Pike River
2010

PIKE RIVER COAL LIMITED Financial Review 2010

Directors' Statement

The directors of Pike River Coal Limited (Pike River) are pleased to present to shareholders the Annual Report[1] and financial statements for the year ended 30 June 2010.

The directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of Pike River as at 30 June 2010 and the results of Pike River's operations and cash flows for the year ended on that date.

The directors consider the financial statements of Pike River have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable with reasonable accuracy, the determination of the financial position of Pike River and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of Pike River, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

This Annual Report is signed on behalf of the Board by:

John Dow
Chairman
22 September 2010

Stuart Nattrass
Director
22 September 2010

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[1] This document, in conjunction with the Pike Annual Review 2010, constitutes the 2010 Annual Report to shareholders of Pike River Coal Limited.

Pike River Coal Limited Financial Statements

Statement of comprehensive income

for year ended 30 June 2010

In thousands of New Zealand dollars	*Note*	Group 12 months ended 30 June 2010	Group 12 months ended 30 June 2009	Parent 12 months ended 30 June 2010	Parent 12 months ended 30 June 2009
Revenue		3,346	5	3,346	5
Cost of sales		(48,101)	(5,004)	(48,101)	(5,004)
Gross income/(loss)		**(44,755)**	**(4,999)**	**(44,755)**	**(4,999)**
Other income	23	-	-	-	7,500
Administrative expenses	5	(4,050)	(6,214)	(4,050)	(6,214)
Operating loss from operating activities		**(4,050)**	**(6,214)**	**(4,050)**	**1,286**
Financial income	6	2,911	5,009	2,911	5,009
Financial expenses	6	(6,149)	(10,625)	(6,149)	(10,625)
Net financing income/(costs)		**(3,238)**	**(5,616)**	**(3,238)**	**(5,616)**
Loss before income tax		**(52,043)**	**(16,829)**	**(52,043)**	**(9,329)**
Income tax benefit	7	13,015	3,811	13,165	1,561
Total comprehensive income for the period		**(39,028)**	**(13,018)**	**(38,878)**	**(7,768)**
Loss per share					
Basic/Diluted (cents per share)	*22a/22b*	(11.00)	(4.42)	(10.96)	(2.64)

The notes on pages 5 to 31 are an integral part of these financial statements.

Pike River Coal Limited

Statement of changes in equity

for year ended 30 June 2010

In thousands of New Zealand dollars	Note	Share capital	Retained earnings	Total equity
Group				
Balance at 30 June 2009		**266,090**	**(13,197)**	**252,893**
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(39,028)	(39,028)
Contributions from owners				
Issue of share capital	*20*	47,794	-	47,794
Value of employee services received	*20*	647	-	647
Balance at 30 June 2010		**314,531**	**(52,225)**	**262,306**
Group				
Balance at 30 June 2008		**218,032**	**(179)**	**217,853**
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(13,018)	(13,018)
Contributions from owners				
Issue of share capital	*20*	47,372	-	47,372
Value of employee services received	*20*	686	-	686
Balance at 30 June 2009		**266,090**	**(13,197)**	**252,893**
Parent				
Balance at 30 June 2009		**266,090**	**(7,947)**	**258,143**
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(38,878)	(38,878)
Contributions from owners				
Issue of share capital	*20*	47,794	-	47,794
Value of employee services received	*20*	647	-	647
Balance at 30 June 2010		**314,531**	**(46,825)**	**267,706**
Parent				
Balance at 30 June 2008		**218,032**	**(179)**	**217,853**
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(7,768)	(7,768)
Contributions from owners				
Issue of share capital	*20*	47,372	-	47,372
Value of employee services received	*20*	686	-	686
Balance at 30 June 2009		**266,090**	**(7,947)**	**258,143**

The notes on pages 5 to 31 are an integral part of these financial statements.

Pike River Coal Limited

Statement of financial position

for year ended 30 June 2010

In thousands of New Zealand dollars	Note	Group As at 30 June 2010	Group As at 30 June 2009	Parent As at 30 June 2010	Parent As at 30 June 2009
Assets					
Property, plant and equipment	*8*	97,026	47,851	97,026	47,851
Mine development assets	*9*	43,162	217,863	43,162	217,863
Mine production assets	*10*	141,405	-	141,405	-
Intangible mine assets	*11*	6,499	5,439	6,499	5,439
Bonds and deposits	*12*	2,324	3,474	2,324	3,474
Deferred tax assets	*13*	18,957	5,942	16,857	3,692
Total non-current assets		**309,373**	**280,569**	**307,273**	**278,319**
Cash and cash equivalents	*14*	20,597	21,746	20,597	21,746
Trade and other receivables	*15*	1,708	1,667	1,708	1,667
Inventories	*16*	8,317	2,385	8,317	2,385
Intercompany loans	*23*	-	-	7,500	7,500
Total current assets		**30,622**	**25,798**	**38,122**	**33,298**
Total assets		**339,995**	**306,367**	**345,395**	**311,617**
Liabilities					
Rehabilitation provision	*18*	1,207	916	1,207	916
Convertible bonds	*19A*	41,667	42,096	41,667	42,096
Total non-current liabilities		**42,874**	**43,012**	**42,874**	**43,012**
Trade and other payables	*17*	10,841	9,756	10,841	9,756
Secured bank facilities	*19B*	22,917	-	22,917	-
Employee benefits		1,057	706	1,057	706
Total current liabilities		**34,815**	**10,462**	**34,815**	**10,462**
Total liabilities		**77,689**	**53,474**	**77,689**	**53,474**
Net assets		**262,306**	**252,893**	**267,706**	**258,143**
Equity					
Share capital	*20*	314,531	266,090	314,531	266,090
Retained earnings		(52,225)	(13,197)	(46,825)	(7,947)
Total equity		**262,306**	**252,893**	**267,706**	**258,143**

John Dow (Chairman)
Date: 25 August 2010

Stuart Nattrass (Director)
Date: 25 August 2010

The notes on pages 5 to 31 are an integral part of these financial statements.

Statement of cash flows

for year ended 30 June 2010

In thousands of New Zealand dollars	Note	Group 12 months ended 30 June 2010	Group 12 months ended 30 June 2009	Parent 12 months ended 30 June 2010	Parent 12 months ended 30 June 2009
Cash flows from operating activities					
Cash from customers		3,360	-	3,360	-
Cash paid to suppliers and employees		(47,533)	(6,152)	(47,533)	(6,152)
Interest received		400	2,319	400	2,319
Interest paid		(3,707)	(3,169)	(3,707)	(3,169)
Net cash from/(used in) operating activities	*27*	**(47,480)**	**(7,002)**	**(47,480)**	**(7,002)**
Cash flows from investing activities					
Acquisition of tangible mine development assets		(13,048)	(77,384)	(13,048)	(77,384)
Acquisition of intangible mine development assets		(1,060)	-	(1,060)	-
Acquisition of production assets		(10,451)	(2,334)	(10,451)	(2,334)
Acquisition of plant, property and equipment		(649)	(117)	(649)	(117)
Repayment of bonds and deposits		1,150	1,320	1,150	1,320
Payment of bonds and deposits		-	-	-	-
Net cash from/(used in) investing activities		**(24,058)**	**(78,515)**	**(24,058)**	**(78,515)**
Cash flows from financing activities					
Proceeds from issue of share capital		47,472	43,354	47,472	43,354
Repayment of loans		(7,624)	-	(7,624)	-
Loan drawdowns		30,541	-	30,541	-
Net cash from/(used in) financing activities		**70,389**	**43,354**	**70,389**	**43,354**
Net (decrease)/increase in cash and cash equivalents		**(1,149)**	**(42,163)**	**(1,149)**	**(42,163)**
Opening cash and cash equivalents		21,746	63,909	21,746	63,909
Closing cash and cash equivalents	*14*	20,597	21,746	20,597	21,746

The notes on pages 5 to 31 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

Pike River Coal Limited ('Pike River' or 'Company') is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ('NZSX') and Australian Stock Exchange ('ASX'). Pike River is an issuer in terms of the Financial Reporting Act 1993.

Financial statements for the Company ('Parent') and consolidated financial statements are presented. The consolidated financial statements of Pike River Coal Limited as at and for the year ended 30 June 2010 comprise the Company and its subsidiary (together referred to as the 'Group').

Where the 2009 and 2010 Company and Group numbers are the same, they are presented and disclosed in one column in the relevant notes to the financial statements.

The registered office is located on Level 3, 1 Willeston Street, PO Box 25 263 Wellington, New Zealand.

The Group is primarily involved in the exploration and evaluation, development, and production of coal.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

These financial statements were approved by the Board of Directors on 25 August 2010.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. Unless otherwise indicated, all financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 10 - Mine production assets
- Note 11 - Intangible mine assets
- Note 18 - Rehabilitation provision
- Note 21 - Share based payments
- Note 25 - Commitments

(e) Adoption status of relevant new NZIFRS and Interpretations

New standards the Group adopted in the year to 30 June 2010 included:

- NZ IAS 1: Amendments to presentation of the Statement of Comprehensive Income.
- NZ IAS 23: Borrowing costs
- NZ IAS 27: Consolidation and separate financial statements.
- NZ IAS 39: Financial instruments by category

– NZ IFRS 2: Share based payments.
– NZ IFRS 7: Financial instruments disclosures
– NZ IFRS 8: Operating segments

The adoption of these standards did not have a material impact on the Group's financial statements.

The Group has elected not to early adopt the following relevant standards which have been issued but are not yet effective:

– NZ IFRS 2 Share-based payment – revision approved in August 2009 and effective for annual reporting periods beginning or after 1 January 2010.
– NZ IFRS 8: Operating segments: and effective for annual reporting periods beginning on or after 1 January 2010.
– NZ IFRS 9 Financial instruments: and effective for annual reporting periods beginning on or after 1 January 2013.
– NZ IAS 1: Amendments to presentation of financial statements: and effective for annual reporting periods beginning on or after 1 January 2010.
– NZ IAS 7: Amendments to Statement of Cash Flows: and effective for annual reporting periods beginning on or after 1 January 2010
– NZ IAS 24 Related party disclosures (revised 2009) –approved November 2009 and effective for annual reporting periods beginning or after 1 July 2011.
– NZ IAS 32 Amendment: Financial instrument: Classification of rights issue approved October 2009 and effective for annual reporting periods beginning on or after 1 February 2010.
– NZ IFRIC 19 Extinguishing financial liabilities with equity instruments-approved December 2009 and effective for annual reporting periods beginning on or after 1 July 2010.

Upon adoption, these standards are not expected to have a material impact on the Group's financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative amounts have been reclassified to conform with the current years presentations.

(a) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, bonds and deposits, advances, loans and borrowings, convertible notes, convertible bonds and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the

Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Advances, bonds and deposits

Advances, deposits and short term bonds are stated at their cost less impairment losses. Long term bonds are amortised using effective interest rates.

Trade and other payables

Trade and other payables are stated at cost.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Convertible notes and Bonds

Convertible notes are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion mechanism. The interest expense recognised in profit or loss is calculated using the effective interest rate method.

(ii) Derivative financial instruments

In line with its stated risk management strategies, the Group may, from time to time, use derivative financial instruments to hedge its exposure to interest rate risk, foreign exchange risk, and (where possible) commodity risk arising from operational and financing activities.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, capitalised borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost also includes dismantling and site rehabilitation costs to the extent that these are recognised as a provision.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at the amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Lease payments are accounted for as described in accounting policy 3(m),

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The useful life of such equipment is dependant upon future production and remaining reserves. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Technical and computer equipment	2 to 5 years
Plant and equipment	4 to 18 years
Motor vehicles and trucks	5 years
Office furniture and fittings	5 to 8 years
Buildings	18 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(e) Production, Mine Development, Exploration and Evaluation Expenditure

Expenditure incurred on coal 'areas of interest' is accounted for using the successful efforts method. An area of interest is defined by the Group as being a licence or permit area. Exploration and evaluation expenditure is written off in profit or loss under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest, or any part thereof, is no longer prospective for economically recoverable resources or when the decision to abandon an area of interest is made.

(i) Mine production assets

Mine production assets comprise development costs (excluding expenditure on property, plant and equipment) incurred in relation to areas of interest in which coal production has commenced. Expenditure on production assets is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable resources. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall in accordance with the impairment testing requirements stated under note 3(h).

(ii) Mine development assets

Mine development assets comprise tangible costs (mine development costs) incurred on areas of interest in which economically recoverable resources have been identified and which are being developed for production. Such costs include direct costs plus overhead expenditure incurred which can be directly attributable to the development process. All development costs incurred prior to the commencement of commercial levels of coal production from each area of interest are capitalised. No amortisation is provided in respect of development assets until they are reclassified as production assets following commencement of coal production. The carrying amounts are subject to impairment testing in accordance with note 3(h).

