



PIKE RIVER COAL LIMITED

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Friday 7 May 2010

Pike River Coal Limited (the Company) gives you notice that a special meeting of shareholders will be held at The Wellesley Hotel, 2-8 Maginnity Street, Wellington, New Zealand, commencing at 5.30pm (Wellington time) 3.30pm (Sydney time) on 7 May 2010.

The Explanatory Notes which accompany this Notice of Meeting set out the details of the transactions which are the subject of the resolutions and the approval required for each resolution by the shareholders of the Company pursuant to the NZSX and ASX Listing Rules, the Companies Act 1993, the constitution of the Company and the Takeovers Code Approval Order 2000 (**Takeovers Code**).

ORDINARY BUSINESS

The business of the meeting will be to consider and, if thought fit, to pass the following ordinary resolutions:

1. Issue of Convertible Bonds

"Subject to Resolutions 2 and 3 below being passed, that, for the purposes of NZSX Listing Rules 7.3.1, 7.5 and 9.2.1, and ASX Listing Rules 7.1 and 10.1, the Board is authorised during the 3 months following the date of this Resolution to issue convertible bonds to New Zealand Oil & Gas Limited (NZOG) for a face value of up to US\$28,900,000 on the terms set out in the accompanying Explanatory Notes (Bonds)."

2. Issue of shares on conversion of the Bonds

"Subject to Resolution 1 above and Resolution 3 below being passed, that, for the purpose of Rule 7(d) of the Takeovers Code, the Company approve the allotment to NZOG of new ordinary shares in the Company at any time on or before 30 April 2012 on, or pursuant to, the exercise of the rights attaching to the Bonds, on the terms set out in the accompanying Explanatory Notes."

3. Coal Option Agreement

"Subject to Resolutions 1 and 2 above being passed, that, for the purposes of NZSX Listing Rule 9.2.1 and ASX Listing Rule 10.1, shareholders ratify, confirm and approve:

- (a) the entry by the Company into an agreement whereby the Company grants NZOG an option (**Option**) to purchase:
 - (i) for the period from 23 February 2010 until 31 March 2013, up to 100% of the Company's currently uncontracted coal production from the Company's Pike River Mine; and*
 - (ii) for the period from 1 April 2013 for the remainder of the Company's Pike River Mine life, up to 30% of the annual coal production from the Company's Pike River Mine;**
 - (b) the exercise of the Option (including entering into the coal contract (**Coal Contract**) to arise from the exercise of the Option) by NZOG or any other party to whom NZOG assigns the Option; and*
 - (c) any transfer or assignment by NZOG of the Option or the Coal Contract,*
- all on the terms set out in the accompanying Explanatory Notes."*

By order of the Board

John Dow

Chairman

19 April 2010

Appraisal Report/Independent Expert's Report & Independent Adviser's Report

Additional information is included in the Appraisal Report/Independent Expert's Report & Independent Adviser's Report prepared by Campbell MacPherson Limited which is attached to this Notice of Meeting on page 19.

Please Note

1. If you wish to exercise your vote for the **resolutions by proxy** please refer to the Notes of the Proxy form, and use the enclosed proxy form.
2. If you are **attending the meeting in person**, please advise us by email to kathrynw@pike.co.nz, or by facsimile +64 4 494 0219 or free phone 0800 494 021.

EXPLANATORY NOTES

Explanatory Notes on the resolutions are set out below.

All Resolutions are ordinary resolutions. An ordinary resolution is a resolution passed by a simple majority of votes of shareholders of the Company entitled to vote and voting.

Directors' recommendation

The Directors able to vote (Messrs Radford and Meyer not being able to vote) unanimously recommend that you vote in favour of the resolutions.

Appraisal Report/Independent Expert's Report/Independent Adviser's Report

NZSX Listing Rule 9.2.5 requires each of the Resolutions to be accompanied by an Appraisal Report, which is attached to this Notice of Meeting. The Appraisal Report has been prepared by Campbell MacPherson Limited (**Campbell MacPherson**).

The Appraisal Report also serves as:

- (a) a report on the transaction, comprising:
 - the issue of the Bonds, that are convertible to shares in the Company on an agreed basis; and
 - the granting of the Option, which on exercise in accordance with its terms is converted to the Coal Contract, from an independent expert for the purposes of Resolutions 1 and 3 and the requirements (in relation to Resolutions 1 and 3) of ASX Listing Rules 10.1 and 10.10; and
- (b) an Independent Adviser's Report for the purposes of Resolution 2 and the requirements (in relation to Resolution 2) of the Takeovers Code.

In their report, Campbell MacPherson reach the following conclusion in relation to the Bonds and the Option (collectively, the **Proposed Transaction**):

"In our opinion, taking into account all of the relevant factors, the Proposed Transaction (including the terms and conditions) are fair and reasonable to all the shareholders and optionholders of the Company (excluding NZOG and its appointees to the Board of the Company) and are in the best interests of Pike River."

References to NZOG

References to NZOG in Resolutions 1 and 2 (and the accompanying notes on those resolutions) refer to NZOG or any wholly owned subsidiary of NZOG which subscribes for or holds the Bonds (including, without limitation, NZOG 38483 Limited).

References to NZOG in Resolution 3 (and the accompanying notes on that resolution) refer to NZOG or any wholly owned subsidiary of NZOG which is nominated to enter into the Option or the Coal Contract (including, without limitation, NZOG 38494 Limited).

Determination of entitlement to vote

The Board has determined that, for the purpose of the meeting, shares will be taken to be held by persons registered as shareholders as at 5.30pm Wellington time (3.30pm Sydney time) on 7 May 2010.

Voting exclusion statement

The Company will disregard any votes cast on the Resolutions by NZOG (which currently holds (itself and through subsidiaries 29.52% of the voting rights in the Company) and those persons who are associates of NZOG.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Accordingly, shareholders will be entitled to vote at the meeting if they are a registered shareholder of the Company at 5.30pm Wellington time (3.30pm Sydney time) on 7 May 2010. This means that transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Proxies and representatives

Shareholders may exercise their right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in their place. A proxy can be any person of the shareholder's choice and does not have to be a shareholder of the Company. Shareholders who are not entitled to vote may be appointed as proxies, but may not be appointed as discretionary proxies. The Board has determined that NZOG and those persons who are associates of NZOG (including its directors) are the only persons who may not vote on the Resolutions. The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose. A body corporate shareholder may appoint a representative to attend the meeting on its behalf. A proxy form is enclosed with this notice.

If you wish to vote by proxy you must complete the form and produce it to the Company by delivering it to the Company's Share Registrar, Computershare Investor Services Ltd, or by lodging it through the Internet as provided in the Proxy Form. In all cases, the proxy must be received no later than 48 hours before the meeting is due to begin (i.e. before 5.30pm Wellington time on 5 May 2010).

The proposed resolutions are ordinary resolutions that require the support of a simple majority of votes by those shareholders entitled to vote and voting.

Background to Resolutions

On 24 February 2010, the Company announced:

- (a) an intention to make an equity issue of ordinary shares (**Equity Raising**) to raise approximately NZ\$50 million (subsequently determined by the Board of the Company to be undertaken by a NZ\$10 million placement (**Placement**) and a NZ\$40 million rights issue (**Equity Issue**));
- (b) a conditional agreement with its major shareholder – NZOG – to subscribe to up to US\$28.9 million of new convertible bonds (**Bonds**) to refinance the existing Liberty Harbor bond facility (**Liberty Harbor Facility**), with conditions including shareholder approvals; and
- (c) the grant of an option to NZOG to purchase the Company's coking coal (**Coal Option Agreement**) at market prices negotiated annually or at such other intervals as may be agreed for amounts that:
 - (i) for the period from 23 February 2010 until 31 March 2013, are up to the total part of the annual coal production of the Company's Pike River Mine that was not (as at 23 February 2010) contractually committed to any other party; and
 - (ii) for the period from 1 April 2013 for the remainder of the Company's Pike River Mine life, are up to 30% of annual coal production from the Company's Pike River Mine.

The issue of the Bonds and the Coal Option Agreement are each conditional, among other things (see 'Bonds and Coal Option Agreement Conditions' below), upon successful completion of the Equity Raising and approval of Resolutions 1, 2 and 3 by the Company's shareholders. The issue of the Bonds and the Coal Option Agreement are interdependent, such that neither proceeds without the other. All conditions must be satisfied or waived by 30 June 2010. If the issue of the Bonds and the Coal Option Agreement were not to proceed, then a break fee of NZ\$1.2 million is payable to NZOG. Legal and other costs (excluding NZOG internal costs) currently estimated at \$330,000 are also payable to NZOG, whether the Bonds and the Coal Option Agreement proceed or not.

Equity Raising

The Placement and Equity Issue are to provide working capital to complete the Company's underground mine development until steady state production from hydro-monitor mining is achieved. It will include a substantial cash buffer of approximately NZ\$18 million to ensure additional operational flexibility during the build up to normal production levels. Hydro-monitor mining using high pressure water to cut coal is the main mining technique the Company will use and is scheduled to be underway during the July-September quarter 2010.

NZOG, which holds 29.52% of the voting rights in the Company, has agreed to support the Equity Raising to the extent of its existing equity interest in the Company, subject to the Equity Raising being fully underwritten. NZOG will take 29.52% of the Placement, and a slightly lesser 28.69% of the Rights Issue (on account of it having a slightly lesser interest in the Company's options expiring April 2011 (**2011 Options**)), the holders of which do not participate in the Placement but do participate in the Rights Issue.

Gujarat, one of the Company's other major shareholders, with 7.55%, has also agreed to support the Equity Raising to the extent of its existing equity interest in the Company, subject to the Equity Raising being fully underwritten.

In return for its underwriting commitment in relation to the Equity Raising, each of NZOG and Gujarat is to receive an underwriting fee equal to 2% of the amount raised from it under the Equity Raising (including the Placement).

In return for facilitating the Equity Raising, NZOG is to receive a facilitation fee equal to 1.5% of the amount raised from it under the Equity Raising (including the Placement).

The underwriting and facilitation fees referred to above will be paid at the same rates as are paid to other lead underwriters and lead managers, respectively, in respect of the portion of the Equity Raising they are to underwrite and manage.

Bonds

The Bonds will mature in March 2012 and have the same initial conversion price and other conversion rights as apply to the existing bonds issued under the Liberty Harbor Facility at the time of their redemption and the same anti-dilution mechanism (which is detailed at paragraph (h) of 'Terms of the Bonds' in the Explanatory Notes to Resolution 1).

1 The Equity Issue will be made in accordance with a New Zealand simplified disclosure prospectus which will be sent to eligible shareholders and will be made available to be viewed on-line at www.pike.co.nz. If eligible shareholders wish to participate in the Equity Issue, they will need to complete the application form accompanying the simplified disclosure prospectus.

Coal Option Agreement

The Coal Option Agreement will not impact on existing coal contracts with Indian and Japanese customers. During the option period set out in the Coal Option Agreement the Company would still be able to sell into the spot market.

In the Company's announcement made on 24 February 2010, Chairman John Dow said "The independent directors have carefully weighed up the merits of NZOG's funding proposal and compared it to market alternatives. There are a number of advantages with the terms of the new convertible bond including a much better conversion price than alternatives thus minimising equity dilution, no production condition, slightly lower interest at 10% and no establishment fees. In our view this adequately compensates Pike River for the grant of the coal contract option."

He also said "An independent expert report on the proposed new bond and coal contract option will be provided to Pike River shareholders in connection with the shareholder approvals to be sought in relation to those transactions at a special meeting expected to be held in the next 2 months".

Interim Funding

NZOG has agreed to provide interim funding of up to NZ\$15 million to the Company on commercial terms, to cover funding during the Equity Raising offer period. An initial drawing of \$3.5 million was made under this facility on 30 March 2010 (being \$3.050 million, plus \$450,000 to fund payment of the establishment fee payable under that facility). Further drawings are subject to the Company completing the Placement, entering into underwriting agreements for its Equity Raising, and obtaining any other consents required from its lenders. The amount of the initial drawing is repayable on the earlier of 30 April 2010 and \$3.5 million being received under the Placement. The repayment of NZOG may be effected by setting off amounts payable against the allotment of shares to NZOG under the Placement. The balance is repayable on the earlier of the receipt of proceeds of \$40 million under the Equity Issue, and 23 May 2010.

Bonds and Coal Option Agreement Conditions

The obligations of the Company and NZOG in respect of the issue of the Bonds and the Coal Option Agreement (but not in relation to the Equity Raising) are conditional upon (amongst other things) the following (**Conditions**):

- (a) the Company successfully raising NZ\$50 million under the Equity Raising by 23 May 2010;
- (b) the Company obtaining shareholder approval of the underwriting of the Equity Raising and payment of underwriting fees, to the extent required by NZSX Listing Rule 9.2 and any applicable ASX Listing Rules, or a waiver of that Listing Rule from NZX Limited (**NZX**) and of any applicable ASX Listing Rules from ASX Limited (**ASX**) in connection with that underwriting and those fees;
- (c) the Company obtaining shareholder approval for entry into the Bonds, for the purposes of NZSX Listing Rule 9.2 and any applicable ASX Listing Rules;
- (d) the Company obtaining shareholder approval under Rule 7 of the Takeovers Code (subject to any exemption relief provided by the Takeovers Panel) to allow NZOG or its assignee to convert the Bonds to ordinary shares at any time in accordance with the terms of the Bonds;
- (e) the Company obtaining all consents, approvals and waivers from Bank of New Zealand and any other party necessary to enable the Bonds to be issued and advanced in accordance with their terms;
- (f) the Company entering into all priority and step in arrangements with Bank of New Zealand and Solid Energy New Zealand Limited that are necessary in order for the Bonds to be first ranking secured debt of the Company ranking *pari passu* with other indebtedness of up to NZ\$20 million (including the Company's NZ\$10 million 12 month multi-option bank facility with Bank of New Zealand) on terms substantially the same as the existing priority and step in arrangements among the Company and its secured creditors, with all necessary changes, save that Bank of New Zealand's first equal ranking security priority amount in respect of the Multi Option Facility Agreement with the Company will include the additional amount of NZ\$5 million in respect of the forex liabilities (currently ranking after Bank of New Zealand's other debt and the Liberty Harbor Bond obligations) and Bank of New Zealand will no longer be a third ranking secured party for that NZ\$5 million;
- (g) the Company obtaining shareholder approval of Pike River entering into the Coal Option Agreement and the contract resulting from its exercise (Coal Contract) for the purposes of NZSX Listing Rule 9.2 and any applicable ASX Listing Rules, including future price setting under the Coal Contract (to the extent permitted by NZX);
- (h) the Company obtaining all consents from Bank of New Zealand and any other party necessary to commit the disposal of assets contemplated by the Coal Option Agreement and the Coal Contract;
- (i) the Company and NZOG obtaining such other approvals as are required under NZSX Listing Rules and ASX Listing Rules in order to comply with those Rules in relation to the Bonds, the Coal Option Agreement and the Coal Contract; and
- (j) such other approvals and consents necessary to be obtained by the Company and/or NZOG in order for Pike River and NZOG to enter into the Bonds, the Coal Option Agreement and the Coal Contract.

