now scheduled for export from Lyttelton in the January-March quarter 2010, the transport infrastructure is in place to underpin our export orders.

Pike River has firm orders from Japan and India for three-quarters of output over the next three years and our two Indian cornerstone shareholders have committed to buy 55 percent of production for the 18-year+ life of the mine. We have strong interest from other countries, particularly China and Korea.



# A High VALUE COAL

Pike River is mining one of the higher-quality metallurgical coals in the world. The coal has the world's lowest ash content, high fluidity, and other qualities which have seen all our early exports already committed.

Pike River contracted coal sales to 31 March 2010 at US\$128 per tonne, equivalent to the international benchmark price achieved by major Australian coal producers. By September 2009 international spot prices had increased to US\$160 per tonne<sup>2</sup>.

The underground mine high in the Paparoa Ranges holds New Zealand's largest-known deposit of premium hard coking coal, with a resource of 58.5 million tonnes in the main Brunner seam. There is potential for up to another 8 million tonnes from the three Paparoa seams below that.

When full production is reached Pike River expects to be mining at the rate of one million tonnes a year and operating the second largest export coal mine in New Zealand.

As mining of the Brunner seam advances, further exploration of the Brunner and Paparoa coal seams, including more test drilling from the surface and underground, will be undertaken in 2010.

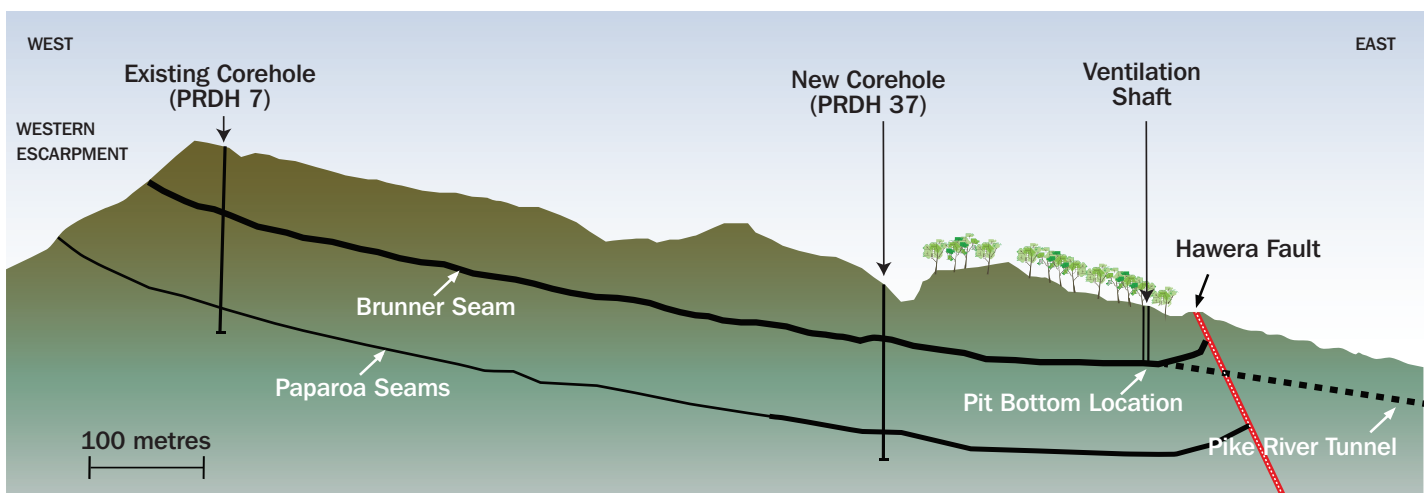
The latest exploratory test drilling into the Paparoa seams in January 2009, found three potentially mineable seams of low sulphur hard coking coal totalling 9 metres in thickness. This positive result compares to the 2 metre seam discovered by the only other test drill to the Paparoa's in the late 1980's.

If the Paparoa seams prove commercially attractive, the benefit for Pike River is that all key infrastructure is already in place.



Pike River coal on stockpile

Schematic showing the Brunner and Paparoa coal seams



<sup>2</sup> Source: Minaxis Pty Limited, September 2009.

# Forging Ahead TO FULL PRODUCTION

“Most of the necessary equipment for hydro-mining has been constructed and delivered.”

All the surface infrastructure is in place for mining coal at the scheduled rate of one million tonnes per year.

This includes the \$20 million coal preparation plant and a new rail loadout facility at the small township of Ikamatua.

At pit bottom itself the underground coal handling facilities have been tested and commissioned and construction of pit bottom is continuing with a combination of coal and stone drives.

