



**PIKE RIVER COAL**

# Capital Raising & Operational Update

## 20 April 2010





**PIKE RIVER COAL**

# Capital Raising overview



# Overview of Capital Raising

- Pike River to raise approximately NZ\$90 million to:
  - Fund working capital during ramp-up of the mine
  - Refinance the existing convertible bond facility on more favourable terms
- The capital raising will provide Pike River with a substantial cash buffer if progress rates are slower than scheduled
  - Buffer of approximately NZ\$18 million or 3.5 months based on current budget
- Total equity raising of NZ\$50 million, comprising:
  - Rights issue of 45.5 million shares at NZ\$0.88 per share to raise NZ\$40 million
  - NZ\$10 million placement of 11.4 million shares at NZ\$0.88 per share
  - Fully underwritten by UBS, McDouall Stuart Group, NZOG and Gujarat
- Convertible bond issue of US\$28.9 million (~NZ\$40 million) to NZOG
  - Bond issue proceeds to repay Liberty Harbor convertible bond
  - NZOG to be granted a 2 year option to purchase Pike River coal at market prices
  - Conditional upon approval by Pike River shareholders at the Shareholders Meeting on 7 May and successful completion of the Equity Raising



# Overview of Equity Raising

- Total equity raising of NZ\$50 million comprising:
  1. Placement to NZOG, Gujarat and institutional investors of 11.4m shares at NZ\$0.88 per share to raise NZ\$10 million
    - Placement price of NZ\$0.88 per share
    - Placement shares are eligible to participate in the rights issue
    - NZOG and Gujarat to take up their pro-rata share in the placement
  2. 2 for 19<sup>1</sup> rights issue to eligible shareholders and optionholders at NZ\$0.88 per share to raise NZ\$40 million
    - Rights offer price at 16.3% discount to TERP<sup>2</sup>
    - Offer to be made under a Simplified Disclosure Prospectus
- Both the placement and rights issue are fully underwritten by UBS New Zealand Limited, McDouall Stuart Group Limited, NZOG and Gujarat

## Notes:

1. Rounded from the actual entitlement ratio of 2 Rights for every 18.905331689 Securities
2. TERP is the theoretical ex-rights price and is calculated based on the Pike River closing price on 19 April 2010 of NZ\$1.08. It is calculated as  $(347.6\text{m shares} \times \$1.08 \text{ share price} + (45.5\text{m rights issue shares} + 11.4\text{m placement shares}) \times \text{NZ\$}0.88 \text{ per share}) / 404.4\text{m shares outstanding post rights issue and placement}$



# Sources and Uses of Funds

For the nine months from 1 April to 31 December 2010

Uses of Funds	NZ\$m
Remaining mine development capital expenditure <sup>1</sup>	10
Expenses related to this offer	2
Working capital requirements (including net interest & debt repayments) <sup>2</sup>	21
Cash buffer <sup>3</sup>	18
<b>Total Funds Required</b>	<b>51</b>
<b>Sources of funds</b>	
Opening bank and cash on deposit at 1 April 2010	1
Gross capital raising under this offer	50
<b>Total Funds</b>	<b>51</b>

Notes:

1 Comprises mainly of expenditure in relation to the hydraulic monitoring, fluming and slurry system

2 Working capital requirements include:

	\$m
Bank interest	0.80
Convertible bond interest	3.00
Debt amortisation payments	1.80
Short term loan repayment	3.50
Operating expenditure	43.80
Coal sales revenue	(31.90)
	21.0

Sales revenue assumes 120,000 tonnes at a coal sales price of US \$160 per tonne and 20,000 tonnes at US \$157 (a USD \$3 discount applies to the second shipment which is expected to have an ash content of 3% being development coal). A NZD/USD exchange rate of 0.700 has been applied

A coal sales price of USD \$200 per tonne would result in a cash buffer at 31 December 2010 of \$25m, with a minimum cash balance of \$21m at 31 August 2010 (compared to \$20m at 31 August 2010 under a US \$160 per tonne coal sales price)

3 The cash buffer of \$18m provides approximately 3.5 months cashflow cover assuming a monthly cash burn of \$5.5m excluding any revenue from coal sales