The issue of the Bonds and the Coal Option Agreement are interdependent, and neither is to be implemented unless the other is also implemented.

The Company and NZOG have agreed to use all reasonable endeavours to satisfy the Conditions by 30 June 2010, or such other date as is agreed between the parties. In the event that the Conditions are not satisfied or waived by 30 June 2010 or, in the case of Condition (a), 23 May 2010, the agreement between the Company and NZOG relating to the issue of the Bonds and Coal Option Agreement (other than the sections relating to costs and the break fee) will be at an end and neither party will owe any further obligations to the other in relation to the issue of the Bonds and the Coal Option Agreement. Note however that the Company will remain liable for the break fee and costs mentioned on page 3.

Rationale for the transactions

The Company's Directors (other than Messrs Radford and Meyer, who are directors of NZOG and have accordingly abstained from voting) unanimously recommend that shareholders vote in favour of the proposed Resolutions because they are of the opinion that:

- (a) the Company must refinance the Liberty Harbor Facility on or prior to 30 June 2010;
- (b) the purpose of the Bonds is to refinance the Liberty Harbor Facility;
- (c) compared to other possible refinancing alternatives, they consider there are a number of advantages to the terms of the Bonds, including a much better conversion price than alternatives thus minimising equity dilution, no production condition, a slightly lower interest rate at 10% per annum, and no establishment fees;
- (d) the conversion rights attaching to the Bonds are a key term of the Bonds;
- (e) if the conversion rights attaching to the Bonds are exercised, this will involve converting debt (i.e. the Bonds) to equity thus improving the Company's debt to equity ratio (i.e. debt will become a smaller proportion of equity); and
- (f) the advantages attaching to the terms of the Bonds (see paragraph (c) above) compensate the Company for the grant of the Coal Option Agreement which is a condition of the issue of the Bonds.

Reasons why shareholder approval is required

Shareholder approval is required for the transaction described in Resolution 1 on account of NZSX Listing Rule 7.3.1, which prevents the Company from issuing shares on conversion of the Bonds unless either:

- (a) shareholder approval is obtained for the precise terms and conditions of the specific proposal; or
- (b) the offer is made in accordance with a number of limited exceptions provided by NZSX Listing Rules 7.3.4 to 7.3.11.

NZSX Listing Rule 7.3.2 requires an issue approved by shareholders under NZSX Listing Rule 7.3.1 to be completed within 12 months. NZSX Listing Rule 7.3.11(b) allows shares to be issued on conversion of a bond (i.e. outside the 12 month limit just mentioned), if the bond was approved by shareholders on issue. Resolution 1 is proposed in accordance with this Rule, as the Bonds may convert outside the 12 month limit.

NZSX Listing Rule 7.5 also has potential application to the issue of the Bonds. NZSX Listing Rule 7.5 requires shareholder approval of an issue of securities if there is a significant likelihood that the issue will result in a person materially increasing their ability to exercise or direct the exercise of (either then or at any future time) effective control of an issuer. Although the position is uncertain, the Company has identified a risk that the shares to be issued on any conversion of the Bonds might materially increase the ability of NZOG to exercise, or direct the exercise of, effective control of the Company in the future. Accordingly, the Company has decided to seek shareholder approval of the issue of the Bonds on this ground, as a precaution.

Shareholder approval is also sought for the transaction described in Resolution 1 on account of ASX Listing Rule 7.1, which imposes a limit on the number of "equity securities" (which, for the purposes of the ASX Listing Rules, includes the Bonds) that a company can issue or agree to issue without shareholder approval, unless an exception in ASX Listing Rule 7.2 applies. Generally, a company may not, without shareholder approval, issue, in any 12 month period, more than 15% of the number of shares on issue 12 months before the date of the issue. None of the exceptions in ASX Listing Rule 7.2 apply to the issue of the Bonds. Approval of Resolution 1 for the purposes of ASX Listing Rule 7.1 allows the Bonds to be issued without detracting from the 15% limit and has the effect that the issue of the Bonds does not reduce the amount of the 15% limit available for other issues.

Approval of Resolutions 1 and 2 will constitute the necessary approval from shareholders to issue shares in the Company upon conversion of the Bonds.

Shareholder approval is also required for each of the transactions described in Resolutions 1 to 3 on account of NZSX Listing Rule 9.2.1 (**NZSX Rule 9.2.1**) and for the transactions described in Resolutions 1 and 3 on account of ASX Listing Rule 10.1.

NZSX Rule 9.2.1 requires shareholder approval of a Material Transaction if a Related Party is or is likely to become, a direct or indirect party to that Material Transaction, or to at least one of a related series of transactions of which the Material Transaction forms part.

Each of the transactions described in Resolutions 1 to 3 is a Material Transaction because:

- (a) in relation to Resolution 1, it involves the Company borrowing an amount in excess of 10% of the Company's average market capitalisation (calculated in accordance with the NZSX Listing Rules) and potentially issuing shares, on exercise of the conversion rights attaching to the Bonds, having a market value in excess of 10% of the Company's average market capitalisation;
- (b) in relation to Resolution 2, it involves the Company issuing shares on exercise of the conversion rights attaching to the Bonds having a market value in excess of 10% of the Company's average market capitalisation; and
- (c) in relation to Resolution 3, it involves the Company, if called upon under the Coal Option Agreement, to sell coal having a market value in excess of 10% of the Company's average market capitalisation.

"Related Party" is defined in NZSX Listing Rule 9.2.3 and includes any person who, at the time of a Material Transaction, is the holder of 10% or more of the Company's shares, or any person who is an "Associated Person" of the Company or of a director or executive officer of the Company. "Associated Person" is defined in NZSX Listing Rule 1.8.

Each of the transactions described in Resolutions 1 to 3 is with NZOG, which holds (itself and through subsidiaries) 29.52% of the voting rights attaching to shares in the Company and is therefore a Related Party of the Company under the NZSX Listing Rules for the purposes of each of these Resolutions.

ASX Listing Rule 10.1 requires shareholder approval of certain transactions with persons in a position to influence the Company, in particular, the acquisition or disposal of a "substantial asset" from or to a substantial holder who has a relevant interest in at least 10% of the total votes attached to ordinary shares of the Company. NZOG is a substantial holder of the Company.

Under ASX Listing Rule 10.2, an asset is a "substantial asset" if its value is 5% or more of the equity interests of the Company as set out in the latest financial statements given to ASX under the ASX Listing Rules. The Coal Option Agreement and the Coal Contract resulting from its exercise constitute a disposal of a "substantial asset" because the consideration payable under the Coal Option Agreement and the Coal Contract exceeds 5% of the equity interests in the Company. Under the Coal Option Agreement and the Coal Contract, NZOG may acquire the coal. Alternatively, NZOG may assign the Coal Option Agreement or the Coal Contract to another person. That person may also be a related party or a substantial holder of the Company (or another person to whom ASX Listing Rule 10.1 applies) at the time it acquires the coal. Accordingly, shareholder approval is sought for the purposes of ASX Listing Rule 10.1 in respect of the transactions described in Resolution 3.

As the Coal Option Agreement is part of the transaction comprised by the issue of the Bonds, shareholder approval is also sought for the purposes of ASX Listing Rule 10.1 for the transaction described in Resolution 1.

Each Resolution is dependant on each other Resolution being passed, so only if all Resolutions are passed will they be effective. For example, Resolution 1 is subject to shareholders also approving Resolution 2 for the purposes of Rule 7(d) of the Takeovers Code to allow NZOG to exercise the conversion rights attaching to the Bonds in compliance with the New Zealand Takeovers Code, and Resolution 3 relating to the Coal Option.

NZX waivers

NZX has granted the following waivers in relation to the transactions announced by the Company on 24 February 2010:

- (a) waivers from NZSX Listing Rule 9.2.1 and NZSX Listing Rule 7.10.5 in relation to the underwriting of the Equity Raising by (among others) major shareholders of the Company – similar waivers were sought and obtained in relation to the Company's previous two pro-rata rights issues (see NZX waivers dated 14 January 2007 and 16 March 2009);
- (b) a waiver from NZSX Listing Rule 9.2.1 in relation to pricing under the Coal Contract to arise upon exercise of the Coal Option Agreement between the Company and NZOG (see page 17 for further details); and
- (c) a waiver from NZSX Listing Rule 9.2.1 in relation to the Short-Term Loan Facility.

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

Resolution 1 – Issue Of Convertible Bonds

Requirement for Shareholder Approval

Shareholder approval is required for three reasons:

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

Shareholder approval is also being sought so that the Bonds can be issued without regard to the 15% limit described on page 5 and so that the issue of Bonds does not reduce the number of shares available under that limit for other issues.

Shareholder approval will not only permit the issue of the Bonds to NZOG, but will also permit NZOG or any other holder of the Bonds to exercise all rights in relation to the Bonds. The approval being sought would also enable NZOG or any other holder, on default and in exercise of its power of sale, to sell the property given as security for the Bonds to a third party. However, in exercise of its power of sale, NZOG could not purchase the secured property itself, unless it first obtained an additional approval from shareholders.

Terms of the Bonds

The Bonds will have the following key terms:

- (a) *Maturity date:* The Bonds are repayable on 12 March 2012.
- (b) *Latest date of issue and allotment:* The Bonds will be issued and allotted within three months after the date of the shareholders meeting approving the allotment.
- (c) *Issue price:* The Bonds will be issued at 100% of their face amount (i.e. up to US\$28.9 million). They will be denominated in integral multiples of US\$50,000 (i.e. up to 578 Bonds) and may only be transferred in face value amounts totalling in aggregate at least US\$500,000 or a holder's entire holding.
- (d) *Intended use of funds raised:* The intended use of the funds raised is detailed in the Background section of these Explanatory Notes.
- (e) *Interest:* Interest will be paid on the Bonds at a rate of 10% per annum, payable quarterly in arrears for the term of the Bonds.
- (f) *Security and ranking:* The Bonds will be first ranking secured debt securities of the Company which will rank for payment pari-passu with other debt providers of up to NZ\$20 million.
- (g) *Conversion:* The Bonds will be 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 would apply prior to the Equity Raising is US\$0.870376.

At the initial Conversion Price of US\$0.870376 the maximum principal amount of the Bonds of US\$28,900,000 would convert to 33,204,044 shares in the Company.

At the current exchange rate of approximately NZ/US \$0.70 the Conversion Price of US\$0.870376 converts to an issue price of NZ \$1.24. The table below shows the NZ\$ equivalent of the US\$ Conversion Price of US\$0.870376 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	1.4506
	0.6500	1.3390
	0.7000	1.2434
	0.7500	1.1605
	0.8000	1.0880
Original Rate	0.8028	1.0842
	0.8500	1.0240

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

- (h) *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.

Should the Company take any actions which result in the option price or rate of conversion of additional securities being altered and/or there is a capital reorganisation or payment of a dividend, the Conversion Price

is recalculated to reflect these changes. The discount formula, as set out below (in a simplified form), provides the Company with ongoing flexibility to issue equity securities if needed, while at the same time providing NZOG with protection from its investment in the Company being diluted by issues to other persons at less than the Conversion Price (as adjusted).

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 initial Conversion Price which applies prior to the Equity Raising of US\$0.870376 at the Pre-determined Rate of US/NZ\$0.80275, results in NZ\$1.08 as the current share price below which anti-dilution protection applies.

The Conversion Price of US\$0.870376 will be adjusted for the Equity Raising depending on the issue price of new shares. The following table shows the new Conversion Price that would apply based on theoretical differing New Zealand dollar Issue Prices which might apply for the Equity Raising and the number of Pike River shares which would be issued upon conversion of all the Bonds.

Table 2: Conversion Table for a NZ\$50 million Equity Raising

Theoretical Issue Price NZ\$	Theoretical Conversion		Convertible Bonds (US\$)	Number of Pike River Shares Issued Upon Conversion
	Price NZ\$			
0.90	1.059		28,900,000	33,990,765
0.85	1.051		28,900,000	34,263,103
0.80	1.041		28,900,000	34,569,483
0.75	1.031		28,900,000	34,916,714
0.70	1.019		28,900,000	35,313,549

The above table shows how the 33,204,044 shares that would be issued on conversion of the maximum principal amount of the Bonds is impacted by the Equity Raising at theoretical differing issue prices.

The example below illustrates how the adjustment formula would operate assuming an equity issue of NZ\$50 million at a hypothetical issue price of \$0.80 (the mid-range of the above Table 1) (which converts to US\$0.6422 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)

The total number of shares on issue after the equity issue

$$\frac{((347.6\text{m} \times \text{US}\$0.870376) + (62.5\text{m} \times \text{US}\$0.6422))}{(347.6\text{m} + 62.5\text{m})} = \text{US}\$0.83560$$

The adjusted Conversion Price of US\$0.83560 translates (at the Pre-determined Rate) to NZ\$1.041, which would be the new NZ dollar price below which anti-dilution protection would be triggered.

- (i) *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\$.
- (j) *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 Bond holder 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.

- (k) *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.

- (l) *Break fee and cost reimbursement:* If the issue of the Bonds and/or the Coal Option Agreement do not proceed, whether on account of the conditions to the issue of the Bonds and the Coal Option Agreement not being satisfied or waived by 30 June 2010 or otherwise, then a break fee of NZ\$1.2 million is payable to NZOG. The Company is also required to pay all legal fees and other costs (excluding NZOG internal costs) incurred by NZOG in connection with the Bonds, currently estimated to be NZ\$330,000.
- (m) *Access rights:* NZOG's employees, agents and consultants are to be given 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.