Once pit-bottom is complete and the twin roadways driven 330 metres to the north-west, the first hydro-mining operations can commence.

Most of the necessary equipment for hydro-mining has been constructed and delivered. High pressure water pipelines, steel flumes and hydro-monitors (high pressure water cannons) are complete. The use of hydro monitors is scheduled to start in the April-June quarter 2010.

Once through commissioning processes, the hydro monitors will cut coal at the planned rate of 2,200 tonnes per day, equivalent to 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 roadways.

Coal transport agreements with TNL Nelson to truck the coal from the coal preparation plant to the rail loadout facility, and with Solid Energy to rail the coal 250 kilometres to Port of Lyttelton, are in place.

Pike River coal stockpiles at the coal preparation plant







# Milestones IN PAST YEAR

Significant achievements since last year's annual report have been:

- breakthrough to coal in October 2008
- formal opening of mine by Minister of Energy and Resources in November 2008
- completion of \$20 million coal preparation plant
- construction of the pit bottom infrastructure (eastern side)
- construction of the main ventilation shaft and slimline supplementary shaft
- commissioning of the roadheader and two continuous miners and subsequent modifications
- commissioning and operation of the 10 kilometre coal slurry pipeline
- nomination for a Ministry for the Environment "Green Ribbon" award
- recruitment of 76 additional staff
- completion of \$10 million rail loadout facility
- exploration success in the Paparoa seams

“formal opening of mine by Minister of Energy and Resources in November 2008 ...”



Pike River coal preparation plant



Coal on conveyor at coal preparation plant

# Importance of Mining RECO



Prime Minister, Hon John Key said “the Pike River underground coalmine near Greymouth was an example of modern mining practices that had a minimal impact on the landscape.”

Under the new government’s approach to building economic prosperity, there is a greater willingness to acknowledge the value of resources.

New Zealand, like Australia, is rich in resources but unlike Australia, access to our resources has been more difficult.

Pike River’s mine itself lies under Crown land managed by the Department of Conservation and the furthest end of the Brunner seam is under the Paparoa National Park. Our right to mine deep under the Park is protected by the Paparoa National Park management plan, provided that environmental impacts will be low. Pike River will ensure this is the case.

We knew it would be difficult to negotiate access and it took seven years to establish an access agreement and achieve the necessary resource consents.

As an environmentally-conscious mining company we recognised the importance of safeguarding our natural unspoiled heritage. Public recognition for doing just that has come from the Department of Conservation and senior government Ministers. Pike River was nominated for a Ministry for the Environment “Green Ribbon” Award in 2009.

The Pike River mine has hosted three senior Cabinet Ministers and the Opposition Leader during the past year.

In a public acknowledgement of Pike River’s efforts, the Prime Minister, Hon John Key said “the Pike River underground coalmine near Greymouth was an example of modern mining practices that had a minimal impact on the landscape”<sup>3</sup>.

3 The Dominion Post, 1 September 2009, “PM talks of ‘surgical mining’”.



# GNISED BY GOVERNMENT



Minister of Conservation (Hon Tim Groser) said “Pike River has set a new environmental standard for mining with a ‘showcase’ development high in the Paparoa Ranges.”<sup>4</sup>

In an encouraging development for the mining sector, the government has said it recognises that New Zealand’s economic prosperity relies on developing the natural assets we have under appropriate conditions. It has publicly stated that to encourage the exploration and development of natural resources it will develop “better access protocols to Crown-owned land.”<sup>5</sup>

**Minister for Labour Kate Wilkinson, kitted out in safety equipment, before heading into the 2.3 kilometre access tunnel to the mine face with Pike River’s general manager Peter Whittall (second from right)**

## Consequences of EMISSIONS TRADING SCHEME

Following vigorous discussions, the Ministry for the Environment has accepted that the draft Climate Change (Stationary Energy and Industrial Processes) Regulations, which include governing methane gas emissions at coal mines up to the point coal is exported, should be modified.

<sup>4</sup> Conservation Minister Tim Groser, after a mine visit in January 2009 – “Pike River Coal has shown it is possible to undertake a full-on commercial activity with significant economic benefit to the West Coast and the country – and still safeguard the outstanding natural environment it is working in”.

<sup>5</sup> Energy and Resources Minister Gerry Brownlee, to Inaugural Coal Seam Gas Industry Briefing, 30 June – “We’re also developing better access protocols to Crown-owned land. There is significant mineral potential within Crown-owned land but access to the mineral estate is often difficult...Crown Minerals and the Department of Conservation are therefore working on the implementation of DoC standard operating procedures to provide transparency and clear information requirements for access applicants.”