# Capital Raising timetable

Announcement of Equity Raising	20 April 2010
Execution of placement	20 April 2010
Existing Shares quoted ex-Rights on ASX and Rights Trading commences on ASX	22 April 2010
Settlement of placement	23 April 2010
Record Date for Rights entitlements (5.00pm local time)	29 April 2010
Existing shares quoted ex-Rights on NZSX and Rights Trading commences on NZSX	30 April 2010
Offer Document and Entitlement and Acceptance Form mailed to Eligible Shareholders	3 May 2010
Shareholders meeting	7 May 2010
Rights trading ceases on ASX (6.00pm NZT)	12 May 2010
Rights trading ceases on NZSX (5.00pm NZT)	17 May 2010
Offer closes (last day for receipt of acceptances and renunciations) (5.00pm local time)	19 May 2010
Allotment of New Shares under the Offer	21 May 2010
Settlement of Convertible Bond	21 May 2010
Expected dispatch of FASTER/Shareholding statements for New Shares	24 May 2010





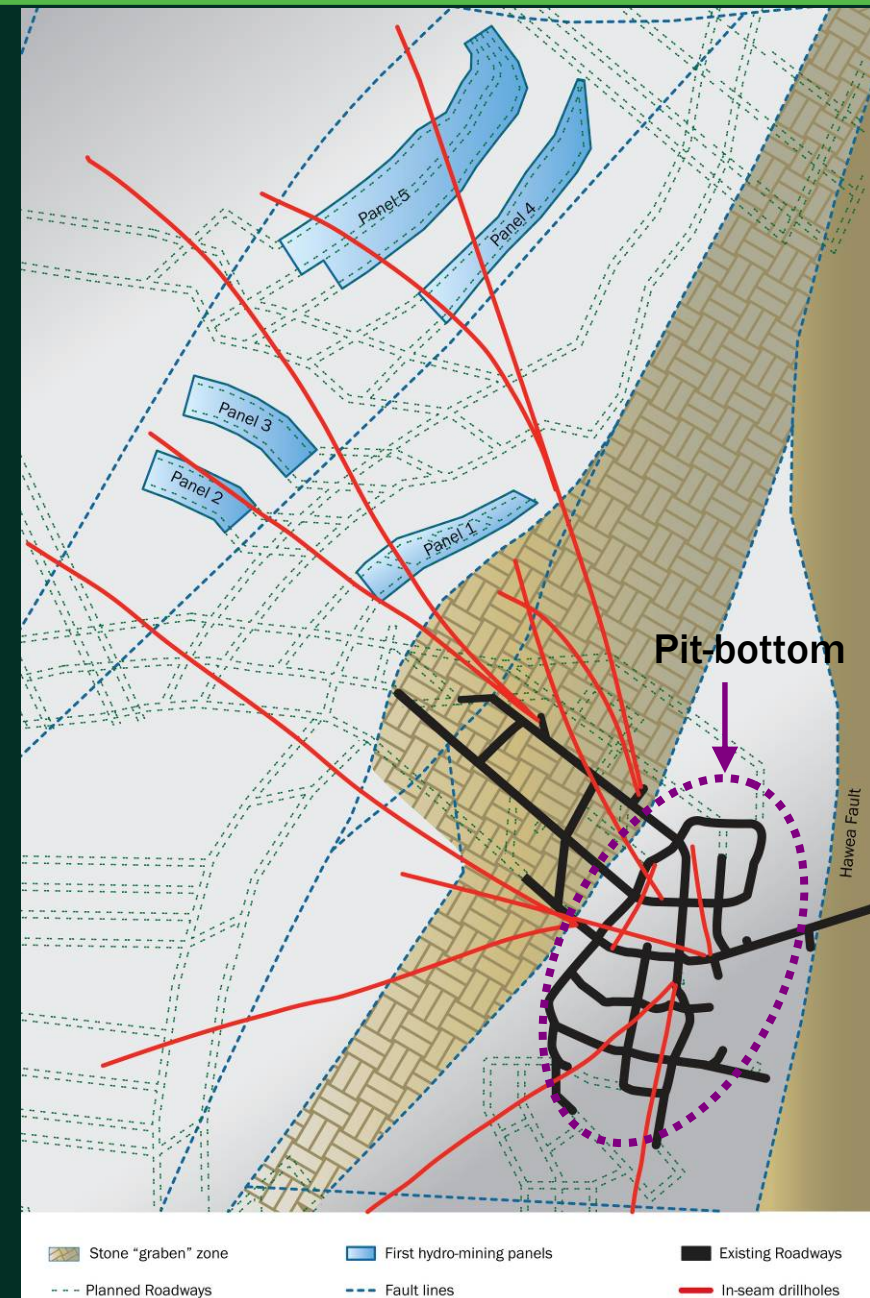
**PIKE RIVER COAL**

# Operational overview



# Mine Pit-bottom and First Hydro-Mining Panels

- Pit bottom development all but complete
- Pit bottom at lowest point in mine
- Roadways now being driven out to first hydro-mining panels
- Through rock graben and back into coal 16 April 2010
- Recent in-seam drilling 300m in coal (north and west)
- Mining coal to south