(iii) Exploration and Evaluation interests

Exploration and evaluation interests comprise both tangible and intangible costs incurred in areas of interest for which rights of tenure are current and:

- such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable resources, and active and significant operations in, or in relation to, these areas are continuing.

The ultimate value of areas of interest is contingent upon the results of further exploration and agreements entered into with other parties and also upon meeting commitments under the terms of permits granted and any other related agreements.

Certain intangible exploration and evaluation costs, including the costs of acquiring mining licenses and resource consents, are capitalised as intangible exploration and evaluation assets ('E&E assets') pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist. When a license is relinquished or a project is abandoned, the related costs are recognised in profit or loss. If the project proceeds to the development phase when economically recoverable resources are determined, the tangible and intangible E&E assets are first assessed for impairment before they are reclassified to 'mining development assets' and 'intangible development assets' respectively. The carrying amounts of E&E assets are subject to impairment testing in accordance with note 3(h).

(iv) Research

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

(f) Intangible Mine assets

(i) Intangible mine assets

Intangible mine assets comprise development costs (excluding expenditure on property, plant and equipment) incurred in relation to areas of interest in which coal production has commenced. Expenditure on intangible production assets is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable resources. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall in accordance with the impairment testing requirements stated under note 3(h).

(ii) Intangible development assets

Intangible development assets comprise definite life intangible E&E assets previously capitalised and then reclassified when economically recoverable resources are determined. It also includes any subsequent development costs incurred that are of an intangible nature. The intangible development assets are stated at cost less accumulated impairment losses. No amortisation is provided in respect of these assets until they are reclassified as production assets following commencement of coal production.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, with the exception of intangible development assets which are not amortised until production commences, after which they are reclassified and amortised using the production output method.

(g) Inventories

Inventories of saleable coal are valued at the lower of weighted average cost or net realisable value. Costs include direct material, labour and transportation expenditure incurred in getting such inventories to their existing location and condition, together with an appropriate portion of overhead expenditure. Inventories of materials, consumable supplies and maintenance spares expected to be used in production are valued at weighted average cost. All inventory is valued at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(h) Impairment

The carrying amounts of the Group's assets with the exception of deferred tax assets, and inventories are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

(i) Impairment of receivables (including bonds, deposits and advances)

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than, inventories, E&E assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when:

- the period of exploration right has expired or will expire in the near future,
- substantive expenditure on further development or exploration for mining coal in the specific area is neither budgeted or planned,
- exploration for and evaluation of coal in the specific area have not led to the discovery of commercially viable quantities, or
- the Group has decided to discontinue such activities in the area or there is sufficient data to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by production and sale.

(i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Rehabilitation provision

Rehabilitation expenditure to be incurred subsequent to the cessation of production from production areas of interest is provided for and expensed in the profit or loss based on best estimates of the expenditure required to settle the present obligations at balance date.

(j) Employees benefits

(i) Short-term benefits

Short-term employee benefit obligations e.g. holiday pay, are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term employee benefits if Pike River has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Share-based payments

The grant date fair value of partly-paid shares granted to employees of Pike River are recognised as employee expenses, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to ownership of the partly-paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly-paid shares that have been granted.

(k) Revenue

Revenue from the sale of coal, including development coal is recognised only when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The timing of revenue recognition may vary depending on the individual terms of the contract of sale. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

(l) Other income

Other income comprises revenue from the sale of prospecting and mining permit rights and is measured at the fair value of the consideration received or receivable. It is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Other income also includes net gains on disposal of property, plant and equipment.

(m) Lease payments

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, foreign currency gains and gains on hedging instruments that are recognised in the profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables) and losses on hedging instruments that are recognised in the profit or loss. All borrowing costs are recognised in the profit or loss using the effective interest method.

Borrowing costs incurred for the construction of any qualifying assets e.g. mining development assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Borrowing costs that have been capitalised as part of mine development assets are amortised in accordance with note 3(d).

(o) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences where the initial recognition of assets or liabilities relates to a transaction that is not a business combination and at the time of that transaction it affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Pike River by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

(q) Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing related products or services, which is subject to risks and rewards that are different from those of other segments. Pike River's primary format for segment reporting is based on business segments.

4. Segment reporting

The Group currently operates within one primary segment, being the operation of a coal mine based near Greymouth on the West Coast of the South Island, New Zealand. The operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. During the current financial period there was one sale of coal with the value of $3,345,000 to Gujarat NRE Coal (NSW) Pty Limited (see related parties note 23).

5. Administrative expenses

The following items of expenditure are included in administrative expenses:

In thousands of dollars	*Note*	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Auditors remuneration:			
- audit of financial statements		(104)	(70)
- other audit-related services		-	-
- fees for tax advisory services		(134)	(133)
Total auditors remuneration		**(238)**	**(203)**
TSA termination expenses	(i)	(388)	(1,934)
Value of employee services provided	20	(647)	(686)
Other administrative expenses		(2,777)	(3,391)
		(4,050)	**(6,214)**

(i) TSA termination expenses

On 21 May 2010 a final payment of $388,000 (30 June 2009: $1,934,000) was made in relation to the settlement of the Transport Services Agreement (TSA).

6. Net finance costs

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 20 June 2009
Interest income on bank deposits	377	2,033
Realised foreign exchange gains	1,362	2,841
Unrealised foreign exchange gains	1,307	-
Net change in fair value of derivatives	(135)	135
Financial income	**2,911**	**5,009**
Interest expense on financial liabilities	(4,869)	(3,520)
Amortisation of discount on convertible bonds	(427)	(844)
	(5,296)	**(4,364)**
Unrealised foreign exchange losses	-	(6,211)
Unwind of discount on provisions	(61)	(50)
Other finance expenses	(792)	-
Financial expenses	**(6,149)**	**(10,625)**
Net finance income (costs)	**(3,238)**	**(5,616)**

7. Income tax benefit

Income tax on the face of profit or loss comprises:

In thousands of dollars	Group year ended 30 June 2010	Group year ended 30 June 2009	Parent year ended 30 June 2010	Parent year ended 30 June 2009
Current tax				
Current period	-	-	-	-
Adjustment for prior periods	-	-	-	-
	-	-	-	-
Deferred tax				
Recognition of current period tax losses	22,398	7,301	22,398	5,051
Origination and reversal of temporary differences	(7,001)	(5,016)	(7,001)	(5,016)
Recognition of previously unrecognised tax losses	1,020	2,546	1,020	2,546
Prior year adjustment	1,360	-	1,360	-
Derecognition of previously recognised tax losses	-	(1,020)	-	(1,020)
Recognition of tax liability on mine assets	(3,428)	-	(3,428)	-
Effect of change to 28% tax rate from 1 July 2011	(1,334)	-	(1,184)	-
	13,015	**3,811**	**13,165**	**1,561**
Total income tax benefit	**13,015**	**3,811**	**13,165**	**1,561**

The Group's tax rate is 30%. Income tax on the face of profit or loss is different from the standard rate of corporate tax and is reconciled as follows:

Reconciliation of effective tax rate

In thousands of dollars	Group year ended 30 June 2010	Group year ended 30 June 2009	Parent year ended 30 June 2010	Parent year ended 30 June 2009
Loss before income tax	**(52,043)**	**(16,829)**	**(52,043)**	**(9,329)**
Income tax benefit @ 30% tax rate	15,613	5,049	15,613	2,799
Add/(deduct):				
Recognition of tax losses previously unrecognised	1,020	2,546	1,020	2,546
Prior year adjustment	1,360	-	1,360	-
Non-deductible expenses	(216)	(223)	(216)	(223)
Temporary differences previously not recognised	-	(2,541)	-	(2,541)
Derecognition of tax losses previously recognised	-	(1,020)	-	(1,020)
Recognition of tax liability on mine assets	(3,428)	-	(3,428)	-
Effect of change to 28% tax rate from 1 July 2011	(1,334)	-	(1,184)	-
Total income tax benefit	**13,015**	**3,811**	**13,165**	**1,561**

8. Property, plant and equipment

In thousands of dollars	Land	Buildings, plant & equipment	Motor vehicles	Office furniture & fittings	Total
Parent and Group					
Year ended 30 June 2010					
Opening net carrying amount	65	47,588	78	120	47,851
Additions	-	900	60	28	988
Transfers in from mine development assets	-	56,741	-	-	56,741
Depreciation charge	-	(8,505)	(24)	(25)	(8,554)
Closing net carrying amount	**65**	**96,724**	**114**	**123**	**97,026**
As at 30 June 2010					
Cost or deemed cost	65	107,568	167	176	107,976
Accumulated depreciation	-	(10,844)	(53)	(53)	(10,950)
Net carrying amount	**65**	**96,724**	**114**	**123**	**97,026**
Parent and Group					
Year ended 30 June 2009					
Opening net carrying amount	65	78	34	69	246
Additions	-	110	-	7	117
Transfers in from mine development assets	-	49,513	56	56	49,625
Depreciation charge	-	(2,113)	(12)	(12)	(2,137)
Closing net carrying amount	**65**	**47,588**	**78**	**120**	**47,851**
As at 30 June 2009					
Cost or deemed cost	65	49,927	107	148	50,247
Accumulated depreciation	-	(2,339)	(29)	(28)	(2,396)
Net carrying amount	**65**	**47,588**	**78**	**120**	**47,851**
As at 1 July 2008					
Cost or deemed cost	65	304	51	85	505
Accumulated depreciation	-	(226)	(17)	(16)	(259)
Net carrying amount	**65**	**78**	**34**	**69**	**246**

9. Mine development assets

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Opening balance	217,863	188,080
Additions	12,285	79,408
Transfers out to property, plant and equipment	(56,741)	(49,625)
Transfers out to mine production assets	(130,245)	-
Amounts written off	-	-
Closing balance	**43,162**	**217,863**

Mine development assets balance comprises of assets that have not yet been commissioned, principally hydro-mining equipment, therefore no depreciation has been charged during the period.

During the year to 30 June 2010 $56,741,000 (30 June 2009: $49,625,000) has been transferred from mine development assets to property, plant & equipment and $130,245,000 (30 June 2009: $Nil) has been transferred from mine development assets to mine production assets.

Interest totalling $676,000 has been capitalised during the current period (2009:$580,000) in relation to borrowing costs that are directly attributable to acquisition and construction of mine development assets.

10. Mine production assets

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Opening balance	-	-
Transfers in from mine development assets	130,245	-
Capitalised roadway costs	11,425	-
Amortisation charges	(265)	-
Closing balance	**141,405**	**-**

Mine production assets comprise development costs (excluding plant, property and equipment) incurred in relation to areas of interest in which coal production has commenced. Amortisation has been charged based on the production output methodology.

Included in year to 30 June 2010 is $11,425,000 of post production costs for pit-bottom roadway construction which will be used and amortised on the production output methodology.

11. Intangible mine assets

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Opening balance	5,439	3,105
Additions	1,072	2,334
Amortisation	(12)	-
Closing balance	**6,499**	**5,439**

Intangible mine assets primarily comprise expenditure that Pike River has been required to make in order to obtain rights of access or operation in relation to key items of infrastructure or land necessary for operation of the coal mine. To the extent that this expenditure gives rise to long term future economic benefits it is capitalised and amortised over units of production in accordance with note 3(f).

12. Bonds and deposits

In thousands of dollars		Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Bonds	*(i)*	2,324	2,324
Deposits	*(ii)*	-	1,150
		2,324	**3,474**

(i) Bonds

Bonds of $1,049,000 (30 June 2009: $1,049,000) have been lodged with the Department of Conservation ('DOC') in accordance with the conditions of access agreement permits granted to Pike River. In the event access agreement conditions are not maintained, the bonds may be forfeited.

Similarly, bonds of $1,200,000 (30 June 2009: $1,200,000) have been lodged with various local body authorities in accordance with conditions attaching to resource consents issued to Pike River. In the event that resource consent conditions are not maintained, the bonds may be subject to forfeiture.

There is also a $75,000 (30 June 2009: $75,000) bond retained in favour of the New Zealand Exchange Limited. The bond is required to be maintained as part of Pike River's continued listing on the New Zealand Stock Exchange.

(ii) Deposits

A cash-backed third party guarantee has been provided to Westpower Limited ('Westpower') in relation to an agreement for supply and installation of high voltage electricity supply infrastructure to the mine. At balance date Pike River has $Nil (30 June 2009: $1,150,000) cash lodged with ANZ National Bank Limited ('ANZ') (the provider of the guarantee). Cash lodged with ANZ to secure the guarantee is refunded by ANZ to Pike River on a monthly basis in line with Pike River's fulfilment of its monthly obligations under the Westpower infrastructure supply agreement. Westpower remitted a final payment of $50,000 in June 2010.

13. Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Deferred tax assets				
Opening balance	11,092	2,131	8,842	2,131
Current period tax losses	22,398	7,301	22,398	5,051
Value of previously unrecognised tax losses	1,020	2,546	1,020	2,546
Prior year adjustment	1,360	-	1,360	-
Derecognition of previously recognised tax losses	-	(1,020)	-	(1,020)
Effect of change to 28% tax rate from 1 July 2011	(2,380)	-	(2,230)	-
Provisions	111	134	111	134
Total Deferred tax assets	**33,601**	**11,092**	**31,501**	**8,842**
Deferred tax liabilities				
Opening balance	(5,150)	-	(5,150)	-
Mine development assets	(9,512)	(5,150)	(9,512)	(5,150)
Loss of tax depreciation on building from 1 July 2011	(826)	-	(826)	-
Effect of change to 28% tax rate from 1 July 2011	1,046	-	1,046	-
Other	(202)	-	(202)	-
Total deferred tax liabilities	**(14,644)**	**(5,150)**	**(14,644)**	**(5,150)**
Net deferred tax asset	**18,957**	**5,942**	**16,857**	**3,692**

As at 30 June 2010, with coal production underway and following assessment of the coming financial year's likely results, a deferred tax asset in relation to carry-forward tax losses has been recognised given the probability that sufficient future taxable profits will be generated to offset these tax losses. In May 2010 legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28% and to remove the ability to claim tax depreciation on buildings with an estimated useful life greater than fifty years, effective for the 2011-2012 income tax year. The tax effect shown is the estimated impact on the value of deferred tax as a result of the changes from 1 July 2011.

14. Cash and cash equivalents

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Bank balances	2,917	3,810
Deposits	17,680	17,936
	20,597	**21,746**

15. Trade and other receivables

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Prepayments	871	717
GST receivable	714	651
Customs GST receivable	-	185
Other receivables	123	114
	1,708	**1,667**

16. Inventories

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Coal stock	4,202	734
Mine consumables and spare parts	4,115	1,651
	8,317	**2,385**

17. Trade and other payables

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Trade payables	4,691	5,261
Accruals	6,015	4,101
Other creditors	135	394
	10,841	**9,756**

Trade and other payables denominated in currencies other than the functional currency for the current period comprise AUD $1,124,000 (30 June 2009: AUD $1,364,000, EUR $337,000 and USD $108,000).

18. Rehabilitation provision

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Opening balance	916	676
Provision made during the period	-	321
Unwind of discount	61	50
Impact of change in discount rate	230	(131)
Closing balance	**1,207**	**916**

Under an agreement with DOC, Pike River is obliged to rehabilitate any affected land area to an approved condition once coal production from the Pike River mine has ceased. This provision represents the costs expected to be incurred to rehabilitate areas where mine development work has occurred as at balance date.

Because of the long term nature of this liability, the biggest uncertainty in estimating the provision is the quantum of costs that will be incurred to rehabilitate the affected areas. In particular, Pike River has assumed that the site will be restored using technology and materials that are available currently.

No additional provision was made in the year to 30 June 2010. In 2009 an additional provision of $321,000 was made reflecting the increased area of mine development and a reassessment of the likely costs to be incurred.

The provision has been calculated using a discount rate of 5.35% as at 30 June 2010 (30 June 2009: 6.67%) The expected remaining life of mine used in the determination of the provision is estimated at 17 years as at 30 June 2010 (30 June 2009: 18 years).

19. Convertible bonds and secured bank facilities

This note provides information about the contractual terms of Pike River's interest-bearing loans and borrowings. For more information about Pike River's exposure to interest rate and foreign exchange risk, see note 24.

In thousands of dollars	*Note*	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Non-current liabilities			
Convertible bonds	*(a)*	41,667	42,096
		41,667	**42,096**
Current liabilities			
CreditPlus bank term debt facility	*(b)*	12,917	-
Multi-option bank facility	*(b)*	10,000	-
		22,917	**-**

Terms and conditions of outstanding loans and borrowings are as follows:

Interest bearing loans and borrowings		Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
In thousands of dollars					*Group and Parent ended 30 June 2010*	*Group and Parent ended 30 June 2010*	*Group and Parent ended 30 June 2009*	*Group and Parent ended 30 June 2009*
Convertible bonds (liberty Harbor)	(i)	USD	10.75%	2011	-	-	42,236	42,096
Convertible bonds (NZOG)	(i)	USD	10.00%	2012	41,667	41,667	-	-
Secured debt facilities		NZD	BKBM+1.20%	2013	12,917	12,917	-	-
		NZD	BKBM+1.70%	2010	10,000	10,000	-	-
					64,584	**64,584**	**42,236**	**42,096**

(a) Convertible bonds

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Liberty Harbor Convertible bonds		
Opening balance	42,096	37,826
Conversions during the period	-	(3,307)
Issue of new convertible bonds during the period	1,902	-
Amortisation of discount	427	844
Convertible bonds accrued interest	-	475
Repayment of principal & interest	(43,199)	-
Realised foreign exchange (gain)/ loss on translation	(1,226)	6,258
Closing balance	**-**	**42,096**
NZOG Convertible bonds		
Opening balance	-	
Issue of new convertible bonds during the period	42,974	-
Unrealised foreign exchange gain on translation	(1,307)	-
Closing balance	**41,667**	**-**

(i) The Liberty Harbor convertible bonds were fully repaid on 21 May 2010. On this date, Pike River issued US$28,900,000 convertible bonds to NZOG 38483 Limited (a wholly owned subsidiary of New Zealand Oil & Gas Limited ("NZOG")) which bear an effective interest rate of 10.00% (payable quarterly).

The bonds are convertible into ordinary shares of Pike River at any time prior to maturity (12 March 2012) at the bond holders election at a conversion price of US$0.84760709.

Pike River has granted a first ranking charge over the company's assets by way of security for the convertible bonds (excluding certain items of mobile mining equipment which are subject to a charge granted to the Bank of New Zealand Limited ('BNZ') in relation to the CreditPlus committed bank facility (refer note 19(b)).

(b) Secured bank facilities

CreditPlus bank term debt facility

Pike River has in place a CreditPlus 5 year term debt facility with the BNZ. Similar to a revolving credit facility the facility is fully redrawable and repayable at Pike River's option over the term of the facility. The initial facility limit of $16,167,000 amortises on a monthly basis down to a maximum facility limit of $4,181,000. The facility is priced at a margin above 90 day BKBM with a quarterly rate reset.

The CreditPlus facility is secured via a first ranking charge of $16,500,000 (30 June 2009:$Nil) provided over certain items of mobile mining equipment.

As at 30 June 2010 the available CreditPlus facility limit was $12,917,000 which Pike River has fully drawn.

Multi-option bank facility

Pike River has in place a $10,000,000 (30 June 2009: $10,000,000) Multi-option debt facility with the BNZ. Structured as a series of flexible and scaleable sub-facilities, the Multi-option debt facility allows Pike River to fund some of its short term working capital and other operational requirements via a fully redrawable and repayable committed credit line for a twelve month term. The Multi-option facility is a floating rate facility with pricing at various margins dependant on the type of sub-facility being utilised.

The Multi-option facility is secured via a $10,000,000 charge over the company's assets (excluding certain items of mobile mining equipment) that ranks pari-passu with the charge granted to the convertible bond-holders.

As at 30 June 2010 Pike River has fully drawn the Multi-option debt facility (2009: Nil draw downs).

An Event of Review occurred on 30 June 2010 under the CreditPlus and Multi-option bank facilities, when the Company's net cashflow from operating activities and net cashflow from investing activities which are measured on a quarterly and year to date basis, was more than 15% less than the forecast for the quarter ended 30 June 2010. Accordingly, the Creditplus facility is classified as a current liability at 30 June 2010. Subsequent to balance date, BNZ granted a waiver of that Event of Review. This waiver is subject to completion of documentation.

20. Share capital

Pike River shares have no par value and only fully paid ordinary shares are entitled to dividends. The following note provides information about equity instruments issued during the periods presented.

Share Capital – Number

In thousands of shares	*Note*	Group and Parent year ended 30 June 2010	Group and Parent year ended 30 June 2009
Fully paid ordinary shares			
Opening balance		347,103	267,027
Conversion of convertible bonds and/or notes		-	14,985
Institutional placement		11,365	5,714
Renounceable rights issue	*(ii)*	45,455	58,571
Re-issue of forfeited partly-paid shares as fully paid ordinary shares		1,045	803
2009 options exercised		-	3
2011 options exercised		3	-
Closing balance		**404,971**	**347,103**
Partly paid ordinary shares			
Opening balance		5,914	3,577
Issue of partly paid ordinary shares pursuant to the Employee Share Ownership Plan ('ESOP')	*21(a)*	2,120	3,140
Forfeiture of partly paid shares		(1,045)	(803)
Closing balance		**6,989**	**5,914**
Total share capital		**411,960**	**353,017**

Share capital – value

In thousands of dollars	*Note*	Group and Parent year ended 30 June 2010	Group and Parent year ended 30 June 2009
Fully paid ordinary shares			
Opening balance		264,631	207,793
Conversion of convertible bonds and/or notes		-	12,686
Institutional placement	*(i)*	9,650	4,000
Renounceable rights issue	*(ii)*	37,138	39,354
Re-issue of forfeited partly-paid shares as fully paid ordinary shares		985	794
2009 options exercised		-	4
2011 options exercised	*(iii)*	3	-
Closing balance		**312,407**	**264,631**
Partly paid ordinary shares			
Opening balance		155	97
Issue of partly paid ordinary shares pursuant to the ESOP	*21(a)*	22	31
Forfeiture of partly paid shares		(10)	(7)
Proceeds from sale of rights attaching to partly paid shares held in escrow		6	34
Closing balance		**173**	**155**
Other			
Opening balance		1,304	10,142
Equity component of convertible notes		-	(9,524)
Value of employee services provided	*21(a)*	647	686
Closing balance		**1,951**	**1,304**
Total share capital		**314,531**	**266,090**

(i) Institutional placement
On 23 April 2010 Pike River made a placement of 11,363,636 ordinary shares at an issue price of $0.88 per share and raised $9,650,000 (net of underwriting fees). On 26 March 2009 the Group issued 5,714,285 ordinary shares to AMP Capital Investors (New Zealand) Limited (AMP) at an issue price of $0.70 per share and raised $4,000,000.

(ii) Renounceable rights issue
During the 12 months ended 30 June 2010, Pike River issued 45,454,545 ordinary shares by way of a fully underwritten renounceable rights issue to existing shareholder and option holders. Issued at a price of $0.88 per new share the rights issue raised $37,138,000 (net of issuance and other transaction costs). On 24 April 2009 Pike River issued 58,571,429 ordinary shares by way of a fully underwritten renounceable rights issue to existing shareholder and convertible note holders. Issued at a price of $0.70 per new share the 2009 rights issue raised $39,354,000 (net of issuance and other transaction costs).

(iii) 2011 options
At balance date Pike River had on issue 64,282,000 (30 June 2009: 64,285,000) share options issued as a result of the 2009 rights issue. These options have an exercise price of $1.25 and a final maturity date of 24 April 2011. Options are exercisable at any point up to final maturity at the election of the option holders. The exercise of an option results in the issue of one new ordinary share in Pike River which will rank equally in all respects with all other existing ordinary shares on issue as at that time.

21. Share based payments

(a) Share based payments-– Employee Share Ownership Plan

On 4 August 2006, Pike River established an Employee Share Ownership Plan ('ESOP') that entitles management personnel and employees, upon nomination by the Remuneration Committee, to purchase partly-paid ordinary shares in the entity. Partly-paid shares issued under the ESOP are subject to an initial vesting (escrow) period of two years; an allocation price which is set at a premium above the market price at the time of issue and a final expiry date five years after the date of issue. By the final date the employee must have paid the full allocation price of the partly-paid shares or they are forfeited. Partly-paid shares are transferred to the ownership of the relevant individual any time after the initial vesting period on payment in full of the outstanding allocation price.

During the year ended to 30 June 2010, 2,120,620 partly-paid ordinary shares (2009 financial year: 3,140,306) were issued in accordance with the ESOP rules.

Where an employee leaves the employment of Pike River prior to expiry of their relevant escrow period, the ESOP provides for these shares to be forfeited by the employee to the company and sold into the market as fully paid ordinary shares at the prevailing market rate. During the year ended 30 June 2010, 1,045,314 partly-paid ordinary shares were forfeited and sold (2009 financial year: 803,320).

(b) Share based payments – Issue of fully paid shares for nil consideration

Pike River shareholders approved the issue of 100,000 fully paid shares in the entity for nil consideration to Gordon Ward in July 2006 and these shares were released from escrow upon the two year vesting period from the date of the IPO, having passed on 22 May 2009.