Refinance of Liberty Harbor Facility

The purpose of the Bonds is to refinance the Liberty Harbor Facility.

A condition of the Liberty Harbor Bonds is that the mine was to have achieved "first steady state production" by 30 November 2009. As a result of this condition not having been satisfied, Liberty Harbor, LLC acquired the right to declare a review event under the terms of the Liberty Harbor Bonds, but has not done so, and the Company and Liberty Harbor, LLC have now reached an agreement relating to the redemption of the Liberty Harbor Bonds.

Under the terms of this agreement, Pike River must repay the Liberty Harbor Bonds on or before 30 June 2010. The Company must also pay an early redemption fee that is to be satisfied by Pike River issuing Liberty Harbor LLC with options (see page 14).

In the event that the Company fails:

- (a) to redeem the Liberty Harbor Bonds in full on or before 30 June 2010; or
- (b) to secure any necessary shareholder approval or other necessary consent, waiver or approval required (excepting those required to be made by Liberty Harbor, LLC) in order for NZOG or its subsidiary to subscribe for the new Bonds or for the Company to conduct the proposed Equity Raising,

then Liberty Harbor, LLC will be entitled to give notice to the Company declaring the Liberty Harbor Bonds to be immediately due and payable, together with accrued interest and the early redemption fee referred to above. The Company is also obliged to indemnify Liberty Harbor, LLC against any losses due to the failure of the Company to redeem the Liberty Harbor Bonds on or before 30 June 2010.

Consequences of Resolution 1 Not Passing

If this resolution is not passed by shareholders the Company will be liable to NZOG for the fees and costs outlined above (on page 3) and will continue to seek funding from alternative sources. The Board will also be required to reconsider the position of the Equity Raising. It is likely that the effect of this resolution not being passed will be to increase the cost of obtaining the necessary funding, and, as outlined above, if the resolution is not passed the Liberty Harbor Bonds may become immediately due and payable.

More significantly, however, if this resolution is not passed, and Liberty Harbor, LLC gives notice declaring the Liberty Harbor Bonds to be immediately due and payable, then the financial viability of the Company would be severely compromised since, in that circumstance, it would be difficult for the Company to find alternative funding, even at an increased cost, given that any potential funder would be asked to fund a mining company which is in default and still needing to complete the development of its mine.

Appraisal Report

The Company has engaged Campbell MacPherson to prepare an independent adviser's report on the Proposed Transaction.

Their report serves as an Appraisal Report for the purposes of NZSX Listing Rules 7.5 and 9.2.5, an Independent Expert's Report for the purposes of ASX Listing Rule 10.10, and an Independent Adviser's Report for the purposes of Rule 18 of the Code.

In their report, Campbell MacPherson summarise their view on the Proposed Transaction as follows:

- The terms of the Bonds (from Pike River's perspective) are, in aggregate, superior to the existing Liberty Harbor Bonds, superior to the proposed revised terms of the Liberty Harbor Bonds and superior to other financing alternatives available to the Company.

- Refinancing of the Liberty Harbor Bonds is an important step in maintaining the financial integrity of Pike River and minimising financial costs and risks associated with ongoing funding of mine development.
- The Directors (excluding Messrs Radford and Meyer) have extensively canvassed a wide range of funding options for the Company over the past six months and the Independent Directors of Pike River strongly recommend the issue of the Bonds and the Coal Option Agreement.
- The entry by Pike River into the Coal Option Agreement, while having an estimated value in the order of US\$1 million to NZOG, is outweighed by the net benefits to Pike River of the Bonds.
- The provision of an interim loan facility of \$15 million is beneficial to Pike River to provide working capital until such time as the Equity Issue is completed.
- The terms of the Coal Option Agreement provide for ongoing sale of uncontracted coal by Pike River on the spot market until the Option is exercised.
- The terms of the Coal Contract (resulting from exercise of the Option) currently outlined are, in our view, commercially sound and in line with other off-take agreements previously entered into by the Company.

Board Recommendation

The Company's Directors (other than Messrs Radford and Meyer, who are directors of NZOG and have accordingly abstained from voting) unanimously recommend that shareholders vote in favour of Resolution 1.

Resolution 2 – Issue Of Shares On Conversion Of The Bonds

Requirement for shareholder approval

NZOG's agreement to issue the Bonds is subject (among other things) to the Bonds having the conversion rights for which shareholder approval is being sought by Resolution 2.

Shareholder approval is required for the purposes of the Takeovers Code for the issue of shares in the Company on conversion of the Bonds. This is because, should NZOG exercise any conversion rights attaching to the Bonds, it will be increasing its voting rights in the Company but, because NZOG already holds more than 20% of the voting rights in the Company, it cannot increase its percentage of voting rights unless it does so in accordance with the Takeovers Code. Resolution 2 relates to this further shareholder approval.

Shareholders are being asked to vote on Resolution 2 for the purposes of Rule 7(d) of the Takeovers Code to allow NZOG to exercise the conversion rights attaching to the Bonds at any time up to the maturity date of the Bonds (12 March 2012), but with leeway to 30 April 2012 in case there is any delay in conversion.

Approval is not required under the ASX Listing Rules for the issue of shares on conversion of the Bonds.

Takeovers Code

The Company is a "code company" for the purposes of the Takeovers Code.

The effect of Rule 6 of the Takeovers Code is that a person who holds 20% or more of the voting rights in a code company may not obtain an increased percentage of the voting rights except in accordance with the provisions of the Takeovers Code.

NZOG currently holds (itself and through subsidiaries) 29.52% of the voting rights in the Company. NZOG also holds 17,266,132 options expiring April 2011 (**2011 Options**). Each 2011 Option gives NZOG the right to subscribe for one ordinary share in the Company at an exercise price of \$1.25 each. NZOG is restricted from increasing its voting percentage except in accordance with the Takeovers Code. NZOG can exercise the 2011 Options so long as it complies with the Takeovers Code (Pike River Coal Limited) Exemption Notice 2009. NZOG can only exercise conversion rights attaching to the Bonds if it complies with the Code by obtaining shareholder approval in the manner provided in the proposed Resolution 2.

If NZOG was to exercise all rights of conversion attaching to the Bonds at their maximum principal value (of US\$28.9 million) then, based on the Company's shares currently on issue, NZOG and its wholly-owned subsidiaries (NZOG Group) would hold 102,637,600 shares plus a further 33,204,044 shares (see page 7), making 135,841,644 shares out of a total 387,225,158, being 35.08% of the shares on issue.

However, the Bonds are subject to protection from dilution in various circumstances, in particular on account of further equity issues made at prices below the Conversion Price as explained on pages 7 and 8. The impact of any such dilution (including the impact of subscription rights, discussed on pages 12 to 14) increases the number of shares to be issued on conversion of the Bonds. The potential impact of the exercise of the 2011 Options and the conversion of the Bonds (based on assumptions that no account is taken of the Equity Raising and no "subscription rights" are exercised) is set out on page 12.

Potential Associates

It is also 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. It would also mean that, as associates of NZOG, Gujarat and Saurashtra would not be permitted to vote on the proposed Resolutions that are the subject of this Notice of Meeting.

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 section 10.1.16 of 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; or
- (c) the persons are related companies; or
- (d) the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates; or
- (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. Also, being associates of NZOG would mean that Gujarat and Saurashtra would not be permitted to vote on the proposed resolutions that are the subject of this Notice of Meeting.

The Company considers that Gujarat and Saurashtra are not associates of NZOG, but in case there is any doubt, is presenting information to shareholders about the potential impact of approving the resolution on the basis that they may be associates. In order to address any doubt, each of Gujarat and Saurashtra has advised the Company that it does not intend to vote on the proposed resolutions.

Takeovers Panel Exemption Relief Approved

The Takeovers Panel has approved the granting of exemption relief in relation to certain requirements of the Takeovers Code which cannot be met for the shareholder approval sought in this case. See the description of the proposed Takeovers Code (Pike River Coal Limited) Exemption Notice 2010 (**Exemption Notice**) below. It is a condition of this proposed exemption relief that the total percentage of voting rights in the Company held or controlled by NZOG Group and its associates must not exceed 55%. Hence 55% is an effective maximum which NZOG Group and its associates must comply with, in relying on the approval sought by Resolution 2.

In recognition of this maximum, the Company has undertaken to NZOG that it will not take any action during the term of the Bonds (unless agreed with NZOG) that could cause NZOG Group and its associates' percentage holding of voting rights in the Company to exceed 55% as a consequence of it exercising rights attaching to the Bonds and exercising all of its 2011 Options. 55% is in excess of the maximum of 50.47% shown on page 13 below as the maximum percentage of voting securities in the Company held by the NZOG Group and its associates in various hypothetical situations. This is designed to provide some flexibility to the Company in the management of its capital on an ongoing basis.

Information Presented to Comply with Exemption Notice

The following tables are presented in order to comply with the requirements of the Exemption Notice. The tables set out certain information relating to maximum numbers and percentages of voting securities that NZOG and its associates would hold on the exercise of all its 2011 Options and conversion of all the Bonds. The information is provided in relation to each of the events or combination of events listed in the table, on the assumption that it or they happen in isolation. In reality, it is likely that one or more of those events or combinations of events will occur in varying degrees. The assumptions on which the tables are presented, as required by the Exemption Notice are:

- (a) no holder of 2011 Options other than the NZOG Group (and its associates, in the case of the maximum percentage figures provided in the tables below for NZOG and its associates) exercises those options;
- (b) there is no change in the total number of voting securities in the Company on issue, other than through the exercise of 2011 Options and conversion of the Bonds (in other words, no account is taken of the Equity Raising and the impact it may have);
- (c) the Company does not take any action that causes or may cause the Conversion Price of the Bonds to change; and
- (d) no subscription rights are exercised. This refers to the rights NZOG will have under the Bonds to subscribe for issues of options, shares, convertible securities or other rights (or any transaction which involves the exchange of securities or other assets or shares) when it converts the Bonds. These rights are described further on page 13

below. In approving the allotment of shares to NZOG on the exercise of rights of conversion under Resolution 2, shareholders will also be approving the allotment of shares to NZOG under these additional subscription rights, and under any securities issued under these additional subscription rights.

Table 3: 2011 Options – shares to issue on exercise

Maximum No. of voting securities allotted to NZOG Group on exercise of 2011 Options	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and its associates post issue (if Gujarat & Saurashtra are not associates)	Maximum percentage of voting securities held by NZOG Group and its associates post issue (if Gujarat & Saurashtra are associates)
17,266,132	4.65%	32.29%	32.29%	45.37%

Table 4: Bonds – shares to issue on conversion

Maximum No. of voting securities allotted to NZOG Group on conversion of Bonds	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and its associates post issue (if Gujarat & Saurashtra are not associates)	Maximum percentage of voting securities held by NZOG Group and its associates post issue (if Gujarat & Saurashtra are associates)
33,204,044	8.57%	35.08%	35.08%	47.62%

Table 5: 2011 Options and Bonds – shares to issue on exercise/conversion

Maximum No. of voting securities allotted to NZOG Group on exercise of 2011 Options and conversion of Bonds	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and its associates post issue (if Gujarat & Saurashtra are not associates)	Maximum percentage of voting securities held by NZOG Group and its associates post issue (if Gujarat & Saurashtra are associates)
50,470,176	12.48%	37.85%	37.85%	49.86%

Impact of the Equity Raising and the subscription rights

The following two tables illustrate how the Equity Raising (in a sum of \$50 million), for a range of *theoretical* prices, would impact on the number of shares to be issued to the NZOG Group on conversion of all the Bonds. It provides an indication of the impact of the anti-dilution protection discussed above, including the exercise of subscription rights, and sets out the maximum shareholding of the NZOG Group in the Company, assuming NZOG converts all the Bonds to shares in the Company, exercises all subscription rights (including those arising out of the Equity Raising) and exercises all of its 2011 Options, but no other holder of 2011 Options exercises their options.

Table 6: Calculation of NZOG Group Entitlement to Pike River shares (after Equity Raising)

NZOG Group Shares	NZOG Group Options	NZOG Group's Total Securities	Theoretical Issue Price	Shares Issued	NZOG Group Entitlement under Equity Raising	NZOG Group Shares after Equity Raising (before Bond)
102,637,600	17,266,132	119,903,732	0.90	55,555,555	16,030,187	118,667,787
102,637,600	17,266,132	119,903,732	0.85	58,823,530	16,973,740	119,611,340
102,637,600	17,266,132	119,903,732	0.80	62,500,000	18,035,313	120,672,913
102,637,600	17,266,132	119,903,732	0.75	66,666,666	19,238,528	121,876,128
102,637,600	17,266,132	119,903,732	0.70	71,428,571	20,613,759	123,251,359

There are notes to Table 7-9 at the end of Table 9.

Table 7: Total Potential Shareholding of NZOG Group in Pike River (after Equity Raising)

NZOG Group Shares before Bond ¹	NZOG Group 2011 Options (only) are Exercised	Maximum Shares if Bonds Converted and Subscription Rights Subscribed ²	Total NZOG Group Shares	Total Shares	NZOG Group Shares as a %
118,667,787	17,266,132	50,435,455	186,369,374	477,278,256	39.05%
119,611,340	17,266,132	50,988,293	187,865,765	481,099,069	39.05%
120,672,913	17,266,132	51,610,236	189,549,281	485,397,482	39.05%
121,876,128	17,266,132	52,315,104	191,457,364	490,269,016	39.05%
123,251,359	17,266,132	53,120,667	193,638,158	495,836,484	39.05%

The tables below show the potential impact of the Equity Raising on NZOG associates' holdings. Gujarat and Saurashtra holdings are included in this table, on the basis that they are potential associates of NZOG. Note that the rows in the table correspond to the differing theoretical issue prices specified in table 6 above.