# Mining by Hydraulic Monitor (Hydro)

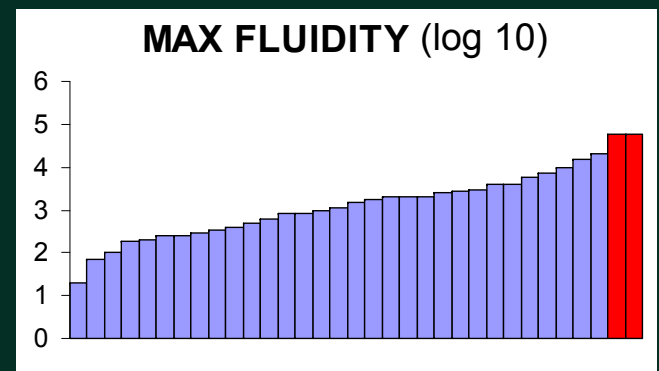
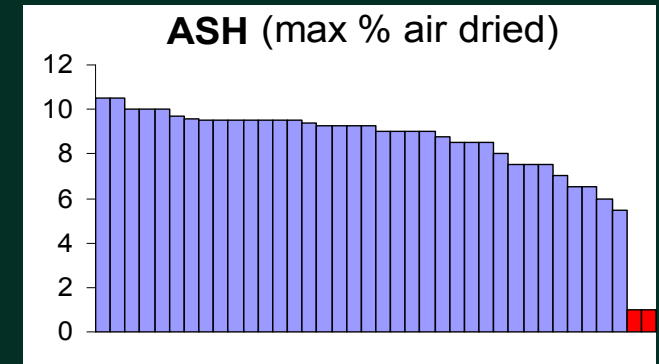
- High pressure water cutting
  - Conditions ideal at Pike River
  - Plenty of water and thick coal
  - Used by Solid Energy and elsewhere around world – China, Russia, Canada, Japan
- First hydro-mining of coal by Jul-Sep 2010 qtr
- Ramp-up to 1 million tpa saleable coal<sup>1</sup>
- Hydro produces 80% of coal at steady state. Rest from Continuous Miner/Roadheader

<sup>1</sup> Refer Behre Dolbear Australia Pike River Coal Project Independent Technical Review, 17 May 2007, IPO Prospectus