The terms and conditions of the partly-paid shares currently on issue follow.

Partly Paid Shares Vesting during financial year:	Number	Weighted average outstanding calls	Range of issue price	Market share price when issued	Fair value at measurement date
30/06/2008	1,000,500	$1.16	$1.15 TO $1.20	$1.00	$0.15 TO $0.26
30/06/2009	239,000	$1.09	$1.15	$1.00	$0.18
30/06/2010	2,106,450	$1.49	$1.15 TO $2.52	$0.98 TO $2.10	$0.21 TO $0.89
30/06/2011	1,821,056	$1.48	$0.91 TO $2.46	$0.76 TO $2.05	$0.30 TO $0.66
30/06/2012	1,821,856	$1.22	$0.93 TO $2.20	$0.78 TO $1.83	$0.26 TO $0.62
TOTAL	**6,988,862**	**$1.35**	**$0.91 TO $2.52**	**$0.76 TO $2.10**	**$0.15 TO $0.89**

Note: The vesting period before shares can be fully paid is two years after date of issue. From that date ESOP participants have three years in which to pay the amount outstanding on their partly paid shares.

The fair value of services recognised for the purposes of NZIFRS2– Share-based Payments in return for partly-paid shares issued to management and employees is measured by reference to the fair value of partly-paid shares granted. The estimate of the fair value of services received is measured based on a Black-Scholes option valuation model due to the potential optionality around take-up and payment of outstanding allocation price in relation to the partly-paid shares issued under the ESOP. The contractual lives of the partly-paid shares are used as an input into this model, as are the risk-free interest rate, and the Pike River share price volatility. The risk-free interest rate uses the Reserve Bank secondary market 10 year Government Bond Yield as a proxy, and the share price volatility is the annualised volatility calculated by the company on a monthly basis until 31 December 2009, and then in the six months to 30 June 2010 the 90 day volatility measure available from Bloomberg.

The number and weighted average outstanding calls for the partly paid ESOP shares are set out in the following table:

	Weighted average outstanding call 30 June 2010	Number of partly paid shares 30 June 2010 *(In thousands)*	Weighted average outstanding call 30 June 2009	Number of partly paid shares 30 June 2009 *(In thousands)*	Weighted average outstanding call 30 June 2008	Number of partly paid shares 30 June 2008 *(In thousands)*
Outstanding at 1 July 2009	$1.43	5,913	$1.23	3,576	-	-
Issued during the period	$1.23	2,121	$1.59	3,140	$1.22	3,736
Forfeited during the period	$1.31	(1,045)	$1.15	(803)	$1.14	(160)
Outstanding at 30 June 2010	$1.35	6,989	$1.43	5,913	$1.23	3,576
Exercisable at 30 June 2010	$1.36	3,346	$1.15	1,240	$1.16	1,000

22. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 is based on the loss attributable to ordinary shareholders of $39,028,000 (2009: $13,018,000) and a weighted average number of ordinary shares outstanding of 354,687,000 (2009: 294,622,000), calculated as follows:

Loss attributable to ordinary shareholders for the 12 months ended 30 June *In thousands of dollars*	Group 2010	Group 2009	Parent 2010	Parent 2009
Net loss attributable to ordinary shareholders	**(39,028)**	**(13,018)**	**(38,878)**	**(7,768)**
Issued ordinary shares	347,103	267,027	347,103	267,027
Effect of shares issuable upon conversion of mandatorily convertible notes	-	12,289	-	12,289
Effect of shares issuable upon conversion of convertible bonds	-	2,633	-	2,633
Effect of partly-paid shares issued pursuant to the ESOP	55	36	55	36
Effect of shares issued following renounceable rights issue & institutional placement	7,098	12,192	7,098	12,192
Effect of re-issue of forfeited partly-paid shares as fully paid ordinary shares	428	343	428	343
Effect of completion of escrow for contingently issuable management shares	-	99	-	99
Effect of exercise of share options	3	3	3	3
Weighted average number of ordinary shares	**354,687**	**294,622**	**354,687**	**294,622**

(b) Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 is based on the loss attributable to ordinary shareholders of $39,028,000 (2009: $13,018,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 354,687,000 (2009: 294,622,000), calculated as follows:

Loss attributable to ordinary shareholders for the twelve months ended 30 June *In thousands of dollars*	*Note*	Group 2010	Group 2009	Parent 2010	Parent 2009
Net loss attributable to ordinary shareholders (basic)	*(i)*	(39,028)	(13,018)	(38,878)	(7,768)
Net loss attributable to ordinary shareholders (diluted)		**(39,028)**	**(13,018)**	**(39,028)**	**(7,768)**

Loss attributable to ordinary shareholders for the twelve months ended 30 June *In thousands of dollars*	*Note*	Group 2010	Group 2009	Parent 2010	Parent 2009
Weighted average number of ordinary shares (basic)	*(i)*	354,687	294,622	354,687	294,622
Weighted average number of ordinary shares (diluted)		**354,687**	**294,622**	**354,687**	**294,622**

The average market value of Pike River's shares for the purposes of calculating the dilutive effect of share options and convertible bonds is based on an average quoted market price for the year ended 30 June 2010 of $1.03 (2009: $1.40).

(i) Anti-dilution effects
For the purposes of calculating diluted earnings per share as at 30 June 2010 dilutive potential ordinary share items (share options, convertible bonds) have been excluded on the basis that they would give rise to an antidilutive effect on the calculation of ordinary loss per share (i.e. reduce the ordinary loss per share). These items are only included in diluted earnings per share to the extent that they result in an increased loss per share or reduced earnings per share.

23. Related parties

(a) Related party balances

The parent entity within the Group is Pike River Coal Limited.

The following balances are associated with related parties as at the relevant balance date.

Related parties *In thousands of dollars*	*Note*	Parent year ended 30 June 2010	Parent year ended 30 June 2009
Pike Energy Limited (wholly owned subsidiary)			
Intercompany loan	(i)	7,500	7,500

(i) Pike Energy Limited
On 23 April 2009, Pike River sold Petroleum Exploration Permit 38517 to its wholly owned subsidiary Pike Energy Limited for consideration of $7,500,000. The consideration paid was based on an independent valuation at date of sale. Sale is subject to formal Ministry of Economic Development approval. The Exploration Permit was held at nil value by Pike River and accordingly a gain of $7,500,000 was recognised in the parent company. Pike River has advanced Pike Energy the full amount of the consideration by way of an interest free loan which is payable on demand.

In addition to transactions disclosed elsewhere within these financial statements, Pike River undertook the following transactions with related parties during the year.

Related parties *In thousands of dollars*	Group and Parent year ended 30 June 2010	Group and Parent year ended 30 June 2009
Coal sales		
Gujarat NRE Coal (NSW) Pty Limited	3,345	-
Underwriting fees		
New Zealand Oil & Gas Limited (NZOG)	505	308
Gujarat NRE Limited	66	-
	571	**308**
Short-term employee benefits		
Key management personnel compensation	984	1,155
	984	**1,155**

Underwriting fees

Underwriting fees were paid in relation to underwriting commitments made by major shareholders in relation to the renounceable rights issue undertaken by Pike River during the 12 months ended 30 June 2010. Fees paid were based on the respective number of shares underwritten and were market based fees commensurate with the level of commitment and risk associated with a capital raising transaction of this type.

2010 Equity raising

Both NZOG and Gujarat NRE Limited participated in the $10,000,000 share placement and $40,000,000 rights issue both with an issue price of $0.88 per share. NZOG and Gujarat NRE Limited increased their shareholdings by 16,394,070 and 3,725,322 shares respectively.

Coal sales

On 19 February 2010 the first shipment of 19,042 tonnes of coal was made to Gujarat NRE Limited for $3,345,000.

Convertible bond

On 21 May 2010 the Group issued a US$28,900,000 convertible bond to NZOG 38483 Limited which bears an effective interest rate of 10% payable quarterly (for further details please refer to note 19(a))

Coal sales agreements

Under a coal option agreement dated 21 May 2010 the Company has granted NZOG 38494 Limited (a wholly owned NZOG subsidiary) the option to purchase:

(a) for the period from 23 February 2010 until 31 March 2013, up to the part of the annual coal production from the Pike River mine that is not (as at 23 February 2010) contractually committed to any other party; and

(b) for the period from 1 April 2013 for the remainder of the Pike River mine life, up to 30% of the annual coal production from the Pike River mine.

Agreements for the sale of Pike River coal once production commences have previously been established with key shareholders (or parties associated with key shareholders). Details of these agreements are as follows:

- Coal sales agreement with Saurashtra Fuels Private Limited ("Saurashtra") for 150,000 tonnes per annum for the life of the Pike River mine and an option for Saurashtra to take up to a further 100,000 tonnes on an annual basis basis, with variation of +/- 10% at Saurashtra's option. The total offtake by Saurashtra is capped at 20% of mine output.
- Coal sales agreement with Gujarat NRE Coal (NSW) Pty Limited for 19,042 tonnes of hard coking coal in JFY 2010, increasing to 400,000 tonnes per annum (or 40% of mine output whichever is the lesser) from JFY 2010 for the life of the mine with an annual variation of +/- 10% at Pike River's or Gujarat NRE Coal (NSW) Pty Limited's option.

Pricing for each of these agreements is to be negotiated annually or such other period as is mutually agreed, based on market derived hard coking coal prices.

Short term loan facility

NZOG provided an interim short term loan facility of $15,000,000 for the period of 26 March 2010 to 23 May 2010. The Company made drawings of $6,000,000 that were repaid in full on 21 May 2010. An establishment fee of $450,000 and a facility monitoring fee of $150,000 was charged on this facility.

Directors' remuneration

Directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chairman, and in respect of work carried out by individual Directors on various Board committees for the additional responsibilities of those positions. Mr Ward does not receive remuneration as a director. The total remuneration and other benefits to directors for services in all capacities during the year ended 30 June 2010 was $315,000 (30 June 2009: $315,000).

24. Financial risk management

(a) Overview

Pike River has exposure to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity risk); credit risk; and liquidity risk.

This note presents information about Pike River's exposures to each of these financial risks; objectives, policies and processes employed for measuring and managing financial risk; and the management of capital. Further quantitative disclosures are included throughout these financial statements as necessary.

The Pike River Board of Directors ('the Board') has overall responsibility for the establishment and oversight of Pike River's risk management framework.

Pike River's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are subject to regular review and are under continual development to reflect changes in market conditions and more particularly changes in Pike River's activities and exposures.

(b) Credit risk

Credit risk is the risk of financial loss to Pike River if a customer or counterparty to a financial instrument fails to meet its contractual obligations and as at 30 June 2010 arises principally from Pike River's investment activities.

Pike River limits its exposure to credit risk arising from its investment activities by only investing in liquid securities and only transacting with registered banks that have a credit rating of at least AA from Standard & Poor's (or the equivalent rating from Moody's or Fitch). Management also adhere to policy which requires appropriate spread of counterparty credit risk by minimising exposure to any single counterparty. As a result, management does not expect any counterparty to fail to meets its obligations.

The carrying amount of financial assets represents Pike River's maximum credit exposure.

(c) Liquidity risk

Liquidity risk is the risk that Pike River will not be able to meet its financial obligations as they fall due. The approach adopted to managing liquidity is to ensure, as far as possible, that Pike River maintains or has access to sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable risk positions, losses or damage to Pike River's reputation.

During the mine development phase Pike River routinely and actively monitored its capital commitments and cash flow requirements to ensure sufficient funds are available to both meet its obligations and minimise disruption to the development timeline while simultaneously seeking to optimise its return on investment of surplus funds. To date Pike River has utilised the debt and equity capital markets to fully fund its development activities based on forecast development commitments. As Pike River transitions to a fully operational coal mine and to assist in ensuring sufficient funds are available to fund its initial working capital and reasonably foreseeable operational expenditures Pike River will (if required) continue to seek access to sufficient lines of credit from major financial institutions to ensure operational liquidity risk is appropriately managed.

The following tables set out the contractual cash flows for all financial liabilities, including interest payments:

Non derivative financial liabilities	Carrying amount			Contractual cash flows			
In thousands of dollars	*Group 12 month ended 30 June 2010*	*Total*	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Convertible bonds	41,667	48,796	2,083	2,083	44,630	-	-
Secured bank facilities	22,917	25,782	11,924	1,647	3,106	9,105	-
Trade & other payables	10,841	10,841	10,841	-	-	-	-
	75,425	**85,419**	**24,848**	**3,730**	**47,736**	**9,105**	**-**

Non derivative financial liabilities	Carrying amount			Contractual cash flows			
In thousands of dollars	*Group 12 month ended 30 June 2009*	*Total*	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Convertible bonds	42,096	47,605	1,449	1,425	44,731	-	-
Secured bank facilities	-	-	-	-	-	-	-
Trade & other payables	9,756	9,756	9,756	-	-	-	-
	51,852	**57,361**	**11,205**	**1,425**	**44,731**	**-**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect Pike River's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Pike River may from time to time enter into derivative arrangements in the ordinary course of business to manage market risk. All such transactions are carried out in accordance with guidelines and policies set down by the Pike River Board. Pike River does not enter into derivative arrangements for speculative purposes.