Table 8: Total Potential Shareholding of NZOG's Potential Associates in Pike River (after Equity Raising)

Gujarat & Saurashtra Shares	Gujarat & Saurashtra Entitlement under Equity Raising	Total Gujarat & Saurashtra Shares after Equity Raising	Total Shares	Gujarat & Saurashtra Shares as a %
48,555,662	5,951,254	54,506,916	477,278,256	11.42%
48,555,662	6,298,500	54,854,162	481,099,069	11.40%
48,555,662	6,688,788	55,244,450	485,397,482	11.38%
48,555,662	7,130,651	55,686,313	490,269,016	11.36%
48,555,662	7,635,036	56,190,698	495,836,484	11.33%

Note: Table 8 relates only to NZOG's potential associates. None of these people are to be issued with Bonds. The "Total Shares" column reflects the outcome of the Equity Raising (assuming NZOG and its potential associates take up their full entitlements under the Equity Raising) and also includes the effect of NZOG converting all the Bonds, exercising all subscription rights (including those arising out of the Equity Raising) and exercising all of its 2011 Options (with no other holder of 2011 Options exercising their options). The percentages in the final column are calculated accordingly.

Table 9: Total Potential Aggregate Shareholding in Pike River of NZOG Group and NZOG's Potential Associates (after Equity Raising)

Note that the rows in the following table correspond to the differing theoretical issue prices specified in table 6 above.

NZOG Group, Gujarat & Saurashtra Shares after Equity Raising (before Bond)	NZOG Group 2011 Options (only) are Exercised	Maximum Shares if Bonds Converted and Subscription Rights Subscribed ²	Total NZOG Group, Gujarat & Saurashtra Shares	Total Shares ³	Total NZOG Group, Gujarat & Saurashtra Shares as a %
173,174,703	17,266,132	50,435,455	240,876,290	477,278,256	50.47%
174,465,502	17,266,132	50,988,293	242,719,927	481,099,069	50.45%
175,917,363	17,266,132	51,610,236	244,793,731	485,397,482	50.43%
177,562,441	17,266,132	52,315,104	247,143,677	490,269,016	50.41%
179,442,057	17,266,132	53,120,667	249,828,856	495,836,484	50.39%

Notes: to Table 7-9

1. This is the same as the last column of Table 6 above. Rows in tables 7 to 9 correspond to the differing theoretical issue prices specified in Table 6.

2. These figures also assume 2011 Options arising under subscription rights are exercised – see tables 10 and 11 below.

3. Total shares as per tables 7 & 8.

Impact of subscription rights only

The following tables illustrate how the subscription rights attaching to the Bonds (including the subscription rights NZOG will "inherit" from Liberty Harbor, LLC, as described on page 8 above) would impact on the number of shares to be issued to the NZOG Group on conversion of all the Bonds. The information in each table assumes that a subscription event referred to in that table happens in isolation. In reality, a subscription event can only happen upon the exercise of the conversion rights attaching to the Bonds, and it is likely that it will happen in combination with any or all of that conversion, the exercise of all or any of the 2011 Options and any or all of the other subscription events. The information in the tables assumes that Gujarat and Saurashtra are associates of NZOG.

Table 10: Bond Holder subscription entitlements – shares the Bond Holder is entitled to subscribe for on conversion (arising out of the Company's 2009 Rights Issue)

Maximum No. of voting securities allotted	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and associates post issue
5,838,096	1.62%	30.14%	43.64%

Table 11: Bond Holder subscription entitlements – 2011 Options the Bond Holder is entitled to receive on conversion and exercise (arising out of the Company's 2009 Rights Issue)

Maximum No. of voting securities allotted	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and associates post issue
5,838,096	1.62%	30.14%	43.64%

Table 12: Bond Holder subscription entitlements – shares the Bond Holder is entitled to receive on conversion (arising out of the Equity Raising, assuming it is priced at \$0.80 per share)

Maximum No. of voting securities allotted	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and associates post issue
5,364,561	1.27%	29.87%	42.97%

Table 13: Aggregate of Bond Holder subscription entitlements shown in Tables 10 to 12 above

Maximum No. of voting securities allotted	Maximum No. as a percentage of the Company's post issue voting securities	Maximum percentage of total voting securities in the Company held by NZOG Group post issue	Maximum percentage of voting securities held by NZOG Group and associates post issue
17,040,753	3.93%	31.76%	44.51%

Partly Paid Shares Under the Employee Share Ownership Plan

The above information takes into account the partly paid ordinary shares issued under the Company's Employee Share Ownership Plan (ESOP Shares). The numbers and percentages of voting securities have all been calculated with these ESOP Shares included. The ESOP Shares only carry voting rights to the extent they are paid up (e.g., if an ESOP Share was paid up to 1 cent out of a \$1 issue price, it would only carry 1/100th of a voting right). This means that NZOG's voting securities confer a slightly higher percentage of voting control than a percentage of voting securities (by number) would indicate. If the ESOP Shares are paid up, and gain full voting rights, then this would reduce the voting control conferred by the NZOG Group's voting securities.

Liberty Harbor Options

The above information also does not take account of the (up to) 2.9 million unlisted options to be issued to Liberty Harbor, LLC in connection with the termination of the Liberty Harbor Facility. These options are to be exercisable at a price of no less than a 25% premium to the price fixed for subscriptions in the Equity Raising or, if the Liberty Harbor Bonds have not been redeemed by 30 June 2010, the closing price for the Company's shares on NZX the next trading day (if lower). The options are to be exercisable at any time during the period of two years after they are granted. These options are not accounted for in the above information because, whilst the Company has agreed to issue them, they are not to be issued until after the closing of the upcoming Equity Issue. These options do have an impact on conversion, dilution, and subscription rights attaching to the Bonds, but that impact is of a minor nature.

Implications for the Company's Shareholders

Shareholders who are permitted to vote on proposed Resolution 2 should consider the impact on them if they approve the Resolution (or if it is not approved).

If approval is not obtained, NZOG will not be subscribing for the Bonds, and therefore the Company will not receive the proceeds of the Bonds which are needed to refinance the Liberty Harbor Bonds. In that event, the Company will need to obtain another source of financing to repay the Liberty Harbor Bonds.

Therefore, the benefit to the Company of shareholders approving Resolution 2 is that the Company will be able to obtain the funds necessary to refinance the Liberty Harbor Bonds.

A further benefit to the Company of approving Resolution 2 is that if NZOG (or an assignee) was to exercise its conversion rights attaching to the Bonds then this will improve the Company's debt/equity ratio, i.e. reduce the indebtedness as a percentage of its equity.

The potential benefit to NZOG of shareholders approving Resolution 2 is that it would obtain the right to convert the Bonds to shares in the Company in accordance with their terms of issue and to sell those shares.

Directors' Recommendation

The Company's Directors (other than Messrs Radford and Meyer, who are directors of NZOG and have accordingly abstained from voting) unanimously recommend that shareholders vote in favour of the proposed Resolution because they are of the opinion that:

- (a) the Company must refinance the Liberty Harbor Facility on or prior to 30 June 2010;
- (b) the purpose of the Bonds is to refinance the Liberty Harbor Facility;
- (c) compared to other possible refinancing alternatives, they consider there are a number of advantages to the terms of the Bonds, including a much better conversion price than alternatives thus minimising equity dilution, no production condition, a slightly lower interest rate at 10% per annum, and no establishment fees;
- (d) the conversion rights attaching to the Bonds are a key term of the Bonds;
- (e) if the conversion rights attaching to the Bonds are exercised, this will involve converting debt (i.e. the Bonds) to equity thus improving the Company's debt to equity ratio (i.e. debt will become a smaller proportion of equity); and
- (f) the advantages attaching to the terms of the Bonds (see paragraph (c) above) compensate the Company for the grant of the Coal Option Agreement which is a condition of the issue of the Bonds.

Independent Adviser's Report

As required by Rule 18 of the Takeovers Code a report has been obtained from Campbell MacPherson, the independent adviser approved by the Takeovers Panel, on the merits of the proposed allotment of voting securities that would result from an exercise of the conversion rights attaching to the Bonds.

In their report, Campbell MacPherson reach the following conclusion in relation to the merits of the proposed allotment of voting securities that would result from an exercise of the conversion rights attaching to the Bonds:

"In our opinion, taking into account all of the relevant factors, we consider that the aggregate advantages of the Proposed Transaction significantly outweigh the aggregate disadvantages."

A full copy of this report is attached to this Notice of Meeting.

Shareholders will need to weigh up carefully the above consequences and consult their own professional adviser as appropriate.

NZOG's Statement

For the purposes of Rule 16(g) of the Takeovers Code, NZOG, as a potential allottee of shares issued on, or pursuant to, the exercise of the rights attaching to the Bonds, states that there are arrangements with Gujarat and Saurashtra relating to the exercise of voting rights in the Company, to the extent that:

- (a) NZOG and Gujarat have each agreed to support the appointment and any reappointment of one nominee of the other party as a director of the Company; and
- (b) NZOG and Saurashtra have each agreed to support the appointment and any reappointment of one nominee of the other party as a director of the Company.

In addition, there is an arrangement in relation to the holding or control of shares to be issued on, or pursuant to, the exercise of the rights attaching to the Bonds, in that NZOG and Saurashtra have recorded a commitment to grant each other a first right of refusal over their shares in the Company.

Proposed Takeovers Code (Pike River Coal Limited) Exemption Notice 2010

The Takeovers Panel has approved the granting to the Company of an exemption from Rules 16(b) and 16(d) of the Takeovers Code, in respect of this Notice of Meeting being required to state (among other things) the exact number of voting rights (both number and percentage) that NZOG Group would receive on exercise of the conversion rights attaching to the Bonds, and the issue price for shares to be allotted on conversion of the Bonds. This exemption was sought because there cannot be complete certainty as to the number of ordinary shares in the Company that would be issued to NZOG Group on exercise of the conversion rights attaching to the Bonds, or the issue price at which shares issued on conversion of the Bonds will issue, or when it will be payable, since the number of shares to be issued is dependent not only upon whether NZOG Group exercises the conversion rights, and on whether NZOG Group exercises its conversion rights in whole or in part, but also on whether any additional shares will need to be issued to NZOG Group on account of anti-dilution rights and subscription rights.

The Takeovers Panel has also approved the granting of an exemption to NZOG Group from Rule 7(d) of the Takeovers Code in respect of the allotment of voting securities to NZOG on any conversion of the Bonds (including any allotment of voting securities resulting from the exercise of any subscription rights or any rights attaching to securities issued under subscription rights) to the extent that this Notice of Meeting does not comply with Rules 16(b) and (d) of the Takeovers Code.

The Takeovers Panel approved the granting of the exemptions referred to above, subject to the Takeovers Panel receiving undertakings in writing, under section 31T of the Takeovers Act, that:

- (a) the Company will not send the Notice of Meeting to Shareholders until the form of the Notice of Meeting is approved by the Panel; and
- (b) the Notice of Meeting will contain a summary of the terms and conditions of such exemptions for the Company and NZOG.

The Company has provided these undertakings to the Takeovers Panel and the form of this Notice of Meeting has been approved by the Takeovers Panel. Pursuant to the undertakings given, this Notice of Meeting contains a summary of the terms and conditions of the exemptions approved by the Takeovers Panel for the Company and NZOG.

The final form of the Exemption Notice is subject to drafting by the Parliamentary Counsel Office.

Subject to shareholder approval being obtained in the manner provided in Resolution 2, and final granting of the Exemption Notice, the allotment by the Company of shares to NZOG on the exercise of the conversion rights attaching to the Bonds will be permitted under Rule 7(d) of the Takeovers Code as an exception to Rule 6 of the Takeovers Code. This is subject to important restrictions under the form of Exemption Notice proposed. NZOG Group is not permitted to exercise 2011 Options, conversion rights attaching to the Bonds or subscription rights if such exercise would cause NZOG Group and its associates to hold or control more than 55% of the voting rights in the Company. In addition NZOG Group may not rely upon the Exemption Notice if the total percentage of voting rights in the Company held or controlled by NZOG Group and its associates exceeds 55%.

The benefit of the exemption will also fall away if there is an increase in NZOG Group's voting control, except as a result of the exercise of 2011 options, or pursuant to the terms of the Bonds or in accordance with the Takeovers Code (Class Exemptions) Notice (No.2) 2001.

Note: By exempting NZOG from Rule 7(d), and the Company from Rules 16(b) and (d), of the Takeovers Code, and approving the form of this Notice of Meeting, the Takeovers Panel does not:

- (a) endorse or support the accuracy or reliability of the contents of this Notice of Meeting; or
- (b) imply it has a view of the merits of the issue to NZOG Group of voting securities on the exercise of any conversion rights attaching to the Bonds.

A copy of the Takeovers Code (Pike River Coal Limited) Exemption Notice 2010 is available from www.legislation.govt.nz.

Resolution 3 - Coal Option Agreement

Requirement for shareholder approval

Shareholder approval is required because the Coal Option Agreement constitutes:

- (a) a Material Transaction by the Company with a Related Party (being its largest shareholder, NZOG) for NZSX Listing Rule purposes; and
- (b) the disposal of a “substantial asset” to a substantial holder for ASX Listing Rule 10.1 purposes.

Approval is sought to allow the Option to be granted, and for the Option to be exercised (including entering into the Coal Contract arising from the exercise of the Option). Approval is also sought for the Option and/or the Coal Contract to be transferred or assigned by NZOG to any third party (including any person who is a Related Party of the Company for the purposes of NZSX Listing Rules, or a substantial holder or another person to whom ASX Listing Rule 10.1 applies). The approval would also extend to the exercise of the Option by any such third party (including entering into the Coal Contract arising from the exercise of the Option).

Terms of the Coal Option Agreement

Under the Coal Option Agreement the Company will grant NZOG the Option to purchase:

- (a) for the period from 23 February 2010 until 31 March 2013, up to the total part of the annual coal production from the Company's 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 Company's Pike River Mine life, up to 30% of the annual coal production from the Company's Pike River Mine.

The Option:

- (a) may be assigned at any time to any party reasonably considered by NZOG to have the financial resources to meet its commitments under the contract arising from exercise of the Option; and
- (b) may be exercised at any time up to 31 March 2012 (**Option Period**), by NZOG giving the Company written notice (**Exercise Notice**), for an offtake contract commencing not less than 6 months from the date of the Exercise Notice.

The Exercise Notice will specify the quantity of coal (for each contract year, commencing from the start of the Coal Contract) that is to be sold and purchased pursuant to the Option. The quantity may be expressed as a percentage of annual coal production, or as a fixed quantity (but, in every case, subject to the limit of the Option).