# Long Term Sales Contracts

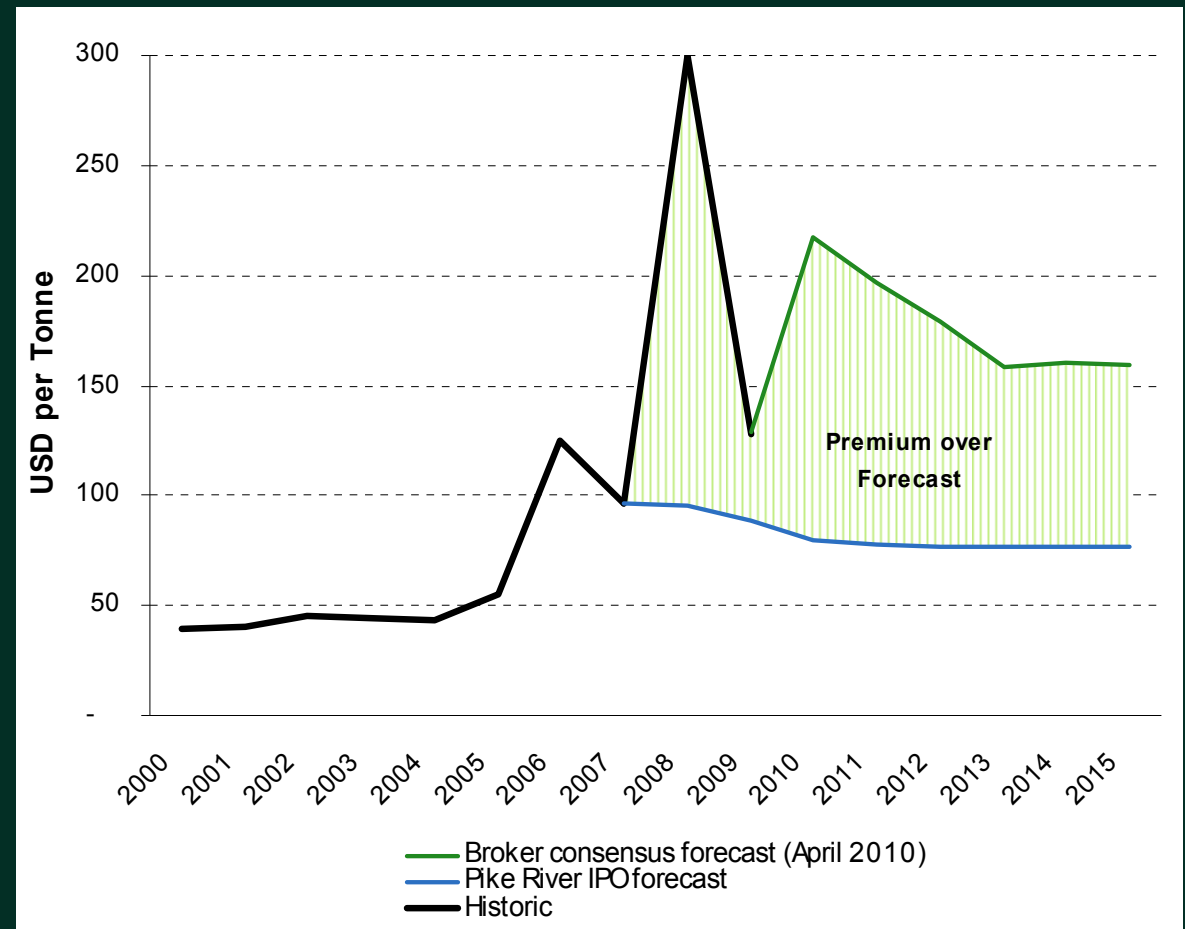
- 77%-100% for 3 years & 55-90% for life of mine
  - Gujarat NRE - 40% life of mine
  - Saurashtra - 15% life of mine + option 5%
  - Japanese Steel Mills - 22% for 3 yrs
  - NZOG option – uncontracted for 3 years then 30% life of mine
- Price benched against Queensland premium HCC
- Annual negotiations and sold at market price
- NZ \$4 billion of sales over mine life<sup>1</sup>



- 1 17.6 million tonnes saleable coal assuming US\$136/t and long term FX 0.59 (ie historical average for NZ/USD cross). Excl. upside in Brunner and Paparoa
- 2 Coal quality graphs compare Pike River (red) to Australian hard coking coals (blue)
- 3 Pike River will produce a 1.2% sulphur and 1.9% sulphur hard coking coal product

# Hard Coking Coal Prices

- Contract US\$128/t for JFY 09
- Spot prices US\$200/t plus
- Forecast for JFY 10 – US\$160/t to US\$200/t
- Minaxis forecast US\$225/t for JFY 10 and US\$190/t in JFY 12
- Prices up significantly compared to long-term average circa US\$80/t at IPO



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# Appendix A: Details of Capital Raising

# Key terms of Rights Issue

- Renounceable rights issue entitling subscription for 2 new shares for every 19 shares or options held<sup>1</sup> at NZ\$0.88 per new share

Entitlement ratio	2 new shares for every 19 shares or options held <sup>1</sup>
Maximum new shares to be issued	45,454,545
Issue price	NZ\$0.88
Discount to TERP <sup>2</sup>	16.3%
Total equity raised	NZ\$40,000,000
Ranking	Equally with existing Pike River ordinary shares in all respects
Eligible security holders	Shareholders and Optionholders at the Record Date, excluding Overseas Securityholders
Joint Lead Managers	UBS and McDouall Stuart Securities
Underwriters	UBS, McDouall Stuart Group, NZOG and Gujarat

## Notes:

1. Rounded from the actual entitlement ratio of 2 Rights for every 18.905331689 Securities
2. TERP is the theoretical ex-rights price and is calculated based on the Pike River closing price on 19 April 2010 of NZ\$1.08. It is calculated as  $(347.6\text{m shares} \times \$1.08 \text{ share price} + (45.5\text{m rights issue shares} + 11.4\text{m placement shares}) \times \text{NZ\$}0.88 \text{ per share}) / 404.4\text{m shares outstanding post rights issue and placement}$