As at balance date Pike River had no outstanding derivative arrangements in place (2009: Nil).

(i) Currency risk

In its mine development phase Pike River was primarily exposed to currency risk on purchases and borrowings that are denominated in a currency other the functional currency of Pike River (being the NZD). These exposures arise primarily in USD, AUD and EUR.

Where possible Pike River seeks to manage currency risk by transacting with suppliers in NZD, however where this is not commercially viable Pike River may use forward exchange contracts to hedge currency risk.

As Pike River transitions to a fully operational coal mine its revenues will be exposed to currency risk as the underlying currency for sales of its hard coking coal will be denominated in USD. The Pike River Board is in the process of finalising its long-term policy around management of currency risk in relation to this exposure but it is anticipated that management of this exposure will be achieved through the use of a combination of purchased FX options and forward exchange contracts based on forecast sales volumes; minimum cover ratios; and time-weighted cover bands. The USD currency exposure generated in relation to Pike River's coal sales serves as a 'natural' hedge to residual currency risk on USD borrowings and this will also be factored into Pike River's currency risk management strategies going forward.

Exposure to currency risk

Pike River's exposure to currency risk is as follows:

Currency risk exposure	Group 12 months ended 30 June 2010			Group 12 month ended 30 June 2009		
In thousands of foreign currency units	USD	AUD	EUR	USD	AUD	EUR
Deposit	-	-	-	800	-	-
Convertible bonds	28,900	-	-	27,500	-	-
Trade and other payables	-	1,124	-	108	1,364	337
Net exposure	**28,900**	**1,124**	**-**	**28,408**	**1,364**	**337**

The following significant exchange rates were applied during the year:

Exchange rates	Group 12 months ended 30 June 2010			Group 12 month ended 30 June 2009		
	USD	AUD	EUR	USD	AUD	EUR
Average rate for the period	0.7033	0.7970	0.5068	0.6068	0.8143	0.4409
As at 30 June	0.6936	0.8137	0.5675	0.6511	0.8056	0.4616

Sensitivity analysis

A 10% drop of the NZD against the major currencies to which Pike River is exposed as at 30 June would (assuming all other variables remain constant) have had the following impact on income statement:

Currency risk sensitivity	Group 12 months ended 30 June 2010			Group 12 month ended 30 June 30 June 2009		
In thousands of dollars	Carrying amount	Impact of sensitivity	Sensitised carrying amount	Carrying amount	Impact of sensitivity	Sensitised carrying amount
Deposit	-	-	-	1,229	137	1,366
Convertible bonds	41,667	4,630	46,297	42,096	4,677	46,773
Trade and other payables	1,381	153	1,534	9,756	288	10,044
Loss before income tax	**(52,041)**	**(4,783)**	**(56,824)**	**(16,829)**	**(5,102)**	**(21,931)**

A 10% rise in the NZD against the major currencies as at 30 June would have resulted in an equal but opposite effect on the table shown above on the basis that all other variables remain constant.

(ii) Interest rate risk

Pike River's approach to managing interest rate risk (particularly during the development and initial start-up production phases) has been to fix the majority of its interest rate exposures to provide certainty around cost of borrowings and future cash-flow requirements. To date this has primarily been achieved through entering into fixed rate financing.

Pike River retains some exposure to interest rate risk through its floating rate borrowings established primarily for working capital and short term liquidity funding. Where appropriate Pike River may look to utilise short duration interest rate swaps to effectively fix any exposures that may be generated through forecast medium term utilisation of these facilities.

(iii) Commodity price risk

Pike River is primarily exposed to commodity price risk in relation to the sales price it is able to achieve on its hard coking coal products. The market for hard coking coals is dominated by a handful of global producers who negotiate with the major users of hard coking coal. These negotiations result in 'benchmark' prices being set for contracted supplies of hard coking coal on a quarterly or annual basis. Pike River is essentially a 'price-taker' given its size relative to the global hard coking coal market. Consequently, there is limited direct management of price risk that Pike River can economically undertake. Risk management is therefore focussed on ensuring that Pike River has the appropriate mix of contracted and spot sales for its annual production thereby providing certainty over minimum revenues but enabling up-side participation to the extent that opportunities exist in the spot market. Pike River also focuses heavily on ensuring that it has long term access to key customers. At the present time Pike River does not utilise any derivative products in relation to hard coking coal price commodity risk as there is not an active or developed market for such products.

Pike River retains some exposure to commodity price risk on some key inputs to its production and transport chains (i.e. electricity, oil and steel costs), however these are not considered to be overly material to long term profitability. The Pike River Board will continue to actively monitor and manage these exposures but at the current time does not actively engage in the use of derivative products to manage these risks preferring to rely on medium term fixed price supply contracts where economically acceptable.

(e) Capital management

The Pike River Board is committed to maintaining a strong capital base so as to maintain investor, creditor and market confidence. Maintaining this confidence is essential to both sustain Pike River's current operation and also to provide access to the capital resources necessary to further develop both the existing business and also other development and exploration opportunities.

Pike River continues to monitor its capital structure and in particular the potential for higher returns to be generated via increased utilisation of appropriately priced and structured borrowings. However, at this time in the mine development phase the Pike River Board view the security afforded by a strong equity based capital structure as being appropriate for the business as its transitions into a fully operational coal mine. In line with this the Pike River Board remains cognisant of the need to provide an appropriate level of return on shareholders equity holdings.

For the purposes of capital management, capital includes share capital, retained earnings and interest bearing loans and borrowings. There have been no material changes in Pike River's management of capital during the period with new capital raisings being undertaken on a basis consistent with the Board's stated capital management framework as set out above.

Pike River is not subject to any externally imposed minimum capital requirements.

(f) Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown on the face of the balance sheet, are as follows:

		Group 12 months ended 30 June 2010		Group 12 month ended 30 June 2009	
In thousands of dollars	*Note*	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents		20,597	20,597	21,746	21,746
Trade and other receivables		1,708	1,708	1,667	1,667
Bonds and deposits		2,324	2,324	3,474	3,474
Trade and other payables		(10,841)	(10,841)	(9,756)	(9,756)
Convertible bonds	(i)	(41,667)	(43,814)	(42,096)	(42,236)
Secured bank facilities		(22,917)	(22,917)	-	-
Unrecognised gain (loss)		-	**(2,147)**	-	**(140)**

Basis for determining fair values

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are as follows:

(i) Convertible bonds

Fair value, as determined for disclosure purposes, is calculated based on present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(g) Financial instruments by category

Group and parent *In thousands of dollars*	Loans and receivables	Other amortised cost	Total carrying value
At 30 June 2010			
Assets			
Cash and cash equivalents	20,597	-	20,597
Receivables	1,708	-	1,708
Other financial assets	2,324	-	2,324
	24,629	**-**	**24,629**
Liabilities			
Payables	-	4,691	4,691
Borrowings	-	22,917	22,917
Other financial liabilities	-	41,667	41,667
	-	**69,275**	**69,275**
At 30 June 2009			
Assets			
Cash and cash equivalents	21,746	-	21,746
Receivables	1,667	-	1,667
Other financial assets	3,474	-	3,474
	26,887	**-**	**26,887**
Liabilities			
Payables	-	5,261	5,261
Borrowings	-	-	-
Other financial liabilities	-	42,096	42,096
	-	**47,357**	**47,357**

25. Commitments

As at 30 June 2010, Pike River had $3,518,000 of capital commitments (2009: $7,981,000) that would be payable if the current mine development activities were terminated. These commitments relate to committed non-cancellable purchases of long lead time mining equipment and development activities required as part of the ongoing mine development.

On 27 November 2007 Pike River entered into a long term Coal Transportation Agreement ('CTA') with Solid Energy New Zealand Limited ('Solid Energy'). Under the terms of the CTA, Pike River has committed to certain minimum annual charges which are payable over the life of the CTA.

26. Operating lease commitments

Pike River leases certain mining equipment, motor vehicles, office equipment and office space under operating leases where Pike River is the lessee. Non-cancellable rentals pursuant to these operating leases are payable as follows:

In thousands of dollars	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
Payable within 1 year	5,035	224
Payable between 1 and 5 years	147	73
More than 5 years	-	-
	5,182	297

In the year to 30 June 2010 operating lease expenses were $2,033,000 (2009: $74,000).

27. Reconciliation of the loss for the period with the net cash from operating activities

In thousands of dollars	Group ended 30 June 2010	Group ended 30 June 2009	Parent ended 30 June 2010	Parent ended 30 June 2009
Profit/(loss) for the period	**(39,028)**	**(13,018)**	**(38,878)**	**(7,768)**
Adjustments for:				
Depreciation/amortisation	8,831	2,137	8,831	2,137
Change in fair value of financial instruments	(429)	6,353	(429)	6,353
Employee benefits - share based payments	647	686	647	686
Transfer of petroleum exploration permit	-	-	-	(7,500)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities:				
Change in trade and other receivables	(41)	415	(41)	415
Change in inventories	(5,932)	(2,282)	(5,932)	(2,282)
Change in trade and other payables	845	1,710	845	1,710
Other provisions	291	240	291	240
Employee benefits	351	568	351	568
Change in deferred tax	(13,015)	(3811)	(13,165)	(1,561)
Net cash from operating activities	**(47,480)**	**(7,002)**	**(47,480)**	**(7,002)**

28. Group entities

Significant subsidiary

	Country of Incorporation	Ownership Interest (%)	
		30 June 2010	30 June 2009
Pike Energy Limited	New Zealand	100	100

On 23 April 2009, Pike River sold Petroleum Exploration Permit 38517 to its wholly owned subsidiary Pike Energy Limited. Pike Energy Limited was incorporated on 6 April 2009 and its balance date is 30 June 2010.

29. Personnel expenses

Employee benefits totalling $12,455,000 were paid by Pike River during the current period (30 June 2009: $1,224,000).

30. Contingencies

As at balance date Pike River has an insurance claim of approximately $3,000,000 lodged in respect of the ventilation shaft rockfall that occurred in February 2009.

31. Subsequent events

There were no events subsequent to balance date except as disclosed in note 19(b).

Auditor's Report

KPMG

To the shareholders of Pike River Coal Limited

We have audited the financial statements on pages 1 to 31. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 5 to 12.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company in relation to taxation. This matter has not impaired our independence as auditors of the company. The firm has no other relationships with, or interest in, the company and group.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 1 to 31:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2010 and our unqualified opinion is expressed as at that date.

Wellington

KPMG

Corporate Governance

Pike River's corporate governance policies, practices and processes are summarised in this section. Further detail is available in the separate Corporate Governance Disclosure Statement available on the company's website - www.pike.co.nz/corporate_governance.php

Board of Directors

The Board is responsible for the overall corporate governance of Pike River including its strategic direction. Responsibility for implementation of strategy and managing operations is delegated by the Board to the Chief Executive.

Policy and other functions of the Board include:

- The approval of goals, strategy and planning for Pike River's future direction and monitoring the implementation of these objectives;
- Discussion and approval of management recommendations, such as capital expenditure and investment decisions;
- Monitoring Pike River's performance and results;
- Providing continuous disclosure of material information relevant to investors; and
- Meeting statutory, regulatory and reporting requirements of the New Zealand Companies Act, the ASIC, NZSX and the ASX.

The Board currently has a policy of having a minimum of five directors including at least two independent directors. For the purposes of the NZX Listing Rules the Board has determined that John Dow and Stuart Nattrass are independent directors.

Appointment of directors is generally based on their ability to contribute the appropriate skills and experience required at Board level to assist Pike River in its operations and future development.

The Board continually monitors areas of significant business risk. It is the responsibility of the Board to identify risks and ensure that management takes such action as is required to manage those risks.

The company recognises the need for directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. All directors and employees are expected to act in accordance with the law and with the highest standards of propriety. Pike River has a formalised policy on business ethics which can be viewed at www.pike.co.nz/corporate_governance.php.

Board Committees

The Board has three formally constituted committees to provide specialist assistance with defined aspects of governance – remuneration, audit, and health safety and environment. The Board's committee charters setting out roles and responsibilities can be viewed at www.pike.co.nz/corporate_governance.php.