During the Option Period, the Company may sell coal into the spot market but shall not enter into arrangements to sell or otherwise dispose of any coal from the Company's Pike River Mine, where any such coal would be delivered after the earlier of (a) the date of commencement of the coal contract, if the Option has been exercised; and (b) the date six months from the date of entry into such arrangement, unless the Company first obtains NZOG's written consent (such consent to be given or withheld at NZOG's sole discretion).

Upon the Option being exercised the key terms of the resulting Coal Contract shall be as follows:

- (a) *Contract:* the Company to sell and NZOG to purchase those quantities of coal produced from the Company's Pike River Mine as are specified in the Exercise Notice on the terms and conditions set out in paragraphs (b) to (j) below.
- (b) *Volumes:* as detailed above, with delivery to be evenly spread throughout each contract year (1 April to 31 March).
- (c) *Pricing terms:* the free on board per metric tonne price is to be negotiated annually prior to the start of each contract year, based on the then market prices applying to similar type of premium Queensland hard coking coals that will apply to coal deliveries for the following contract year, or such other period as is mutually agreed, and taking into account:
 - (i) that the Company's coal is recognised as hard coking coal;
 - (ii) the freight differential for Port of Lyttelton, Christchurch, New Zealand, compared to Queensland ports and any difference on account of loading rate and shipment notices, such freight differential discount to be no less than 1% of the free on board Company coal price;

- (iii) total competitiveness of the Company's coal, such as quality differential between the Company's coal and Queensland hard coking coals, stability of quality, stability of supply and the quantity of the Company's coal;
- (iv) prices negotiated and agreed by the Company with its overseas hard coking coal buyers prior to the start of the contract year for the Company's coal sales during the following contract year; and
- (v) that NZOG is a major purchaser of the Company's coal.

If the market price for Premium Queensland hard coking coals ceases (generally) to be set on an annual basis or ceases to be available for any other reason, the parties will consider and negotiate on a good faith basis whether an amendment to the pricing provisions of the Coal Contract is appropriate.

- (d) *Product mix:* The product mix of the coal is to be agreed and, failing agreement, shall be premium grade low ash, high fluidity hard coking coal. Unless agreed otherwise, the Company shall make available to NZOG (as part of its product mix) as much 1.2% sulphur product as is available from the total annual production (after allowing for the commitments made under the Company's existing contractual commitments).
- (e) *Coal specifications:* Pike River coal specifications are:

Indicative Specification		1.2% Sulphur	1.9% Sulphur
Total Moisture	Arb	9%	9%
Inherent Moisture	Adb	0.7%	1.0%
Ash	Adb	1%	1%
Volatile Matter	Adb	42-43%	43-44%
Fixed Carbon	Adb	54.3%	52%
Total Sulphur	Adb	1.2%	1.9%
Phosphorus	Adb	0.0005%	0.001%
CSN		8-9	8-9
Fluidity	Ddpm	40,000	40,000
log	Log	4.60	4.605
GKI		G9	G10
Size	mm	0 x 50	0 x 50

- (f) *Penalties:* The terms of penalties shall be mutually agreed after sample tests are conducted and final specifications determined by the parties, with consideration given to the following:
 - (i) if the total moisture content exceeds 9% on an as received basis on the final analysis at the loading port, the weight for invoicing purposes shall be reduced by the percentage by which the percentage of moisture exceeds 9%.
 - (ii) if the ash content based on the final analysis at the loading port, exceeds 1.5% on an air-dried basis, the Company shall be charged a penalty of US\$1.50 per tonne for each 1.0% of ash content in excess of 1.0% or pro rata basis.
 - (iii) for the Company's 1.2% sulphur product, if the sulphur content, based on the final analysis at the loading port exceeds 1.3% on an air-dried basis, the Company shall be charged a penalty of US\$0.55 per tonne for each 0.1% of sulphur content in excess of 1.2% or pro rata basis.
 - (iv) for the Company's 1.9% sulphur product, if the sulphur content based on the final analysis at the loading port, exceeds 2% on an air-dried basis, the Company shall be charged a penalty US\$0.55 per tonne for each 0.1% of sulphur content in excess of 1.9% or pro rata basis.
- (g) Subject to the provisions described in paragraphs (a) to (f) above, neither the Coal Option Agreement nor the Coal Contract will prevent the Company selling coal into the spot market.
- (h) NZOG shall not be obliged to use the coal for its own use and will not be prevented from onselling coal to a third party.
- (i) NZOG will not be obliged to take other coking coal products from the Company (inclusion of other coking coal products in the annual quantity commitments can only be with the agreement of both parties) and neither party shall be obliged to discuss such possibility.
- (j) NZOG is to be entitled to assign the Coal Contract to a party reasonably considered by NZOG to have the financial resources to meet its commitments under the Coal Contract.
- (k) NZOG will not unreasonably withhold its agreement to a change in specification (if requested by the Company) where the Company has negotiated a reduction in the total moisture specification for coal sold under other contracts with other major customers. Any price impact of such change to product specification will be dealt with as part of the normal annual price negotiations.

During the term of the Option and the Coal Contract, the Company:

- (a) will provide information to NZOG as reasonably required by NZOG in connection with the Coal Contract, including information as to the status of its existing commitments, and its mine plan and forecast; and

- (b) agrees to permit reasonable access to the Company's offices and facilities during normal business hours, to a bona fide potential assignee of the Option or Coal Contract for the purpose of conducting due diligence and the Company will provide all reasonable assistance.

Within 6 months of the exercise of the Option, the Company and NZOG are to negotiate the detailed terms of the Coal Contract, which is to incorporate the terms outlined above. Failing agreement in relation to any detailed terms, the terms set out in the Coal Option Agreement (the key aspects of which are set out above) will continue to apply and be binding between the parties.

Should NZOG transfer or assign the Option or the Coal Contract, the transferee or assignee will acquire the Option or the Coal Contract (as the case may be) on the same terms as it is held by NZOG. The transferee or assignee may be a Related Party of the Company for the purposes of NZSX Listing Rules, or a substantial holder or another person to whom ASX Listing Rule 10.1 applies. Any such transfer or assignment may occur without further shareholder approval. The exercise of the Option by the transferee or assignee (including entering into the Coal Contract arising from the exercise of the Option) may also occur without further shareholder approval.

NZX Waiver

NZX has granted the Company a waiver from the requirement in NZSX 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. 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:

- (a) the Company must disclose this waiver, and its conditions, in this notice of meeting and each annual report that is issued by the Company while it relies on this waiver;
- (b) 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
- (c) 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.

Appraisal Report

The Company has engaged Campbell MacPherson to prepare an independent adviser's report on the Proposed Transaction, which includes the Coal Option Agreement.

In their report, Campbell MacPherson state that in their view an evaluation of the merits and fairness of the Proposed Transaction should include an assessment of the value, on a stand-alone basis, of the Option granted by NZOG under the Coal Option Agreement.

Campbell MacPherson engaged specialist coal market advisers MinAxis Pty Limited (**MinAxis**) to assist in determining the value of the Option. MinAxis is an independent consultancy firm based in Australia, the principal of which is Mr Graham Wailes. MinAxis has extensive knowledge and experience in the Australasian and international coal sectors. It has previously been engaged by the Company to prepare independent reports to NZX on the fairness of the price payable under coal offtake contracts between Pike River and two of its shareholders (Gujarat and Saurashtra).

In their report, Campbell MacPherson state that:

"MinAxis has assigned a value to the Option in a range of approximately US\$0.5 million to US\$2.5 million with a most likely price at the US\$1 million mark. The distribution of value is weighted towards the lower end of the range."

Board Recommendation

The Company's Directors (other than Messrs Radford and Meyer, who are directors of NZOG and have accordingly abstained from voting) unanimously recommend that shareholders vote in favour of Resolution 3.

Appraisal Report/ Independent Expert's Report & Independent Adviser's Report

Pike River Coal Limited

To the Directors of Pike River Coal Limited other than New Zealand Oil & Gas Limited and its appointees to the Pike River Coal Limited Board

In respect of;

- the Issue of Convertible Bonds to New Zealand Oil & Gas Limited and;
- the potential allotment of voting securities to New Zealand Oil & Gas Limited through exercise of rights attaching to the Convertible Bonds, and;
- the entry by Pike River Coal Limited into a Coal Option Agreement with New Zealand Oil & Gas Limited.

Prepared by Campbell MacPherson Limited
16 April 2010

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GLOSSARY

\$	New Zealand dollars
ASX	Australian Stock Exchange operated by ASX Limited.
Bonds	The proposed new convertible bonds to be issued to NZOG by Pike River
BNZ	Bank of New Zealand
Code	New Zealand Takeovers Code
Company	Pike River Coal Limited
FOBT	Free on board trimmed
FSSPD	First Steady State Production Date
Gujarat	Gujarat Group of companies
Gujarat NRE Coke	Gujarat NRE Coke Limited
HCC	Hard coking coal
IPO	Initial Public Offering
Kt	thousand tonnes
Liberty	Liberty Harbor LLC
Liberty Bonds	The convertible bonds issued to Liberty by Pike River
MinAxis	MinAxis Pty Limited
Mt	million tonnes
NPV	Net Present Value
NZOG	New Zealand Oil & Gas Limited
NZOG Services	NZOG Services Limited
NZOG Group	New Zealand Oil & Gas Limited and NZOG Services Limited
NZSX	New Zealand Stock Exchange operated by NZX Limited
NZX	NZX Limited
p.a.	per annum
PCI	Pulverised coal injection
Pike River	Pike River Coal Limited
Saurashtra	Saurashtra Group of companies
Saurashtra Fuels	Saurashtra Fuels Private Limited
Saurashtra World Holdings	Saurashtra World Holdings Private Limited
SHCC	Semi hard coking coal
Tpa	tonnes per annum
US\$	United States dollars

1. Introduction

1.1 Purpose

Pike River Coal Limited (**Pike River**; the **Company**) is the owner and operator of the Pike River coal mine located north of Greymouth, on the West Coast of the South Island of New Zealand. Pike River is listed on the main board of the equity security market (**NZSX**) operated by NZX Limited (**NZX**) and on the main board of the equity security market operated by ASX Limited (**ASX**).

On 24 February 2010 Pike River announced:

- a) an intention to make an equity issue (**Equity Issue**) of ordinary shares to raise approximately NZ\$50 million (subsequently determined by the Pike River Board to be undertaken by a NZ\$10 million placement (**Placement**) and a NZ\$40 million rights issue (**Rights Issue**));
- b) a conditional agreement with its major shareholder – New Zealand Oil & Gas Limited (**NZOG**) - to subscribe to up to US\$28.9 million of new convertible bonds (**Bonds**) to refinance the existing Liberty bond facility (**Liberty Bonds**), with conditions including shareholder approvals;
- c) the grant of an option to NZOG to purchase the Company's coking coal (**Coal Option Agreement**) at market prices negotiated annually (or such other intervals as may be agreed) for amounts that:
 - (i) for the period from 23 February 2010 until 31 March 2013, are up to the total part of the annual coal production of the Company's Pike River Mine that was not (as at 23 February 2010) contractually committed to any other party; and
 - (ii) for the period from 1 April 2013 for the remainder of the Company's Pike River Mine life, are up to 30% of annual coal production from the Company's Pike River Mine.

The issue of the Bonds and the Coal Option Agreement (collectively the **Proposed Transaction**) are each conditional, among other things, upon successful completion of the Equity Issue and approval by the Company's shareholders. The issue of the Bonds and the Coal Option Agreement are interdependent, such that neither proceeds without the other. All conditions must be satisfied or waived by 30 June 2010. If the event that the issue of the Bonds and the Coal Option Agreement were not to proceed, then a break fee of NZ\$1.2 million is payable to NZOG. Legal and other costs (excluding NZOG internal costs) currently estimated at \$330,000 are also payable to NZOG, whether the Bonds and the Coal Option Agreement proceed or not.

NZOG and its wholly owned subsidiary NZOG Services Limited (**NZOG Services**), (together **NZOG Group**), is the largest shareholder in Pike River and currently holds 29.53% of the fully paid ordinary shares. NZOG also has two nominated Directors on the Board of Pike River. NZOG Group and Gujarat NRE Limited (another one of the Company's major shareholders with a 7.55% equity interest) have both agreed to underwrite their respective pro-rata shares of the Equity Issue subject to the Equity Issue being fully underwritten and compliance with the Takeovers Code.

Under NZX Listing Rule 7.3.1, the Company is prevented from issuing new equity securities unless it receives shareholder approval or the offer is made in accordance with a number of limited exceptions. Since the Bonds are convertible to ordinary shares at NZOG's option (and none of the aforementioned exceptions apply), the Company is required to obtain shareholder approval for the issue of the Bonds so as to enable shares to be issued on any exercise of rights pursuant to the Bonds. Under NZSX Listing Rule 7.5, the Company is also prevented from issuing shares if there is a significant likelihood that the issue will result in NZOG, or NZOG and its associates, materially influencing their ability to exercise, or direct the exercise of (now or at any future time) effective control of the Company, and NZOG and its associates are entitled before the issue to exercise, or direct the exercise of, not less than 1% of the total votes attaching to the Company's shares. Accordingly, the Company is required to also obtain shareholder approval under NZSX Listing Rule 7.5 for the issue of the Bonds so as to enable shares to be issued on any exercise of rights pursuant to the Bonds. Both the Bonds and Coal Option Agreement are also deemed to be Material Transactions with a Related Party (as those terms are defined in the NZSX Listing Rules) of the Company and therefore also require shareholder approval under NZX Listing Rule 9.2.1.

Under the Takeovers Code (the **Code**), NZOG Group, as a holder of more than 20% of the voting securities of Pike River, is not permitted to increase its percentage holding of voting securities other than in accordance with the Code. NZOG is therefore restricted from exercising the rights attaching to the Bonds.

Pike River has engaged Campbell MacPherson Limited (**Campbell MacPherson**) to prepare an Appraisal Report in accordance with NZSX Listing Rules, an Independent Expert's Report, in accordance with ASX Listing Rules and an Independent Adviser's Report in accordance with Rule 18 of the Code (collectively the **Report**). The Report provides an evaluation of the fairness and reasonableness of the Proposed Transaction and the merits of the potential allotment of shares to NZOG through the exercise of the Bonds.