# Key terms of Placement

- Unconditional placement of new shares at NZ\$0.88 per share (20.7% discount to Pike River's 5 day VWAP) to raise NZ\$10 million
  - NZOG and Gujarat to take-up pro-rata allocation

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Participants	NZOG, Gujarat, institutional investors
Maximum new shares to be issued	11,363,636
Issue price	NZ\$0.88
Placement discount <sup>1</sup>	20.7%
Total equity raised	NZ\$10,000,000
Ranking	Equally with existing Pike River ordinary shares in all respects (cum rights)
Joint Lead Managers	UBS and McDouall Stuart Securities
Underwriters	UBS, McDouall Stuart Group, NZOG and Gujarat

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Notes:

1. Based on 5 day VWAP on 19 April 2010 of NZ\$1.11

# Key terms of New Convertible Bond

- Issue of US\$28.9 million convertible bond to NZOG to refinance existing Liberty Harbor facility<sup>1</sup>
  - removes production covenant and extends maturity date

<b>Selected Terms</b>	<b>Existing Liberty Harbor Bonds</b>	<b>New NZOG Bonds</b>
Principal	Circa US\$28 million	Up to US\$28.9 million
Maturity Date	12 March 2011	12 March 2012
FSSPD	30 November 2009	None
Conversion Price	Fixed (prior to the Equity Issue and subject to anti-dilution mechanism) at US\$0.870376 per share	Fixed (prior to the Equity Issue and subject to anti-dilution mechanism) at US\$0.870376 per share
Anti-dilution	Protection (under certain conditions) from dilution in the event of subsequent issue of securities by the Company	Protection (under certain conditions) from dilution in the event of subsequent issue of securities by the Company
Interest Rate	10.75%	10%
Subscription rights	On conversion, receive subscription rights in relation to securities issued since date of issue of Bonds (prior to the Equity Issue 5.8m shares and 5.4m options from the 2009 rights issue)	On conversion, receive subscription rights in relation to securities issued since date of issue of LH Bonds (prior to the Equity Issue 5.8m shares and 5.4m options from the 2009 rights issue)
Redemption Rights	Early redemption allowed by the Company (under specified conditions)	No early redemption allowed
Facility Fees	An establishment fee of 3% of the principal amount	None. (Break fee of NZ\$1.2 million)

## Notes:

- 1 Conditional upon successful completion of equity issue and approval by Pike River shareholders by 30 June 2010

# Key terms of Coal Option Agreement

- To be issued in conjunction with the new convertible bond facility<sup>1</sup>
- 2 year option to NZOG to purchase Pike River coal
- Maximum volumes: all uncontracted coal to 31 March 2013 and then up to 30% of mine production
- Price to be at market, negotiated annually (or such other frequency as agreed)
- Pike River retains flexibility to sell into the spot market during the option period
- No impact on existing coal contracts with Indian and JSM customers
- The Option can be assigned to any party reasonably considered by NZOG to have the financial resources to meet its commitments under the contract

## Notes:

- 1 Conditional upon successful completion of equity issue and approval by Pike River shareholders by 30 June 2010



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# Appendix B: Shareholders Meeting

# Resolutions to be voted on

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## Resolution 1

### Issue of Convertible Bonds

Shareholder approval is required:

- (a) for the issue of the Bonds and to enable shares to be issued on any conversion of the Bonds;
- (b) the shares to be issued on any conversion of the Bonds might materially increase the ability of NZOG to exercise, or direct the exercise of, effective control of the Company in the future for the purposes of NZSX Listing Rule 7.5; and
- (c) the agreement to issue the Bonds constitutes a Material Transaction by the Company with a Related Party (being its largest shareholder, NZOG) for NZSX Listing Rule purposes, and involves the disposal of a “substantial asset” to a substantial holder for ASX Listing Rule 10.1 purposes.

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## Resolution 2

### Issue of shares on conversion of the Bonds

Shareholder approval is required for the purposes of the Takeovers Code for the issue of shares in the Company on conversion of the Bonds.

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## Resolution 3

### Coal Option Agreement

Shareholder approval is required because the Coal Option Agreement constitutes:

- (a) a Material Transaction by the Company with a Related Party for NZSX Listing Rule purposes
- (b) the disposal of a “substantial asset” to a substantial holder for ASX Listing Rule 10.1 purposes

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- Please refer to the Notice of Meeting for full details on the resolutions and a copy of the Appraisal Report/Independent Expert’s Report & Independent Adviser’s Report

# Important Notice

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