Remuneration Committee

The purpose of the Remuneration Committee is to ensure Pike River attracts and retains the right people by offering competitive remuneration packages. Senior managers' remuneration includes a performance component to ensure that achievement of Pike River's business objectives and targets is appropriately pursued and rewarded. The Remuneration Committee is comprised solely of non-executive directors, the current members being Ray Meyer (Chairman), Tony Radford, and John Dow. The Remuneration Committee meets at least twice a year.

Audit Committee

The purpose of the Audit Committee is to review and monitor the financial affairs of Pike River. The Audit Committee is required to contain one member with an accounting or financial background. The Board has determined that Stuart Nattrass has the requisite financial background for this requirement. The current members of the Audit Committee are Stuart Nattrass (Chairman), Ray Meyer, and Tony Radford. The Audit Committee meets at least four times a year.

Health, Safety and Environment Committee

The purpose of the Health, Safety and Environment Committee is to ensure that Pike River is providing a safe work place for its staff and contractors, to monitor compliance with environmental consents, permits and agreements, and to review projects. The Health, Safety and Environment Committee meets as required, usually twice a year, and the current members are John Dow (Chairman) and Ray Meyer.

The company's Health, Safety and Environment policy is available at www.pike.co.nz/corporate_governance.php.

Shareholder Reporting

The company complies with the continuous disclosure and other listing requirements of the NZX and ASX relating to shareholder reporting. The company provides security holders with interim and annual reports, which are also posted on the company's website. Shareholders and interested parties can subscribe to receive the company's market announcements by email by filling in the form at www.pike.co.nz/email_alerts.php.

Business Conduct and Ethics

Compliance with legislative requirements and acting with a high level of integrity is expected of all Directors and employees. The company's policy records the high standards of ethical conduct which all directors and employees are to comply with, and addresses such matters as:

- conflicts of interest
- corporate opportunities
- confidentiality, receipt and use of corporate information
- fair dealing
- protection of and proper use of company assets
- compliance with laws and regulations
- a general obligation to act honestly and in the best interests of the company as required by law
- encouraging the reporting of unlawful or unethical behaviour.

The code of business conduct and ethics is available at www.pike.co.nz/corporate_governance.php.

Securities Trading Policy

The Board has securities trading policies which set out procedures as to when and how an employee or director can deal in company securities. In certain situations where a contractor may possess confidential information on the company's operations, this policy also applies to the contractor concerned. This policy is consistent with the Securities Markets Act and its insider trading procedures and complies with NZX and ASX rules. The securities trading policies are available at www.pike.co.nz/corporate_governance.php.

Independent Directors

The Board has determined in terms of NZX listing rules that as at 30 June 2010, John Dow and Stuart Nattrass are independent directors; and that Tony Radford, Dipak Agarwalla, Arun Jagatramka, Sanjay Loyalka (alternate for A Jagatramka), Gordon Ward and Ray Meyer are not independent directors.

Corporate Governance Best Practice Codes

More details on Pike River's corporate governance practices can be viewed at www.pike.co.nz/corporate_governance.php.

Directors' Remuneration

Directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chairman, and in respect of work carried out by individual directors on various Board committees for the additional responsibilities of those positions. Mr Ward does not receive remuneration as a director.

The total remuneration and other benefits to directors for services in all capacities during the year ended 30 June 2010 was $315,000; being to or in respect of J Dow $80,000; R F Meyer $50,000; R A Radford $45,000; D Agarwalla $45,000; A Jagatramka $45,000 and S Nattrass $50,000.

Directors' Securities Interests and Dealings

The interests of directors in equity securities of the company at 30 June 2010 were as follows:

J Dow in respect of 289,979 ordinary shares and 42,912 options (2011). During the financial year J Dow acquired 31,847 shares at a cost of $28,025.

G Ward in respect of 546,592 shares and 234,476 options (2011), and 1,000,000 partly paid shares (of which 500,000 were subject to escrow until 16 July 2010). During the financial year Mr Ward acquired 170,393 shares at a cost of $149,946.

S Nattrass in respect of 62,850 shares. During the financial year S Nattrass acquired 62,850 shares at a cost of $67,011.

Interest Disclosures

Disclosures of interest by directors entered into the Interests Register pursuant to the Companies Act 1993, including directorships of subsidiaries of relevant companies where applicable, follow. Notices given or adjusted during the financial year are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between Pike River and the disclosed entity and its subsidiaries.

Date Appointed	Name	Interest	Nature of Interest
26/09/2005	Dipak Agarwalla	Saurashtra Fuels Private Limited and subsidiaries (India)	Director/shareholder
22/02/2007	John Dow	Glass Earth Limited	Director
		Troy Resources NL	Director
		Straterra Inc	Chairman
28/06/2000	Ray Meyer	New Zealand Oil & Gas Limited (and subsidiaries)	Director
22/02/2007	Stuart Nattrass	New Zealand Wool Services International Limited	Director/shareholder
27/01/1992	Tony Radford	Global Horticulture Limited	Director/shareholder
		New Zealand Oil & Gas Limited (and subsidiaries)	Director/shareholder
		Pan Pacific Petroleum NL (and subsidiaries)	Director/shareholder
28/07/2006	Gordon Ward	New Zealand Oil & Gas Limited	Shareholder
		Straterra Inc	Committee Member
17/07/2007	Arun Jagatramka	Gujarat NRE Coke Limited and subsidiaries (India)	Director/shareholder
		Gujarat NRE Coking Coal Limited and subsidiaries (Australia)	Director/shareholder
		Gujarat NRE Resources NL	Director
		NRE Resources Pty Limited*	Director
		Gujarat NRE Coal (NSW) Pty Limited	Director
		Shree Minerals Limited	Director/shareholder
		Pluton Resources Limited	Director
		Gujarat NRE Oil Limited	Director
		Port Kembla Coal Terminal*	Director
		Australian Coal Research Limited*	Director
25/11/2009	Sanjay Loyalka (alternate for Arun Jagatramka)	Shree Minerals Limited*	Director/shareholder

Transactions in Which Directors Were Interested

There were no transactions in addition to existing disclosures of interest in which directors were interested during the year ended 30 June 2010 requiring to be disclosed in accordance with the Companies Act 1993.

Directors' & Officers' Liability Insurance

The company has arranged policies of directors' and officers' liability insurance, which, together with a deed of indemnity, seek to ensure to the extent permitted by law that directors and officers will incur no monetary loss as a result of actions legitimately taken by them as directors and officers of Pike River.

Employees' Remuneration

During the year ended 30 June 2010, 27 employees received remuneration of at least $100,000. Of these 8 employees were in the income band: $100,001 - $110,000; 6 employees in the income band $110,001 - $120,000; 5 in the income band $120,001 - $130,000; 2 in the income band $130,001 - $140,000; 1 in the income band $140,001 - $150,000; 1 in the income band $150,001 - $160,000; 1 in the income band $160,001 - $170,000; 1 in the income band $170,001 - $180,000; 1 in the income band $440,001 - $450,000; and 1 in the income band $490,001 - $500,000.

Securities on issue

At 20 August 2010 Pike River had the following securities on issue:

Ordinary shares	405,301,433
Partly paid shares (unlisted)	8,836,967
Total ordinary shares on issue	**414,138,400**
2011 Options	64,281,875
2012 Options (unlisted)	2,500,000
Convertible Bonds	578

Shareholder Statistics

Top 20 shareholders - 20 August 2010

Shareholder Name	Holding	%
NZOG Services Limited	119,031,670	29.37
Gujarat NRE Limited	28,943,245	7.14
Saurashtra World Holdings Private Limited	22,309,358	5.50
Accident Compensation Corporation	19,753,312	4.87
National Nominees Limited	15,026,600	3.71
AMP Investments Strategic Equity Growth Fund	7,366,228	1.82
New Zealand Superannuation Fund Nominees Limited	6,483,575	1.60
K G Douglas and M M Douglas – K & M Douglas A/c	4,404,406	1.09
National Nominees Limited	3,057,600	0.75
Custody & Investment Nominees Limited	2,982,933	0.74
TEA Custodians Limited	2,558,161	0.63
NZGT Nominees Limited – AIF Equity Fund	2,292,215	0.57
Custodial Services Limited	2,115,251	0.52
J Douglas & J A Douglas – Douglas Family A/c	1,898,639	0.47
K Douglas & M Douglas – Douglas Irrevoc Trust A/c	1,895,469	0.47
Citibank Nominees (New Zealand) Limited	1,885,313	0.47
ANZ Nominees Limited	1,848,102	0.46
Asteron Life Limited	1,843,480	0.46
HSBC Nominees (New Zealand) Limited	1,797,371	0.44
Top 20 shareholders	247,492,928	61.06
Total listed ordinary shares	**405,301,433**	**100.00**

In the above table, the holdings of New Zealand Central Securities Depositary Limited have been reallocated to its applicable members.

Optionholder Statistics

Top twenty 2011 option holders - 20 August 2010

Option holder name	Holding	%
NZOG Services Limited	17,266,132	26.86
AMP Investments Strategic Equity Growth Fund	2,566,438	3.99
Accident Compensation Corporation	2,081,232	3.24
NZGT Nominees Limited – AIF Equity Fund	2,071,323	3.22
K G Douglas and M M Douglas – K & M Douglas A/c.	1,878,935	2.92
New Zealand Superannuation Fund Nominees Limited	1,564,440	2.43
National Nominees Limited	1,140,336	177
J Jones	1,000,000	1.56
J Douglas & J A Douglas – Douglas Family A/c	940,808	1.46
D B Jones	930,000	1.45
K Douglas & M Douglas – Douglas Irrevocable Trust	910,809	1.42
Treevale Farm Limited	763,755	1.19
L R Lapwood	636,212	0.99
R M Loving	541,425	0.84
Custodial Services Limited	452,119	0.70
C B Kidson & Knapps Lawyers Trustee Co (No 4) Ltd	400,000	0.62
Estate R Cohn (deceased)	358,906	0.56
HSBC Nominees (New Zealand) Limited	341,228	0.53
T K Quirk & W J Sutherland	324,866	0.51
ASB Nominees Limited	300,000	0.47
Top 20 option holders	36,468,964	56.73
Total options	**64,281,875**	**100.00**

Distribution of ordinary share holdings as at 20 August 2010

Holding Range	Number of Shareholders	%	Number of shares	%
1 to 499	194	2.22	45,027	0.01
500 to 999	316	3.61	220,285	0.05
1,000 to 4,999	2,726	31.16	7,674,409	1.89
5,000 to 9,999	2,435	27.83	16,213,126	4.00
10,000 to 99,999	2,826	32.30	67,541,692	16.66
100,000 and over	251	2.88	313,606,894	77.39
Total	**8,748**	**100.00**	**405,301,433**	**100.00**

A marketable parcel on the NZX is 500 shares or more when the market price is between NZ$0.50 and NZ$1.00; is 200 shares or more when the market price is between NZ$1.01 and NZ$2.00; and 100 shares or more when the price is between NZ$2.01 and NZ$5.00. At 20 August 2010 there were 194 shareholders with less than 500 shares.

Distribution of option holdings as at 20 August 2010

Holding Range	Number of Holders	%	Number of Options	%
1 to 499	599	12.00	162,577	0.25
500 to 999	1,142	22.87	852,430	1.33
1,000 to 4,999	2,427	48.61	4,948,650	7.70
5,000 to 9,999	370	7.41	2,437,310	3.79
10,000 to 99,999	381	7.63	10,816,591	16.83
Over 100,000	74	1.48	45,064,317	70.10
Total	**4,993**	**100.00**	**64,281,875**	**100.00**

Trading statistics

The company's securities have been officially quoted on the New Zealand Exchange and the Australian Stock Exchange since July 2007.

Trading statistics in securities for the year ended 30 June 2010 are set out below:

Ordinary Shares

	Trading Code	High	Low	Volume
NZX	PRC	NZ$1.20	NZ$0.85	89,106,200
ASX	PRC	A$0.99	A$0.64	13,421,300
Combined				**102,527,500**

Options

	Trading Code	High	Low	Volume
NZX	PRCOA	NZ$0.29	NZ$0.08	15,386,800
ASX	PRCO	A$0.26	A$0.14	1,026,700
Combined				**16,413,500**

Substantial shareholders

Substantial shareholder notices are received pursuant to the Securities Markets Act 1988. Under the provisions of that Act substantial shareholders are required to notify changes in relevant interests only when those changes exceed 1% of the total issued voting securities; and more than one party can hold a relevant interest in the same shares, such as is the case with a subsidiary. For those reasons the number of shares stated in substantial shareholder notices can differ from the numbers showing in the share register, particularly if the percentage held has changed by less than 1% since the last substantial security holder notice. For the current holdings of substantial shareholders refer to the list of top 20 shareholders.