1.2 Background

Pike River in its present form was created when NZOG acquired all of the shares in Pike River from United Resources Investment Holdings Limited as part of the merger with Oil Fields No Liability in 1988. For a period of time Pike River was a wholly owned subsidiary of NZOG.

Pike River listed on 10 July 2007 via a \$60 million Initial Public Offering (IPO) at \$1.00¹ per share. The IPO was oversubscribed and closed raising \$85 million. The Pike River coal mine is currently in the development phase and has a scheduled extraction of 17.6 million tonnes of premium hard coking coal over 18 years. Coal is railed to the Port at Lyttelton, Christchurch under an agreement signed with Solid Energy NZ Limited (**Solid Energy**), from where it is subsequently shipped to export markets.

In September 2005 (i.e. prior to the IPO) Pike River entered into an equity subscription agreement and a conditional coal sales agreement with Indian company Saurashtra Fuels Private Limited (**Saurashtra Fuels**). Saurashtra Fuels nominated Saurashtra World Holdings Private Limited (a wholly owned subsidiary) to hold its shares and options in Pike River.

In June 2006, Pike River entered into an equity subscription agreement with Indian company Gujarat NRE Coke Limited (**Gujarat NRE Coke**) and a conditional coal sales agreement with Gujarat NRE Coal (NSW) Pty Limited (a wholly owned subsidiary of Gujarat NRE Coke). Gujarat NRE Coke subsequently transferred its shares and options to its wholly owned Australian subsidiary Gujarat NRE Limited.

As at the date of this Report, Saurashtra Fuels and its wholly owned subsidiaries (together **Saurashtra**) hold 6.42% of the fully paid ordinary shares of Pike River. Gujarat NRE Coke and its wholly-owned subsidiaries (together **Gujarat**) hold 7.55% of the fully paid ordinary shares of Pike River.

On 12 March 2008 Pike River completed a fully underwritten renounceable pro-rata rights issue to raise gross proceeds (prior to offer costs) of \$60 million. At the same time the Company issued 600 convertible bonds (**Liberty Bonds**) in denominations of US\$50,000 with a 3 year term to Liberty Harbor LLC (**Liberty**) to raise a further US\$30 million. These combined funds were used to progress ongoing development of the mine and associated working capital requirements. Subsequent to their issue, Liberty has converted a total value of US\$2.5 million of its bonds into Pike River shares.

During 2009 working capital requirements due to delays in mine production and associated costs resulted in a fully underwritten \$45 million rights issue and placement in April 2009 at \$0.70 per share. Each new share allotted was issued with a new option entitling the holder to subscribe for one new ordinary share in the Company at \$1.25 per share until 24 April 2011 (**2011 Options**). Under the terms of the Liberty Bonds, Liberty can participate in all equity issues by Pike River when bonds are exercised, with the entitlement calculated as if the bonds were converted into Pike River shares at the relevant record date.

The renegotiation of certain terms of the Liberty Bonds in 2009 resulted in an effective increase in the interest rate from 6.75% to 10.75% from 1 April 2009 and the right for Pike River to redeem the Bonds early, subject to certain pre-conditions being met. The increase in interest rate of 4% p.a. is payable in the form of additional Liberty Bonds added to the principal. The principal amount of the Liberty Bonds is currently US\$28,616,833 inclusive of the issue of 22.336666 new bonds under the interest terms outlined above.

The terms of the Liberty Bonds include a condition that the Company achieves first steady state production by 30 November 2009 (the First Steady State Production Date or **FSSPD**). This condition has not been met. As a result of this condition not having been satisfied, Liberty acquired the right to declare a review event under the Terms and Conditions of the Liberty Bonds, but has not done so, and Pike River and Liberty have now reached an agreement relating to the redemption of the Liberty Bonds (see section 2.2 below).

The Proposed Transaction has been negotiated by the Directors of Pike River (excluding those directors who are also directors of NZOG) on the basis that they believe that the terms of the Bonds are superior to other possible refinancing alternatives (including amended terms proposed by Liberty) and the advantages attached to the terms of the Bonds compensate the Company for the grant of the Coal Option Agreement.

The proposed Equity Issue is required in order to provide further working capital to complete underground development of the Pike River coal mine until steady state production from hydro-monitor mining can be achieved. The hydro-monitor mining is due to begin during the July-September quarter 2010.

NZOG has agreed (subject to certain conditions) to provide interim funding to Pike River of \$15 million (Short-Term Loan Facility) on commercial terms to cover working capital requirements during the Equity Issue offer period. An initial drawing of \$3.5 million was made under this facility on 30 March 2010 (being \$3.050 million, plus \$450,000 to fund payment of the establishment fee payable under that facility). Further drawings are subject to the Company completing the Placement, entering into underwriting agreements for its Equity Issue and obtaining any other consents required from its lenders. This initial drawing is repayable on the earlier of 30 April 2010 and \$3.5 million being received by Pike River under the Placement. The repayment of NZOG may be effected by setting off amounts payable against the allotment of shares to NZOG under the Placement. The balance is repayable on the earlier of the receipt of proceeds of \$40 million under the Rights Issue, and 23 May 2010.

¹ All Figures in this report are in New Zealand dollars unless stated otherwise

1.3 Key Conditions of the Proposed Transaction

The issue of the Bonds and execution of the Coal Option Agreement requires satisfaction of a number of conditions including;

- a) The Company successfully raising NZ\$50 million under the Equity Issue by 23 May 2010.
- b) The Company obtaining shareholder approval of the underwriting of the Equity Issue and payment of underwriting fees, to the extent required by NZSX Listing Rule 9.2 and any applicable ASX Listing Rules, or a waiver of that Listing Rule from NZX Limited (NZX) and of any applicable ASX Listing Rules from ASX Limited (ASX) in connection with that underwriting and those fees.
- c) The Company obtaining shareholder approval for entry into the Bonds, for the purposes of NZSX Listing Rule 9.2 and any applicable ASX Listing Rules;
- d) The Company obtaining shareholder approval under Rule 7 of the Takeovers Code (subject to any exemption relief provided by the Takeovers Panel) to allow NZOG or its assignee to convert the Bonds to ordinary shares at any time in accordance with the terms of the Bonds;
- e) The Company obtaining all consents, approvals and waivers from Bank of New Zealand and any other party necessary to enable the Bonds to be issued and advanced in accordance with their terms;
- f) The Company entering into all priority and step in arrangements with Bank of New Zealand and Solid Energy New Zealand Limited that are necessary in order for the Bonds to be first ranking secured debt of the Company ranking pari passu with other indebtedness of up to NZ\$20 million (including the Company's NZ\$10 million 12 month multi-option bank facility with Bank of New Zealand) on terms substantially the same as the existing priority and step in arrangements among the Company and its secured creditors, with all necessary changes, save that Bank of New Zealand's first equal ranking security priority amount in respect of the Multi Option Facility Agreement with the Company will include the additional amount of NZ\$5 million in respect of the forex liabilities (currently ranking after Bank of New Zealand's other debt and the Liberty Bond obligations) and Bank of New Zealand will no longer be a third ranking secured party for that NZ\$5 million;
- g) The Company obtaining shareholder approval of Pike River entering into the Coal Option Agreement and the contract resulting from its exercise (**Coal Contract**) for the purposes of NZSX Listing Rule 9.2 and any applicable ASX Listing Rules, including future price setting under the Coal Contract (to the extent permitted by NZX);
- h) The Company obtaining all consents from Bank of New Zealand and any other party necessary to commit the disposal of assets contemplated by the Coal Option Agreement and the Coal Contract;
- i) the Company and NZOG obtaining such other approvals as are required under NZSX Listing Rules and ASX Listing Rules in order to comply with those Rules in relation to the Bonds, the Coal Option Agreement and the Coal Contract; and
- j) such other approvals and consents necessary to be obtained by the Company and/or NZOG in order for Pike River and NZOG to enter into the Bonds, the Coal Option Agreement and the Coal Contract.

The issue of the Bonds and the Coal Option Agreement are interdependent, and neither is to be implemented unless the other is also implemented.

Pike River and NZOG have agreed to use all reasonable endeavours to satisfy the Conditions by 30 June 2010, or such other date as is agreed between the parties. In the event that the Conditions are not satisfied or waived by 30 June 2010 or, in the case of Condition (a), 23 May 2010, the agreement between the Company and NZOG relating to the issue of the Bonds and Coal Option Agreement (other than the sections relating to costs and the break fee) will be at an end and neither party will owe any further obligations to the other in relation to the issue of the Bonds and the Coal Option Agreement. Note however that the Company will remain liable for the break fee and costs mentioned on page 21.

1.4 NZOG Group

NZOG is an exploration and production company listed on the NZSX and the ASX. NZOG has a market capitalisation of approximately \$618 million and owns key assets comprising an interest in the Tui oil field, an interest in the Kupe gas-condensate field and two significant investments, being Pike River and Pan Pacific Petroleum NL, as well as other exploration assets.

NZOG Group currently holds 102,637,600 shares in Pike River, representing 29.53% of the fully paid ordinary shares of the Company. In addition NZOG Group holds 17,266,132 of the 2011 Options.

NZOG and Pike River share two common directors, namely Mr Roy Antony (Tony) Radford and Professor Raymond (Ray) Meyer.

The largest security holder in NZOG is National Nominees New Zealand Limited which holds 5.66% of the fully paid ordinary shares.

1.5 Notice of Meeting

The Company is holding a special meeting of shareholders on 7 May 2010 where the Pike River shareholders will vote on the following ordinary resolutions (the **Resolutions**);

Resolution 1 – Issue of Convertible Bonds

“Subject to Resolutions 2 and 3 below being passed, that, for the purposes of NZSX Listing Rules 7.3.1, 7.5 and 9.2.1, and ASX Listing Rule 7.1 and 10.1, the Board is authorised during the 3 months following the date of this Resolution to issue convertible bonds to New Zealand Oil & Gas Limited (NZOG) for a face value of up to US\$28,900,000 on the terms set out in the accompanying Explanatory Notes (Bonds).”

Resolution 2 – Issue of shares on conversion of the Bonds

“Subject to Resolution 1 above and Resolution 3 below being passed, that, for the purpose of Rule 7(d) of the Takeovers Code, the Company approve the allotment to NZOG of new ordinary shares in the Company at any time on or before 30 April 2012 on, or pursuant to, the exercise of the rights attaching to the Bonds, on the terms set out in the accompanying Explanatory Notes.”

Resolution 3 – Coal Option Agreement

“Subject to Resolutions 1 and 2 above being passed, that, for the purposes of NZSX Listing Rule 9.2.1, and ASX Listing Rule 10.1, shareholders ratify, confirm and approve:

- (a) the entry by the Company into an agreement whereby the Company grants NZOG an option (**Option**) to purchase:
 - (i) for the period from 23 February 2010 until 31 March 2013, up to 100% of the Company’s currently uncontracted coal production from the Company’s Pike River Mine; and*
 - (ii) for the period from 1 April 2013 for the remainder of the Company’s Pike River Mine life, up to 30% of the annual coal production from the Company’s Pike River Mine,**
- (b) the exercise of the Option (including entering into the coal contract (**Coal Contract**) to arise from the exercise of the Option) by NZOG or any other party to whom NZOG assigns the Option; and*
- (c) any transfer or assignment by NZOG of the Option or the Coal Contract,*
all on the terms set out in the accompanying Explanatory Notes.

NZOG Group and its Associates will not be permitted to vote on any of the Resolutions.

NZSX Listing Rule 7.5, which is relevant to Resolution 1 above, and NZSX Listing Rule 9.2.5, which is relevant to Resolutions 1 to 3 above, requires the notice of meeting (**Notice of Meeting**) to be accompanied by an Appraisal Report stating (among other things) whether in the opinion of the reporter the consideration and the terms and conditions of the Proposed Transaction are fair to shareholders and option holders of the Company (excluding NZOG and its appointees to the Board of the Company) and otherwise complying with NZSX Listing Rule 1.7. The Notice of Meeting and Explanatory Notes accompany this Report.

ASX Listing Rule 10.1, which is also relevant to Resolutions 1 to 3 above, requires the Notice of Meeting to include an independent expert’s report as to whether the transaction is fair and reasonable to the shareholders of the Company (excluding NZOG and its appointees to the Board of the Company).

Rule 18 of the Code, which is relevant to Resolution 2 above, requires the directors of a code company to obtain an Independent Adviser’s Report on the merits of an allotment under Rule 7(d). The Independent Adviser’s Report is required to be included in, or to accompany the Notice of Meeting pursuant to Rule 16(h).

This Report serves as an Appraisal Report for the purposes of NZSX Listing Rules 7.5 and 9.2.5, an Independent Expert’s Report for the purposes of ASX Listing Rule 10.1, and an Independent Adviser’s Report for the purposes of Rule 18 of the Code.

1.6 NZSX and ASX Listing Rules (and ASIC relief)

Pike River requires a number of shareholder approvals under the NZSX and ASX Listing Rules in relation to Resolutions 1 through 3 above. These are summarised below, and provided in more detail in the Notice of Meeting enclosed with this Report.

NZX Listing Rules

Shareholder approval is required for the transaction described in Resolution 1 on account of NZSX Listing Rule 7.3.1, which prevents the Company from issuing shares on conversion of the Bonds unless shareholder approval is obtained or the offer is made in accordance with a limited number of specified exceptions.

Shareholder approval is also being sought so that the Bonds can be issued without regard to the 15% limit under ASX Listing Rules for the number of shares that can be issued in any 12 month period without shareholder approval and so that the issue of Bonds does not reduce the number of shares available under that limit for other issues.

Shareholder approval will not only permit the issue of the Bonds to NZOG, but will also permit NZOG or any other holder of the Bonds to exercise all rights in relation to the Bonds. The approval being sought would also enable

NZOG or any other holder, on default and in exercise of its power of sale, to sell the property given as security for the Bonds to a third party. However, in exercise of its power of sale, NZOG could not purchase the secured property itself, unless it first obtained an additional approval from shareholders. Shareholder approval is also required for the transaction described in Resolution 1 on account of NZSX Listing Rule 7.5, which prevents the Company from issuing shares if there is a significant likelihood that the issue will result in NZOG, or NZOG and its associates, materially influencing their ability to exercise, or direct the exercise of (now or at any future time) effective control of the Company, and NZOG and its associates are entitled before the issue to exercise, or direct the exercise of, not less than 1% of the total votes attaching to the Company's shares.