The proposed regulations will now allow underground mines to use a 'unique emission factor' based on gas monitoring at ventilation shafts at the point of emission, rather than using blanket default factors which are extremely inaccurate for some mines including Pike River.

Methane gas is released as coal seams are opened up, but the levels of gas vary markedly depending on geology, mining depth, and mining processes.

In Pike River's case, the western escarpment side of the Brunner seam has been exposed to the elements for millions of years and much of the gas in the seam has already leached out.

Pike River, which already monitors its gas emissions, and has previously said that when the mine is fully developed, if there is sufficient gas, it will consider the commercial viability of capturing it to fuel small electricity generators to help power the mine.

The potential cost of future gas emissions to Pike River depends on the final form of the Climate Change Response Act, which is currently under review. Assuming the Act is not amended, none of the fugitive methane is captured and a CO<sub>2</sub>E price of NZ\$22 per tonne<sup>6</sup> applies, the cost to Pike River would amount to a carbon tax of NZ\$1.78 per tonne of coal mined each year.

“This is a great result and can be at least partly attributed to the eradication of many hundreds of rats and stoats by Pike River ...”

## Adding Value TO OUR ENVIRONMENT

Pike River's efforts to safeguard the mine site and its surrounds from predators are paying a useful dividend. At least 33 pairs of breeding Great Spotted Kiwis have been located in the first survey of the large Pike Stream Catchment, more than expected by the independent surveyor.

More of these kiwis are in alpine sites, where they are “relatively abundant”, rather than lower down the Paparoa Ranges.

This is a great result and can be at least partly attributed to the eradication of many hundreds of rats and stoats by Pike River over the past two years and to minimal impacts on the natural environment from mining activities.

Disappointingly, we lost our unblemished environmental record of three years when a minor release of coal through the water discharge pipeline to Big River occurred during commissioning. An independent consultant confirmed the environmental effects from the discharge which occurred were minor in nature and duration and the relevant equipment has been corrected.

322 rats and 51 stoats were eradicated in the year ended 30 June 2009.

6 Based on the New Zealand Treasury updated estimate for the price of Kyoto-compliant emission units of Euro10.00 (NZ\$22.36), updated May 2009.



# Close to FULL RECRUITMENT

As Pike River gears up for full production, staff recruitment has kept pace and by early-September 2009, 143 of the required 150 personnel had been recruited, some of them New Zealanders bringing their overseas experience home.



Pike River mining crew

As part of our investment in the mine's future, the company has so far recruited 4 apprentices and 18 trainees for various mining skills, all from the West Coast.

Pike River is committed to ongoing professional and skills development to ensure the mine is manned by competent people.

This is being implemented through the introduction of various professional training courses and continuous attention to personal skills training.

Pike River has instituted a robust incident and accident reporting system under which management reviews and, where necessary, invests in remedial action for incidents on site. Safety performance is a key performance indicator (KPI) for senior management. The relevant measure is the number of medically treated injuries (MTI) requiring first aid from medically trained personnel. Whilst the ultimate goal is to have no injuries, it is recognised that underground mining does carry risk, and the current year's target KPI is no more than 12 MTI's.

It is pleasing to see more than 90 of our staff are participating in the employee share ownership plan, thereby better aligning their goals with investors.

## CURRENT Pike River SPONSORSHIPS

### *Major Sponsor*

Greymouth International  
Film Festival

Ikamatua Golf Club

Left Bank Art Gallery

Moonlight Community  
Events Biathlon

Sports West Coast Holiday  
Programme

West Coast Land Search &  
Rescue

Westland Motor Cycle Club  
(Ikamatua Event)

### *General*

Ahaura Hunting & Fishing  
Competition

AusIMM Conference

Awahono ICT Kids  
Conference

Blackball Unwearable Art

Greymouth Amateur  
Swimming Club

Greymouth Dance  
Competition

Greymouth Golf Club

Greymouth Squash  
Competition

Greymouth Trotting Club

Ikamatua Fire Brigade

Ikamatua Rugby Club

Ikamatua Cockies Golf  
Club

Mawhero Young Writers

Moonlight Badminton Club

# Community SUPPORT

Pike River actively supports the wider West Coast community through 26 local sponsorships, staff participation in a range of recreational and sporting activities, and membership of groups and organisations.



Pike River sponsored Greymouth Swimming Club members flank Pike River general manager Peter Whittall

## Finances

Pike River reported a \$13.0 million loss for the financial year ended June 2009. The result reflects the pre-production status of the Pike River mine until early June 2009. Included is a \$6.2 million unrealised exchange loss relating to currency movements on the USD denominated convertible bond, a \$2.1 million depreciation charge and \$3.5 million of interest paid.