Notices of Substantial Security Holdings as at 30 June 2010

Substantial security holder	Beneficial relevant interest	Beneficial interest %	Non-beneficial relevant interest	Combined interest %	Last Notice dated
NZOG Services Limited	119,031,670	29.41%	51,252,603	42.07%	21/05/2010
New Zealand Oil & Gas Limited	119,031,670	29.41%	51,252,603	42.07%	21/05/2010
Gujarat NRE Coke Limited	26,246,304	7.57%	102,637,600	37.16%	27/04/2009
Gujarat NRE Limited	26,246,304	7.57%	102,637,600	37.16%	27/04/2009
Saurashtra Fuels Private Limited	22,309,358	5.51%	119,031,670	34.92%	21/05/2010
Saurashtra World Holdings Private Limited	22,309,358	5.51%	119,031,670	34.92%	21/05/2010

Voting rights

Article 22.5 of the company's constitution provides that subject to any rights or restrictions for the time being attached to a share on a show of hands every shareholder present in person or by representative shall have one vote, and upon a poll, shall have one vote for each fully paid ordinary share held, and if not fully paid a fraction of a vote in accordance with the amount paid on each share held.

Options do not carry any voting rights. When they are exercised the resulting ordinary shares have the same voting rights as other ordinary shares, as detailed in the previous paragraph.

Current on-market share buy-backs

The company is not at the date of this Annual Report involved in an on-market buy-back.

Donations

During the year ended 30 June 2010 the company made donations and sponsorships to the value of $35,000.

General information

Place of incorporation

Pike River is incorporated in New Zealand, Companies Office number 114243.

New Zealand and Australian Stock Exchange Waivers

All waivers granted and published by the NZX and the ASX are set out in Pike River's website at www.pike.co.nz/regulatory_disclosures.php.

NZX Waivers

The following recent waivers have been granted by NZX Regulation:

(a) Waivers from NZSX Listing Rules 9.2.1 and 7.10.5 in relation to the underwriting of the 2010 rights issue equity raising by (among others) major shareholders of Pike River. Similar waivers were sought and obtained in relation to the company's previous pro-rata rights issues.

(b) A waiver from the requirement in NZSX Listing Rule 9.2.1 to obtain shareholder approval in respect of the negotiation of the price of coal payable to the company under the Coal Contract to arise upon exercise of the Coal Option Agreement between Pike River and New Zealand Oil & Gas Limited. Without this waiver, NZSX Rule 9.2.1 would require the company to seek shareholder approval of any annual (or other) price negotiated under the Coal Contract. This waiver will apply to negotiations with NZOG or any assignee of the Coal Option Agreement or Coal Contract (including if that assignee is a Related Party of the company for the purposes of the NZSX Listing Rules).

The conditions of the waiver are:

- the company must disclose this waiver, and its conditions, in each annual report that is issued by the company while it relies on this waiver;
- NZX must be provided with an independent report from an appropriately qualified person appointed by the company's independent directors, and approved by NZX, no later than 10 working days after agreement has been reached on the coal prices for:

  (i) each contract year (in relation to annual pricing); or

  (ii) the final quarter of each contract year (in relation to quarterly pricing);
  stating that the agreed prices for the contract year (in relation to annual pricing), or each quarter of the contract year (in relation to quarterly pricing), are considered to be commercial arm's length prices; and

- the company must provide NZX with a certificate from the company's independent directors, no later than 10 working days after:

  (i) agreement has been reached on the coal prices for each contract year (in relation to annual pricing), or for the final quarter of each contract year (in relation to quarterly pricing); and

  (ii) the independent appropriately qualified person has provided his/her report;

  that the agreed prices for the contract year (in relation to annual pricing), or each quarter of the contract year (in relation to quarterly pricing), are considered to be commercial arm's length prices.

(c) A waiver from NZSX Listing Rule 9.2.1 in relation to the 2010 short-term loan facility provided by NZOG to the company.

ASIC relief

The Australian Securities and Investments Commission granted a modification of section 708A of the Corporations Act 2001 (Cth) to allow the on-sale of shares issued on conversion of the NZOG Convertible Bonds without disclosure under Chapter 6D of the Corporations Act.

Material Terms of Coal Offtake Agreements

Pike River has coal supply or "off-take" agreements with several parties comprising;

- Gujarat NRE Coal (NSW) Pty Limited ("GNCPL")– 40% of production for life of mine
- Saurashtra Fuels Private Limited ("Saurashtra") – 15% of production for life of mine with the option to take up to an additional 5% for life of mine
- Two Japanese steel mills – 22% of production for the first three years
- NZOG – Coal Option Agreement if and when exercised to take up to a maximum of all uncontracted coal production from 28 February 2010 to 31 March 2013, and up to 30% of coal production thereafter.

Excluding the NZOG agreement the collective off-take agreements of Gujarat, Saurashtra and the Japanese steel mills represent 77% to 82% of coal production from the mine in the first three years and 55% to 60% of coal production for the remaining life of mine. Prices payable for coal are negotiated annually, or such as other period as mutually agreed, with reference to premium Queensland hard coking coal prices.

A summary of the material terms of the coal offtake agreements with Saurashtra and GNCPL is as follows:

- Saurashtra has agreed to purchase from Pike River 150,000 tonnes (+/- 10%) per annum of 1.2% sulphur hard coking coal for the life of the Pike River mine (the "Mine"); Saurashtra has also an option to purchase up to 100,000 tonnes per annum of 1.9% sulphur hard coking coal for the life of the Mine. In any delivery year if production from the mine is less than one million tonnes, the quantities will be reduced to equate (in aggregate) with a maximum total of 20% of Pike River Coal produced in that delivery year, recognising that the mix of products may, by agreement, change from year to year.

- GNCPL, an Australian subsidiary of Gujarat NRE Coke Limited (Gujarat), has agreed to purchase from Pike River 400,000 tonnes per annum (split equally between 1.2% sulphur and 1.9% sulphur products) for the life of the Mine. In any delivery year, if production from the Mine is less than one million tonnes, these quantities will be reduced so as to equate (in aggregate) to 40% of such production. The obligations of GNCPL under this agreement are guaranteed by Gujarat.

- The quantities of coal to be purchased by Saurashtra and GNCPL are subject to an annual variation of +/- 10% at the coal buyer's option and in respect of GNCPL an annual variation of +/- 10% at GNCPL or the company's option. Prices are to be agreed annually by reference to premium Queensland hard coking coal prices, save that the price paid by Saurashtra each year will be the lowest price paid by any independent third parties for contracted tonnage of Pike River hard coking coal during that year. In determining the price for GNCPL, the fact that GNCPL is a major purchaser of Pike River's coal is to be considered.

As Saurashtra, Gujarat and GNCPL are each a related party of Pike River for NZX Listing Rule purposes, the price payable under the respective coal offtake agreements is finalised annually, or on such other period as mutually agreed, between an independent director of Pike River and an independent director of Saurashtra, and Gujarat/GNCPL, respectively. None of Dipak Agarwalla (a director of both Pike River and Saurashtra), Arun Kumar Jagatramka (a director of both Pike River and Gujarat/ GNCPL or Sanjay Loyalka (an alternate director for A Jagatramka) take part in that process or any deliberations by the Pike River Board of directors concerning the annual review of the price relating to Saurashtra or GNCPL respectively. The price is subject to the independent directors of Pike River confirming that the price negotiated represents a commercial and arms' length price. Pike River, on an annual basis, seeks a waiver from NZX from the requirement to obtain shareholder approval of the reviewed prices under this agreement. In connection with each such waiver application, Pike River provides NZX with an independent report regarding the fairness of the reviewed price.

NZX has granted Pike River a waiver from Rule 9.2.1 in respect of the renegotiation of the price payable under the Coal Offtake Agreements for the supply year commencing 1 April 2009 on the condition that:

(a) The MinAxis Pty Limited independent Report ('MinAxis Report') is released to the market upon the announcement of the waiver being granted. (This has been done and both the waiver, and the MinAxis Report are set out in Pike River Coal's website at www.pike.co.nz/regulatory_disclosures.php)

(b) Details of the Coal Offtake Agreements are disclosed in any offering document or prospectus that Pike River issues during the period it seeks to rely on this waiver; and

(c) Pike River discloses the details of the Coal Offtake Agreements and terms of the waiver in each of its annual reports for the period it seeks to rely on this waiver.

Pike River made its first shipment comprising 19,042 tonnes of premium hard coking coal to GNCPL in February 2010. Regular coal export shipments are expected to commence following the commencement of hydro-mining in September 2010.

Material Terms of the NZOG Convertible Bonds

The NZOG Convertible Bonds have the following material terms:

(a) **Maturity date:** The Bonds are repayable on 12 March 2012.

(b) **Issue price:** The Bonds are issued at 100% of their face amount being US$28.9 million.

(c) **Interest:** Interest is paid at a rate of 10% per annum, payable quarterly in arrears.

(d) **Security and ranking:** The Bonds are first ranking secured debt securities of the company which rank for payment pari-passu with other debt providers of up to NZ$20 million.

(e) **Conversion:** The Bonds are convertible at the option of NZOG or any subsequent holder of the Bonds, in whole or in part (and if in part with an aggregate face value of at least US$500,000), at any time after issue into that number of fully registered and freely tradable ordinary shares of the company calculated as (i) the outstanding principal amount of the Bonds (US$28,900,000) divided by (ii) the conversion price for the Bonds (Conversion Price).
The Conversion Price which currently applies is US$0.84760709.

At the Conversion Price of US$0. 84760709 the maximum principal amount of the Bonds of US$28,900,000 would convert to 34,095,987 shares in the company.

At the current exchange rate of approximately NZ/US $0.70 the Conversion Price of US$0. 84760709 converts to an issue price of NZ$1.21. The table below shows the NZ$ equivalent of the US$ Conversion Price of US$0. 84760709 at various different exchange rates.

Table 1: Pike River Share Price upon Bond Conversion at Differing Exchange Rates

	NZ/US$ Exchange Rates	Share Price NZ$
	0.6000	1.41
	0.6500	1.30
	0.7000	1.21
	0.7500	1.13
	0.8000	1.06
Original Rate	0.8028	1.06
	0.8500	1.00

The Conversion Price is adjusted for subsequent issues of securities as detailed in paragraph (f) below.

The Company will make such applications as are required to effect the listing on the NZSX and ASX of the shares issued on conversion of the Bonds.

(f) **Protection from dilution:** Should the company make subsequent issues of securities prior to conversion of the Bonds, and the US$ equivalent of the consideration per share for the issue is less than the Conversion Price, then the Conversion Price will be adjusted downwards to incorporate this discount. Future anti-dilution adjustments are made from the adjusted Conversion Price.

Similarly, if options or convertible securities are issued, and the consideration which would be payable for shares issued at the time of their exercise or conversion is below the Conversion Price (as adjusted), the Conversion Price will be adjusted downwards to incorporate this discount.

For the purposes of calculating the dilution adjustment, any New Zealand dollar amounts (e.g. for the price of newly issued shares) are converted to US$ using the set exchange rate of US/NZ$0.80275 (Pre-determined Rate). This rate was set at the time of the issue of the bonds under the Liberty Harbor Bond Facility (Liberty Harbor Bonds) in March 2008. Translating the Conversion Price which currently applies of US$0. 84760709 at the Pre-determined Rate of US/NZ$0.80275, results in NZ$1.06 as the current share price below which anti-dilution protection applies.

The example below illustrates how the adjustment formula would operate assuming an equity issue of NZ$50 million at a hypothetical issue price of $0.90 (which converts to US$0.7225 at the Pre-determined Rate).

(Number of shares now on issue x Conversion Price) + (Number of additional shares issued x the relevant issue price of those additional shares converted to US$ at the Pre-determined Rate) divided by the total number of shares on issue after the equity issue.

$$\frac{((405.3\text{m} \times \text{US\$}0.84760709) + (55.6\text{m} \times \text{US\$}0.7225))}{(405.3\text{m} + 55.6\text{m})} = \text{US\$}0.83251$$

The adjusted Conversion Price of US$0.83251 translates (at the Pre-determined Rate) to NZ$1.04, which would be the new NZ dollar price below which anti-dilution protection would be triggered.

(g) **Redemption at maturity:** To the extent that a Bondholder has not converted the Bonds by the end of the term, the company will redeem the outstanding Bonds at maturity at 100% of the outstanding principal amount of the Bonds plus any accrued and unpaid interest in respect thereof. The redemption payment must be made in US$.

(h) **Rights to vote or participate in distributions and subsequent issues:** The Bonds do not carry any rights to attend and vote at meetings of shareholders or to participate in dividend payments and distributions of the company except as stated below. However, all of the Bonds which are converted into ordinary shares in the company will rank equally in all respects with all other shares then on issue, conferring the same rights to attend and vote at any meeting of shareholders and the right to share in dividends and other distributions of the company. The Conversion Price will be adjusted to reflect the impact of any such dividend or distribution.