Shareholder approval is also required for each of the transactions described in Resolutions 1 to 3 under NZSX Listing Rule 9.2.1 which requires shareholder approval of a Material Transaction if a Related Party is or is likely to become, a direct or indirect party to that Material Transaction, or to at least one of a related series of transactions of which the Material Transaction forms part. Each of the transactions described in Resolutions 1 to 3 is a Material Transaction under NZX Listing Rules.

"Related Party" is defined in NZSX Listing Rule 9.2.3 and includes any person who, at the time of a Material Transaction, is the holder of 10% or more of the Company's shares, or any person who is an "Associated Person" of the Company or of a director or executive officer of the Company. Each of the transactions described in Resolutions 1 to 3 is with NZOG, which is a Related Party of the Company for the purposes of each of these Resolutions.

NZX Waivers

The NZX has granted waivers to Pike River in relation to the Proposed Transaction and the Equity Issue. These comprise;

- a) waivers from NZSX Listing Rule 9.2.1 and NZSX Listing Rule 7.10.5 in relation to the underwriting of the Equity Issue by (among others) Related Parties of the Company (i.e. NZOG and Gujarat);
- b) a waiver from NZSX Listing Rule 9.2.1 in relation to pricing under the Coal Contract to arise upon exercise of the Coal Option Agreement between the Company and NZOG; and
- c) a waiver from NZSX Listing Rule 9.2.1 in relation to the Short-Term Loan Facility.

ASX Listing Rules

Shareholder approval is being sought for the issue of the Bonds (Resolution 1) under ASX Listing Rule 7.1, which imposes a limit on the number of "equity securities" (which, for the purposes of the ASX Listing Rules, includes the Bonds) that a company can issue or agree to issue without shareholder approval, unless an exception in ASX Listing Rule 7.2 applies. Generally, a company may not, without shareholder approval, issue in any 12 month period, more than 15% of the number of shares on issue 12 months before the date of the issue. None of the exceptions in ASX Listing Rule 7.2 apply to the issue of the Bonds. Approval of Resolution 1 for the purposes of ASX Listing Rule 7.1 allows the Bonds to be issued without detracting from the 15% limit and has the effect that the issue of the Bonds does not reduce the amount of the 15% limit available for other issues.

Shareholder approval is also required for each of the transactions described in Resolutions 1 to 3 under ASX Listing Rule 10.1 which requires shareholder approval of certain transactions with persons in a position to influence the Company, in particular, the acquisition from or disposal of a "substantial asset" to NZOG (as a substantial holder who has a relevant interest in at least 10% of the total votes attached to ordinary shares of the Company).

The Coal Option Agreement constitutes a disposal of a "substantial asset" under ASX Listing Rule 10.2 because the consideration payable under the Coal Option Agreement would exceed 5% of the equity interests in the Company. Shareholder approval is therefore required for the purposes of ASX Listing Rule 10.1 in respect of the Coal Option Agreement (Resolution 3) and, since the Coal Option Agreement is part of the wider transaction comprising issue of the Bonds, shareholder approval is also required for Resolution 1.

ASIC Relief

ASIC has granted a modification to section 708A of the Corporations Act 2001 (Cth) to allow the on-sale of shares issued on conversion of the Bonds without disclosure under Chapter 6D of the Corporations Act.

1.7 Takeovers Code Rules

Pike River is a code company for the purposes of the Code. Rule 6 of the Code states:

"6(1) Except as provided in Rule 7, a person who holds or controls

- (a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;*
- (b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company."*

NZOG Group already holds more than 20% of the voting securities of Pike River and is therefore subject to rule 6(1)(b). Future conversion of the Bonds by NZOG could result in NZOG increasing its shareholding in Pike River further.

Rule 7(d) of the Code states:

“7. A person may become the holder or controller of an increased percentage of the voting rights in a code company -...

(d) By an allotment to a person of voting securities in the code company...if the allotment has been approved by an ordinary resolution of the code company in accordance with this code...”

Rule 16(b) of the Code states that the notice of meeting containing the proposed resolution in respect to Rule 7(d) must contain particulars of the voting securities to be allotted, including the number being allotted and the percentage of voting securities that will be held by the person upon allotment.

1.8 Takeovers Code Exemption Notices

Takeovers Code (Pike River Coal Limited) Exemption Notice 2010

The Takeovers Panel has approved the granting of exemption relief in relation to certain requirements of the Takeovers Code which cannot be met for the shareholder approval sought in this case. It is a condition of this proposed exemption relief (**Exemption Notice 2010**) that that total percentage of voting rights in the Company held or controlled by NZOG Group and its Associates must not exceed 55%. Hence, 55% is an effective maximum which NZOG Group and its Associates must comply with, in relying on the approval sought from shareholders.

The Exemption Notice 2010 will also replace the Exemption Notice 2009 (outlined below) such that the exemption under that notice will continue to apply unless:

- a) there is an increase in NZOG's voting control, except as a result of an exercise of 2011 options, or on, or pursuant to, the exercise of conversion or other rights attaching to the convertible bonds (including the exercise of any subscription rights or any rights attaching to securities issued under subscription rights), or as a result of an increase in voting control in accordance with the Takeovers Code (Class Exemptions) Notice (No 2) 2001; or
- b) there is a change in the effective control of NZOG; or
- c) the total percentage of voting rights in Pike River held or controlled by NZOG and its associates is greater than 55%.

Further information on Exemption Notice 2010 is contained in the Notice of Meeting.

Takeovers Code (Pike River Coal Limited) Exemption Notice 2009

Pike River and NZOG have previously been granted an exemption as set out in the Takeovers Code (Pike River Coal Ltd) Exemption Notice 2009 (**Exemption Notice 2009**). This exemption was granted in respect of Rule 16(b) of the Code, since the exact number of shares to be allotted in the future to NZOG through exercise of its 2011 Options was not known. Under the exemption NZOG and Pike River were not required to specify in the notice of meeting of shareholders to approve the issue of the 2011 Options the exact number of voting securities to be allotted, including the percentage of voting securities that would be held by NZOG upon exercise of its 2011 Options.

The exemption was granted conditional upon inclusion within the Notice of Meeting (and subsequent annual reports prepared during the term of the 2011 Options) of information regarding the future allotment of securities, including the maximum possible voting control position of NZOG Group and the maximum possible voting control position of NZOG Group and its associates (combined).

This exemption will be revoked by, and its terms (that remain relevant) incorporated into, the Exemption Notice 2010 such that the Exemption Notice 2010 (subject to certain conditions continuing to be satisfied) will permit NZOG to increase its voting control as a result of an exercise of 2011 Options, or pursuant to the terms of the Bonds, subject to the terms of the Exemption Notice 2010 being observed (see above).

Takeovers Code (Class Exemptions) Exemption Notice (No.2) 2001

NZOG Group also has the right to utilise the exemption provided for under Clause 10 of Part 2 of the Takeovers Code (Class Exemption) Notice 2001 (**Class Exemptions Notice (No. 2) 2001**). This exemption allows a holder of voting control to increase its voting percentage back to a level it was reduced from as a result of dilution through a non pro-rata offer, provided that it does so within six months of the offer.

1.9 Definition of Associates under the Takeovers Code

Rule 4 of the Code sets out the meaning of associates.

4. Meaning of associate

- (1) For the purposes of this code, a person is an associate of another person if***
 - a. the persons are acting jointly or in concert; or***

- b. *the first person acts, or is accustomed to act, in accordance with the wishes of the other person; or*
- c. *the persons are related companies; or*
- d. *the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates; or*
- 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 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.*

The fundamental rule, Rule 6 of the Code, prevents a person from increasing their shareholding to above 20% unless they use one of the exceptions set out in Rule 7 of the Code.

The Exemption Notice 2007 states that NZOG, NZOG Services, Gujarat NRE Coke, Saurashtra Fuels and Saurashtra World Holdings may be an associate of one or more of the others for the purposes of the Code. We note that the original application in respect of the Exemption Notice 2007 was related to the IPO and that the parties were subject to various obligations in respect of the IPO that no longer apply. However, several arrangements between the parties remain in place as outlined below.

- Prior to the Exemption Notice 2007, Saurashtra Fuels entered into an equity subscription agreement with Pike River and NZOG on 20 September 2005. Included in the terms of this agreement was an arrangement whereby NZOG agreed to support the appointment of one nominee of Saurashtra Fuels as a Director of Pike River and Saurashtra Fuels agreed to do the same for NZOG. NZOG also agreed to grant Saurashtra Fuels a first right of refusal in relation to the sale of its shares in Pike River and Saurashtra Fuels agreed to grant the same right to NZOG in respect of its shares in Pike River. These arrangements remain in place.
- Also prior to the Exemption Notice 2007, Gujarat NRE Coke entered into an equity subscription agreement with Pike River and NZOG on 12 June 2006. Included in the terms of this agreement was an arrangement whereby NZOG agreed to support the appointment of one nominee of Gujarat NRE Coke as a Director of Pike River and Gujarat NRE Coke agreed to do the same for NZOG. This arrangement remains in place.

The implications of being an associate is that Gujarat and Saurashtra (and any other parties deemed associates) would be treated as being part of a group that held more than 20% of the voting rights of Pike River and therefore could only increase their shareholding in accordance with the Code. Also, associates of NZOG (**Associates**) are not permitted to vote on the resolutions contained in the Notice of Meeting.

We note that the Company considers that Gujarat and Saurashtra are not associates of NZOG. We also note that the Panel has previously expressed the view (and is yet to change its view) that Gujarat and Saurashtra would be likely to be considered to be associates of NZOG.

For the purposes of our Report we have therefore taken an “abundance of caution” approach and assumed that the non-associated shareholders of Pike River (Non-associated Shareholders) are those shareholders that hold a beneficial interest in the voting securities of the Company, excluding NZOG, Gujarat and Saurashtra.

1.10 Voting on the Resolutions

NZOG is not permitted to vote on the Resolutions.

As noted above Pike River considers that Gujarat and Saurashtra are not associates of NZOG. However, in order to address any doubt, each of Gujarat and Saurashtra has advised the Company that it does not intend to vote on the proposed resolutions.

1.11 Issue of the Report

Campbell MacPherson was approved by the NZX on 4 March 2010 to prepare the Appraisal Report. Campbell MacPherson was further approved by the Takeovers Panel on 9 March 2010 to prepare the Independent Adviser's Report.

Campbell MacPherson issues this Independent Adviser's Report and Appraisal Report to the Independent Directors of Pike River (**the Independent Directors**) to assist the Non-associated Shareholders of Pike River in forming their own opinion on whether to vote for or against the Resolutions.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness and/or merits of voting for or against the Resolutions in relation to each shareholder. This Report is therefore necessarily general in nature.

This Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Fairness and Reasonableness of the Proposed Transaction

2.1 Basis of Evaluation

NZSX Listing Rule 1.2.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the Proposed Transaction are fair to Pike River shareholders and option holders.

ASX Listing Rule 10.1 requires an Independent Expert's Report (generally speaking, the equivalent of an Appraisal Report prepared under NZSX Listing Rules) to state whether the Potential Transaction is fair and reasonable to the holders of Pike River's ordinary securities whose votes are not to be disregarded.

There is no legal definition of the term fair in New Zealand in either the NZSX Listing rules or in any statute dealing with securities or commercial law. There is also no legal definition of the term "fair and reasonable" in Australia in either the ASX Listing Rules or the Australian Corporations Act 2001 (Cth).

We have evaluated the fairness of the Proposed Transaction by reference to:-

- The rationale for the Proposed Transaction;
- The terms of the Bonds and the Coal Option Agreement;
- The value of the Coal Option Agreement;
- Potential alternatives to the Proposed Transaction;
- Potential impact on the control of Pike River by NZOG;
- Other benefits and disadvantages to Shareholders other than NZOG; and
- The implications of the resolutions in respect of the Proposed Transaction not being approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analysis together could create a misleading view of the process underlying the opinion. All figures are in New Zealand Dollars unless otherwise stated.

2.2 Rationale for the Proposed Transaction

Pike River was listed on the NZX and ASX in 2007 with the sole purpose of developing a commercially successful greenfield underground coal mine on the West Coast of the South Island. The Company had identified a large seam of hard coking coal which had attractive product features in the international coal market. Since its inception Pike River's shareholders and lenders have invested circa NZ \$266 million to create the new mine and develop its supporting infrastructure. Total saleable coal production of 17.6 million tonnes has been forecast over a mine life of eighteen years. The Pike River mine remains in the development phase and has not yet achieved full production. However a small amount of coal has been produced to date as a by-product of establishing the mine ready for hydro mining.

Pike River has experienced delays and unforeseen events which have significantly increased the mine project capital costs by approximately 34%. Due to these delays and time lag until steady state coal production is achieved further working capital funding is now required. The proposed level of equity capital funding sought by Pike River is approximately \$91.3 million which comprises \$50 million for working capital purposes (including a cash buffer of \$18 million) and approximately \$41.3 million to re-finance the Liberty Bonds.

We note that a condition of the Liberty Bonds (revised in March 2009) is that the mine was to have achieved "first steady state production" by 30 November 2009. The mine was then to have been capable of producing 800,000 tonnes per annum (equivalent to an average 66,700 tonnes per month) in the 12 months ended 30 November 2010. As a result of this condition not having been satisfied, Liberty acquired the right to declare a review event under the Terms and Conditions of the Liberty Bonds, but has not done so, and Pike River and Liberty have now reached an agreement relating to the redemption of the Liberty Bonds.

Under the terms of this agreement, Pike River is obliged to repay the Liberty Bonds on or before 30 June 2010, and pay an early redemption fee (**Early Redemption Fee**) that is to be satisfied by Pike River issuing Liberty with two year unlisted options for fully paid ordinary shares in Pike River, on terms substantially the same as the 2011 Options.

In the event that Pike River fails:

- a) to redeem the Liberty Bonds in full on or before 30 June 2010; or
- b) to secure any necessary shareholder approval or other necessary consent, waiver or approval required (excepting those required to be made by Liberty) in order for NZOG or its subsidiary to subscribe for the NZOG Convertible Bonds, for Pike River to make the proposed Equity Issue,

then Liberty will be entitled to give notice to Pike River declaring the Liberty Bonds to be immediately due and payable, together with accrued interest and together with the Early Redemption Fee, and in that event Pike River shall be obliged to indemnify Liberty against any losses due to the failure of Pike River to redeem the Liberty Bonds on or before 30 June 2010.