In accordance with the company's accounting policy, a total of \$18.9 million has been reclassified from operating costs to tangible mine assets for the financial reporting period as it met the criteria for capitalised development interest. These costs will be written off over the mine life on a units of production basis.



At 30 June 2009, Pike River held cash of \$21.7 million and had \$26.6 million of available undrawn debt facilities (subject to conditions being met). Interest received on invested funds for the 12 month period totalled \$2.0 million.

A further \$79.8 million cash was invested in mine assets in the financial reporting period. The total investment in mine assets at balance date was \$271.0 million.

Pike River has requested Liberty Harbor to extend the US\$27.5 million convertible bond production condition date of 30 November 2009 to 30 June 2010. This condition currently requires the mine to be capable of producing 800,000 tonnes (66,700 per month) in the 12 months from the condition date. Liberty Harbor's initial response was favourable.

The Pike River Board is satisfied the company will be able to fund the costs of the production delays given the operating status of the mine, the state of international coking coal markets and its ability to raise further funding if and to the extent this becomes necessary.

# Board OF DIRECTORS

## **John Dow**

### ***Chairman and Independent Director***

A geologist with 41 years experience as a successful greenfields explorer, exploration manager, and mining executive in New Zealand, South East Asia, the United States and Latin America.

His most recent executive appointment was as chairman and managing director of Newmont Australia Limited, the Australian subsidiary of one of the world's largest gold producers.

He is currently chairman of Straterra, non-executive chairman of Troy Resources NL, non-executive chairman of Glass Earth Limited, and a director of the Australasian Institute of Mining and Metallurgy.

## **Gordon Ward**

### ***Executive Director***

Managing Director of Pike River and a Straterra committee member.

22 years experience in the resource sector, including New Zealand Oil & Gas Limited where, as general manager, he managed NZOG's involvement in developing Pike River Coal, the Tui oil and Kupe oil/condensate fields.

## **Professor Raymond Meyer**

### ***Non Executive Director***

Deputy chairman of NZOG and a director of Wellington Drive Technologies Limited.

42 years experience in engineering and a former director of the Electricity Corporation of New Zealand, Transpower New Zealand, Watercare Services, Auckland Uni Services, and chairman of the Forest Research Institute.

## **Tony Radford**

### ***Non Executive Director***

Chairman of NZOG and a director of Pike River since 1983. 27 years experience in resource management, with most of his career in the petroleum and mining industries.

## **Stuart Nattrass**

### ***Independent Director***

Director of Fonterra Co-Operative Group since 2003. 18 years experience in international financial markets, principally foreign exchange risk management.

## **Dipak Agarwalla**

### ***Non Executive Director***

Managing Director of Saurashtra Fuels Private Limited, a coal mining family company operating for more than 100 years and now one of India's largest private coke producers.

## **Arun Jagatramka**

### ***Non Executive Director***

Vice Chairman and Managing Director of Gujarat NRE Coke Limited, the largest non-captive metallurgical coke manufacturer in India and the first Indian company to own and operate coal mines in Australia.

# Corporate DIRECTORY

## Directors

John Dow  
*Non Executive Chairman*

Gordon Ward  
*Managing Director*

Raymond Meyer

Dipak Agarwalla

Arun Jagatramka

Stuart Natrass

Tony (RA) Radford

## Management

Gordon Ward  
*Chief Executive*

Peter Whittall  
*General Manager Mines*

Angela Horne  
*Financial Controller*

Brian Roulston  
*Company Secretary*

## Registered and Head Office

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Facsimile +64 3 769 8434

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## Auditor

KPMG

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Wellington 6011

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## Shareholder information

For information on number of shares or options held, holding statements and changes of address contact the share registrar at [www.computershare.co.nz/investorcentre](http://www.computershare.co.nz/investorcentre); or

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Investors should register at: [www.pike.co.nz/email\\_alerts.php](http://www.pike.co.nz/email_alerts.php) to receive reports, news releases and other company announcements via email on the day they are released.

This Annual Review was printed using mineral free vegetable based inks on paper from sustainable forests. Paper is sourced from mills with EMAS accreditation (Eco Management and Audit Scheme).

In line with best practice the company provides this Annual Review as a companion document to the company's Financial Review 2009 document. Together these documents form the Annual Report of Pike River Coal Limited for the year ended 30 June 2009.

Both this document and the Financial Review 2009 document are available to view electronically or download by visiting [www.pike.co.nz/company\\_reports.php](http://www.pike.co.nz/company_reports.php) at any time.



**PIKE RIVER COAL**

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