The Bonds will be entitled to participate in any subsequent issue of options, shares, convertible securities or other rights (or any transaction which involves the exchange of securities or other assets or shares) which apply to holders of shares, but such participation by Bonds will be deferred to and conditional on the Bondholder exercising its conversion right. Any such entitlements which have accrued to the bonds issued under the Liberty Harbor Facility, or accrue up to the date of redemption of those bonds, will apply to (and be inherited by) the Bonds also. Entitlements are determined by reference to the entitlements that accrue to the number of shares that the Bondholder would receive on conversion together with the number of shares the Bondholder is entitled to under previous entitlements.

(i) **Covenants:** The Bonds will be issued on terms and conditions which include a number of conditions and covenants which are common to facilities of this nature. They include covenants relating to financial ratios, including debt service cover ratios, and the ongoing assessment of budgeted cashflows. A breach of certain covenants will amount to an event of default that will entitle the majority holders of the Bonds to give notice to the company making the Bonds immediately due and payable. A failure to comply with certain financial ratios constitutes a review event in respect of which the majority holders of the Bonds may give notice to the company requiring the parties to enter into negotiations with a view to agreeing the terms on which the Bondholders are willing to continue making the Bonds available to the company. If, after 30 days from the date of the occurrence of the review event, the parties have not agreed upon any such terms, the majority holders of the Bonds may, by notice to the company, declare the Bonds to be immediately due and payable. At any time while an event of default subsists the applicable interest rate on the Bonds is increased to 12% per annum.

(j) **Access rights:** NZOG's employees, agents and consultants have access to the company's offices and facilities during normal business hours, on reasonable advance notice, for the purpose of inspecting operations and records during the term of the Bonds. The company is to provide all reasonable assistance.

Summary of the Terms & Conditions of Pike River 2011 Options

(a) Each Option entitles the Optionholder to subscribe for and be allotted one ordinary Share in the capital of Pike River, credited as fully paid, at $1.25.

(b) Options are exercisable by the Optionholder lodging with the share registrar a notice in writing of exercise of Options together with payment of $1.25 per Option to be exercised.

(c) Options can be exercised at any time on or prior to 5.00pm on 24 April 2011 (Option Expiry Date). Any Option not exercised prior to the Option Expiry Date will automatically lapse at that time.

(d) Notices of exercise and the corresponding funds lodged with the share registrar will be held until the end of each month and, with the exception of April 2011, the corresponding number of new ordinary shares will be issued on the first day of the following month upon which the ASX and/or NZSX is/are open for trading. Notices of exercise and the corresponding funds lodged with the share registrar during April 2011 will be held until the Option Expiry Date and the corresponding number of new ordinary shares will be issued on the next day upon which the ASX and/or NZSX are/is open for trading. Interest will not be payable on funds for the time period between lodgement with the share registrar and allotment of the new ordinary shares.

(e) Options may only be exercised if:

  (i) the number of Shares that are to be issued as a consequence of such exercise, when aggregated with the number of ordinary shares that are held by the Optionholder at the time of exercise of the Options, constitute a minimum holding for the purposes of the NZSX Listing Rules and ASX Listing Rules (if applicable); and

  (ii) the aggregate exercise price of the Shares that are to be issued to the Optionholder as a consequence of such exercise, amounts to at least $5,000 unless the Optionholder is exercising the balance of the Options they hold.

(f) Pike River will allot Shares on the exercise of the Options in accordance with the New Zealand Companies Act, the NZSX Listing Rules and the ASX Listing Rules (if applicable).

(g) Options do not carry any right to dividends. Shares issued on the exercise of Options will participate in dividends declared after the date of exercise and will otherwise rank equally in all respects with the Shares in the capital of Pike River on issue at the date of exercise of the Options. Pike River will ensure that any future record date for entitlements to a dividend payment will be set so as to provide Optionholders with a reasonable period of time in which to exercise their Options prior to that record date.

(h) Options may be transferred at any time on or prior to the Option Expiry Date.

(i) Options are transferrable on any common form of transfer. The Board has the same powers in respect of the registration of transfers of Options as it has in respect of Shares.

(j) If Pike River makes any bonus issues of Shares (but not other securities) prior to the expiry or exercise of the Options, the Optionholders will be entitled to participate in such issue on the same basis as holders of Shares, but only upon the exercise of their Options. The entitlements of Optionholders will be determined as if the Options had been exercised immediately prior to the date at which entitlements to the bonus issue are determined.

(k) Optionholders will be offered participation in all new cash issues of capital and securities of Pike River or of any other company, which are offered pro rata to shareholders of Pike River, on the same basis as the holders of Shares. The entitlement of Optionholders shall be calculated as if their Options had been exercised immediately prior to the applicable record date for that issue.

(l) In the event of any reorganisation, other than a bonus issue per paragraph (j) above or any other issue of new securities (including consolidation, subdivision or cancellation) of the share capital of Pike River on or prior to the Option Expiry Date, the number of Shares to which each Optionholder is entitled upon exercise of the Options and/or the $1.25 exercise price will be adjusted as permitted or required by the NZSX Listing Rules and ASX Listing Rules, as applicable, but on the basis which will not result in any additional benefits being conferred on Optionholders which are not conferred on Shareholders.

(m) Optionholders will receive such reports, financial statements, and notices as are sent to Shareholders. Optionholders may attend but not vote at general meetings of Shareholders.

(n) Subject to the NZSX Listing Rules and the ASX Listing Rules, as applicable, the rights and obligations attaching to Options can only be altered by special resolutions of Optionholders and Shareholders, respectively.

Liberty Harbor LLC Unlisted Options

The company has issued 2.5 million unlisted options to Liberty Harbor LLC at a price of $1.10. These options can be exercised at any time during the period of two years ending 1 May 2012. These options represent a "standstill fee" and guaranteed Pike River's right to early redemption of the Liberty Bonds which would otherwise rely upon the company's share price not exceeding certain limits.

Takeovers Code and Overseas Investment Act

Takeovers Code exemptions granted by the Takeovers Panel are set out in Pike River's website at www.pike.co.nz/regulatory_disclosures.php.

Takeovers Panel Exemption

During 2010 the Takeovers Panel approved the granting of exemption relief in relation to certain requirements of the Takeovers Code which were not able to be met in seeking shareholder approval. This relief is set out in the Takeovers Code (Pike River Coal Limited) Exemption Notice 2010 (Exemption Notice 2010) available in Pike River's website.

It is a condition of the Exemption Notice 2010 that the total percentage of voting rights in Pike River held or controlled by the NZOG Group and its associates must not exceed 55%. 55% is in excess of the maximum of 50.35% of voting rights in Pike River that could be held by the NZOG Group and its associates in various hypothetical situations. This is designed to provide some flexibility to Pike River in the management of its capital on an ongoing basis.

In recognition of this effective maximum of 55% of voting rights, Pike River has undertaken to NZOG that it will not take any action during the term of the NZOG Convertible Bonds (unless agreed with NZOG) that could cause NZOG and its associates' percentage holding of voting rights in Pike River to exceed 55% as a consequence of it exercising rights attaching to the NZOG Convertible Bonds and exercising all of its Options.

Statement Relating to Shares Allotted to NZOG

Under the Exemption Notice 2010, the company is required to state the following information as at 30 June 2010:

(i) The number of voting securities allotted to NZOG on the exercise of NZOG's 2011 options: nil

(ii) The number of voting securities allotted to NZOG pursuant to the terms of the Convertible Bonds: nil

(iii) The total percentage of the voting rights on issue held or controlled by NZOG and its associates (both individually and in aggregate):

NZOG - 29.39%
Gujarat - 7.14%
Saurashtra - 5.51%
NZOG and Associates - 42.04%

(iv) The maximum percentage* of voting rights that could be held or controlled by NZOG and its associates on the exercise of their 2011 options and all conversion rights:
NZOG - 39.51%
Gujarat NRE - 6.12%
Saurashtra Fuels - 4.72%
NZOG and Associates - 50.35%

**Assumes that NZOG is the only option holder exercising 2011 options.*

Potential Associates

In seeking Takeover Panel relief it was necessary to consider the possibility that Gujarat and Saurashtra might be associates of NZOG for the purposes of the Takeovers Code since, if they are, then not only NZOG, but also Gujarat and Saurashtra, would be prohibited from increasing their shareholding in the company, otherwise than in accordance with the Takeovers Code.

At the time of the company's initial public offering (IPO), the company's three major shareholders, NZOG, Gujarat and Saurashtra had entered into subscription agreements with the company (full details of which are set out in the IPO prospectus dated 5 June 2007). As part of these agreements NZOG and Gujarat each agreed to support the appointment and any reappointment of one nominee of the other party as a director of the company. Separately, NZOG and Saurashtra each agreed to support the appointment and any reappointment of the other party as a director of the company. In addition, NZOG and Saurashtra recorded a commitment to grant each other a first right of refusal over their shares in the company. As a result, NZOG has disclosed that it has a "relevant interest" in Gujarat and Saurashtra's shares in the company in terms of the Securities Markets Act 1988.

The question whether parties are "associates" for the purposes of the Takeovers Code is different to the question of "relevant interests". Rule 4(1) of the Code provides that a person is an associate of another person if:

(a) the persons are acting jointly or in concert;

(b) the first person acts, or is accustomed to act, in accordance with the wishes of the other person;

(c) the persons are related companies;

(d) the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates;

(e) the first person is an associate of a third person who is an associate of the other person (in both cases under any of the paragraphs (a) to (d)) and the nature of the relationships between the first person, the third person, and the other person (or any of them) is such that, under the circumstances, the first person should be regarded as an associate of the other person.

As indicated above, in the event that Gujarat and Saurashtra are treated as associates of NZOG, then the result is that none of them can increase its shareholding in the company otherwise than in accordance with the Takeovers Code, since each of them (together with the other two) would hold more than 20% of the voting rights in the company.

The company considers that Gujarat and Saurashtra are not associates of NZOG, but in case there was any doubt, presented information to shareholders about the potential impact of approving the resolutions subject of the shareholders meeting on 7 May 2010 on the basis that they may be associates. In order to address any doubt, each of Gujarat and Saurashtra did not vote on the resolutions at the 7 May shareholder meeting.

Limitations on the Acquisition of Securities

Limitations on the acquisition of securities imposed by the jurisdiction in which Pike River is incorporated (New Zealand) are:

- In general, securities in the company are freely transferable and there is no limitation other than the requirements of the Takeovers Act 1993 and the related Takeovers Code, and New Zealand laws relating to overseas investment and competition
- The Takeovers Code creates a general rule that the acquisition of more than 20% of the voting rights in the company, or the increase of an existing holding of 20% or more of the voting rights of the company, can only occur in certain permitted ways (subject to exemptions granted – refer to the above-mentioned Exemption Notice 2010). These include a full takeover offer or a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution of shareholders, a creeping acquisition (in certain circumstances), or a compulsory acquisition if the shareholder holds 90% or more of the shares in the company

- The Overseas Investment Act and various Overseas Investment Regulations regulate certain investment in New Zealand by overseas persons
- The Commerce Act is likely to prevent a person from acquiring shares in the company if the acquisition would have or would be likely to have the effect of substantially lessening competition in a market.

Transaction Restrictions

As a term of the 2009 Rights Issue Offer the Pike River Board agreed to place an expenditure cap on Pike River for items unrelated to the development and operation of the mine. In this regard Pike River will not, without the prior consent of an ordinary resolution of its shareholders, undertake (whether through one transaction or a series of related or unrelated transactions) any expenditure the value of which, in aggregate, exceeds $10 million and is not used in connection with the ordinary course of business in developing and operating the mine. This restriction will remain in place from 16 March 2009 until such time as Pike River has returned $30 million to its shareholders by way of distributions.

Corporations Act 2001 (Australia)

Pike River is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (including substantial holdings and takeovers).

Directors
John Dow
Non Executive Chairman
Gordon Ward
Managing Director
Raymond Meyer
Dipak Agarwalla
Arun Jagatramka
Stuart Nattrass
Tony (RA) Radford
Sanjay Loyalka
(alternative for A Jagatramka)

Management
Gordon Ward
Chief Executive
Peter Whittall
General Manager Mines
Angela Horne
Financial Controller
Helene Ambler
Relationships Manager
Brian Roulston
Company Secretary

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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; or

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Investors should register at: 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 Financial Review was printed using mineral free vegetable based inks on 100% post-consumer waste recycled 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 Financial Review which is a companion document to the company's Annual Review 2010 document. Together these documents form the Annual Report of Pike River Coal Limited for the year ended 30 June 2010.

Both this document and the Annual Review 2010 document are available for you to view electronically or download by visiting www.pike.co.nz/reports at any time.

PIKE RIVER COAL

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