The proposed \$50 million Equity Issue is the third time in recent years the Company has approached shareholders and investors for equity funding. The Independent Directors have advised us that they received equity raising proposals from several international investment banks.

On 12 March 2008 Pike River issued Liberty with US\$30 million of convertible bonds. Liberty is a funds management division of the global investment bank, Goldman Sachs. These Liberty Bonds can be converted to ordinary shares in Pike River and were issued subject to a number of terms and conditions.

A key condition was that the FSSPD which had to be achieved by 30 June 2009 which meant the mine would be capable of production of not less than 800,000 tonnes of saleable coal in the following 12 months. This date (and production volume) has not been achieved and subsequently the date was extended by mutual agreement to 30 November 2009. Due to recent challenges being experienced in mine development this revised date was also not achieved and Liberty was agreeable to extending again the FSSPD subject to certain amendments to the conditions of the Liberty Bonds.

Due to the past experience of mine project delays the Board of Pike River now believe it is prudent to refinance the Liberty Bonds rather than risk being put in the situation of having to seek a further extension due to the impact of unforeseen mining delays or further geological challenges that may further slow mine development.

The Board recognises that establishing a large scale underground coal mine is not without risks including mining conditions, machinery availability and geology. Furthermore the Liberty Bonds were issued for a three year term and were due to be repaid or converted to shares by 12 March 2011 in any event. If the Liberty Bonds were not refinanced now and were to be repaid on 12 March 2011, this would require a capital raising to do so. The Independent Directors of Pike River are now of the opinion that the Company must refinance the Liberty Bonds on or prior to 30 June 2010 to ensure that Pike River is able to continue to meet its financing obligations beyond that date.

2.3 The Terms of the Bonds

NZOG has conditionally agreed to subscribe for US\$28.9 million in new Bonds. The Bonds mature on 12 March 2012 and have the same initial conversion price (and other conversion rights) as apply to the existing Liberty Bonds. The terms of the Bonds are set out in detail in the Notice of Meeting.

The terms of the Bonds are substantially the same as the terms of the existing Liberty Bonds including as to the security, conversion terms, anti-dilution provisions and participatory rights in new equity issues. However there are a number of important differences as provided below;

- The Maturity Date has been extended by a further 12 months to 12 March 2012.
- The interest rate has been reduced from 10.75% p.a. to 10% p.a.
- The FSSPD clause has been removed (i.e. the Bonds will not be subject to any production covenant).
- Pike River's early redemption rights under the Liberty Bonds will not be applicable under the Bonds.
- An increase in the amount of first ranking secured debt which can rank *pari passu* with the Bond facility from NZ\$10 million to NZ\$20 million.
- Removal of material adverse event as an event of default.
- Addition of access rights to the Bond holder to Pike River's offices for the purpose of inspecting operations and records during the term of the Bonds.

The Independent Directors consider that the proposed Bond facility with NZOG is more favourable to Pike River than the existing terms of the Liberty Bonds and the changes to the terms of the Liberty Bonds proposed by Liberty as part of recent negotiations around the extension of the current FSSPD. The Board of Pike River also engaged an investment bank to consider refinancing the Liberty Bonds with a new convertible bond. This involved approaching several offshore convertible bond investors. The indicative terms on a new convertible bond were less favourable than the NZOG Bond and carried a higher degree of execution risk.

A comparison of key selected terms of the Liberty Bonds and the Bonds proposed to be issued to NZOG is provided below.

Selected Terms	Liberty Bonds	NZOG Bonds
	Current	Proposed
Principal	Circa US\$28 million	US\$28.9 million
Maturity Date	12 March 2011	12 March 2012
FSSPD	30 November 2009	None
Conversion Price	Fixed (prior to the Equity Issue and subject to anti-dilution mechanism) at US\$0.870376 per share	Fixed (prior to the Equity Issue and subject to anti-dilution mechanism) at US\$0.870376 per share
Anti-dilution	Protection (under certain conditions) from dilution in the event of subsequent issue of securities by the Company	Protection (under certain conditions) from dilution in the event of subsequent issue of securities by the Company
Interest Rate	10.75%	10%
Redemption Rights	Early redemption allowed by the Company (under specified conditions)	No early redemption allowed
Facility Fees	An establishment fee of 3% of the principal amount	None (Break fee of NZ\$1.2 million)

Following our review of the capital-raising alternatives considered by the Board in respect of the Equity Issue and the Bonds we consider that the terms of the Bonds provides considerable advantages over the alternatives for the following reasons;

- Not having a FSSPD condition will avoid the financial risks associated with Pike River not being able to satisfy that condition.
- The Bond facility offers a lower coupon rate of 10% p.a. versus the current 10.75% charged by Liberty.
- Maintaining the current conversion price means less dilution for Pike River shareholders compared with likely alternatives.
- No transaction fee to arrange the Bonds. The Liberty Bonds incurred fees of 3% when established and this is indicative of what a new convertible bond would have cost.
- Maturity date extended by 12 months on the Bonds compared with the Liberty maturity date.

The net effect of these advantages is, in our view, appealing. However they do need to be balanced against potential disadvantages of Pike River entering into the arrangements in relation to the Bond Facility including;

- The requirement to enter into the Coal Option Agreement (discussed in more detail in Section 2.4 and 2.5 below).
- The loss of early redemption rights.
- The potential risk to Pike River of paying the break fee in the event the Company does not enter into the Bond facility.
- The consideration that is required to be paid to Liberty.

As outlined in Sections 2.4 and 2.5 below, we consider that the terms of the Coal Contract (that would result from exercise of the Coal Option Agreement) are commercially reasonable and the value of this Coal Option Agreement is in the range of US\$0.5 million – US\$2.5 million, with a “most likely” value of US\$1 million.

The loss of redemption rights, while a disadvantage compared to the current terms of the Liberty Bonds, was expected to fall away under the proposed new terms of those Bonds, and the break fee will only apply in the event that the Bonds are not issued.

The Company has agreed to issue 2.5 million to 2.9 million unlisted options to Liberty at a price no less than a 25% premium to the weighted average Placement and Rights Issue price, or, if the Liberty Bonds are not redeemed by 30 June 2010, the closing price for the Company’s shares on the NZSX the next trading day (if lower). The options will be able to be exercised at any time during the period of two years after their grant date. These options represent a “standstill fee” and guarantee 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.

2.4 The Terms of the Coal Option

As part of the Proposed Transaction, Pike River has agreed (subject to obtaining relevant shareholder approvals and other necessary consents) to enter into the Coal Option Agreement with NZOG whereby Pike River will grant NZOG an option (**Option**) to purchase:

- a) for the period from 23 February 2010 until 31 March 2013, up to the total part of the annual coal production from the Company’s 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 Company’s Pike River Mine life, up to 30% of the annual coal production from the Company’s Pike River Mine.

The Option can be assigned at any time to any party reasonably considered by NZOG to have the financial resources to meet its commitments under the contract arising from exercise of the Option.

The Option may also be exercised at any time up to 31 March 2012 by NZOG giving the Company written notice for an off-take contract (**Coal Contract**) commencing 6 months hence. During the option period set out in the Coal Option Agreement Pike River retains the flexibility to sell into the spot market any coal not already assigned under other off-take arrangements.

Certain key terms of the Coal Contract have already been negotiated between the parties and are set out in more detail in the Notice of Meeting. Pricing terms are to be based on the FOB price negotiated annually prior to the start of each contract year (or such other time period that is mutually agreed) based on a similar type of premium Queensland hard coking coals and taking into account certain other factors. Other terms include minimum coal quality specifications, product mix, annual volumes, penalties etc.

NZOG is permitted to on-sell coal procured under the Coal Contract to a third party. NZOG is also permitted to assign the Coal Contract to any party reasonably considered by NZOG to have the financial resources to meet its commitments under the Coal Contract.

In our view the terms of the Coal Contract are commercially reasonable and similar to other Pike River off-take contracts already in place. We note that the Coal Contract would not deliver any preferential pricing to NZOG over and above benchmark premium Queensland hard coking coal prices.

2.5 The Value of the Coal Option

Campbell MacPherson has engaged specialist coal market advisers MinAxis Pty Limited (**MinAxis**) to assist in determining the value of the Option granted under the Coal Option Agreement. Results of this analysis are provided in detail in Section 6.

MinAxis analysed the value of an option on 300,000 tpa of premium grade hard coking coal on the basis that the Option is for up to 30% of Pike River's forecast annual production of 1 million tpa. Two valuation methodologies were employed; a) valuation based on recent market transactions, and; b) valuation based on future coal price "protection", or alternatively, potential coal price arbitrage opportunity gain.

Results using methodology a) indicate an Option value of US\$0.5 – 1.5 million. Results using methodology b) indicate an Option value of US\$1.5 – 2.5 million. MinAxis consider that methodology a) carries more weight and therefore assign a "most likely" value to the Option of US\$1 million.

Campbell MacPherson concurs with these results and we also note that the MinAxis analysis makes the (reasonable) assumption that the owner of the Option will seek to maximise value through securing the maximum amount of coal (i.e. 30% of total production p.a.). It is possible that the owner of the Option may choose to enter into the Coal Contract for a lower percentage of mine output and/or the annual production from the mine may be less than 1 million tpa in any given year. These risk factors could lead to a reduced value of the Option.

2.6 Potential Alternatives to the Proposed Transaction

Campbell MacPherson has undertaken discussions with the Independent Directors as to the background and context that led to the Proposed Transaction being recommended to shareholders.

In the quarter ending September 2009 the Board commenced steps to seek further funding for the Company. Several parties demonstrated strong interest in a private share placement, along with a long term coal supply contract based on methodology similar to that negotiated with existing Pike River shareholders, Gujarat and Saurashtra. However the Pike River board recognised it had to also concurrently explore other capital raising alternatives, due primarily to the long due diligence period prospective investors required and the backdrop of continuing delays to coal production that Pike River was experiencing due to mine development difficulties.

Trading bank appetite for project mine financing for Pike River appears limited at this time. During the second half of calendar 2009 a major trading bank undertook due diligence on Pike River with a view to refinancing the Liberty Bonds. However, this did not proceed.

Since January 2010 Pike River has had detailed discussions relating to refinancing with a number of major investment banks and sharebroking firms.

Pike River did negotiate a conditional short term extension to the Liberty Bonds, but (assuming that extension could have been finalised) it would still have been very difficult for Pike River to get any further extension due to the risk of not being able to comply with the conditions relating to production contained in that facility.

After canvassing the alternative fund raising options, Pike River Senior Management and Independent Directors concluded that the Proposed Transaction offered the best outcome and on that basis proceeded to finalise negotiations (subject to shareholder approval) with NZOG.

As a result, Campbell MacPherson has been able to test the Proposed Transaction with NZOG against these recent alternative refinancing possibilities. In summary Campbell MacPherson believes the realistic alternatives open to the Board have included:-

- An equity rights issue to existing Pike River shareholders;
- An equity share placement to new investors;
- A combination of an equity rights issue and a share placement;
- Renegotiating of the current Liberty Bonds;
- Finding another lender to refinance the Liberty Bonds and/or
- Sourcing project finance from senior bank lenders.

From our analysis and review we are satisfied that the Pike River Senior Management and Independent Directors have extensively canvassed alternative funding sources before finalising negotiations (subject to shareholder approval) with NZOG.

2.7 Potential Impact on the Ownership of Pike River

The proposed allotment of the Bonds to NZOG to refinance the Liberty Bonds may have an impact on the future ownership level of voting securities held by NZOG in Pike River. The precise nature of this impact is difficult to accurately assess at this time because:-

- NZOG may choose to convert some or all of its Bonds to ordinary shares in Pike River.
- Conversion of those Bonds will result in NZOG being entitled to receive subscription rights (equivalent to those currently held by Liberty in relation to the Liberty Bonds) in relation to issues of securities by the Company between the date of issue of the Liberty Bonds and the date of conversion of the Bonds. The extent to which NZOG may exercise these subscription rights is not known.
- The exact pricing of the Placement and Rights Issue has yet to be announced.
- In the intervening period between the date of this Report and any conversion date, other equities may have been issued by Pike River (anti-dilution mechanism).
- Should a takeover offer be made for Pike River such that there is a change of control then the Bonds are either convertible or redeemable (in whole or in part) at the Bond holder's discretion.

The closing share price of Pike River on the NZSX as at 15 April 2010 is \$1.12 per share i.e. \$0.13 per share below the \$1.25 exercise price of the 2011 Options which do not expire until 24 April 2011. Over the past 12 months Pike River shares on the NZSX have traded in a range between \$0.732 and \$1.23 per share. We therefore consider it is probable that the share price of Pike River may reach a level whereby the 2011 Options will be exercised by NZOG Group or other option holders prior to expiry.

Ownership by NZOG Group

NZOG Group currently holds 102,637,600 ordinary shares in Pike River, equivalent to 29.53% of the fully paid ordinary shares of the Company and 29.52% of the voting rights. NZOG also holds 17,266,132 of the 2011 Options (equivalent to 26.86% of the total 2011 Options on Issue). On a fully diluted basis (based on exercise of all outstanding 2011 Options, but before conversion of any Bonds) NZOG Group holds 29.11% of the fully paid ordinary shares of the Company.

Under the terms of the 2011 Options, option holders are entitled to participate in the Rights Issue as if they had converted all of their options to shares. However, they are not entitled to participate in the Placement. NZOG will therefore (subject to its conditional agreement with the Company) participate in the Placement on a pro-rata basis equivalent to 29.52% of the current voting rights, and in the Rights Issue on a pro-rata basis equivalent to 28.69% of the fully diluted shares on issue after the Placement.

We have reviewed two key forward-looking scenarios for NZOG Group's ownership of Pike River, these comprise:

- a) a "Maximum Position" scenario where NZOG takes up its full entitlement under the Equity Issue and all Bonds are converted and only NZOG Group exercises its 2011 Options; and
- b) a "Fully Diluted Position" scenario where NZOG takes up its full entitlement under the Equity Issue all Bonds are converted and all 2011 Options are exercised;

The pricing for the Equity Issue has yet to be determined so for the purposes of the sensitivity tables below, a range of \$0.70 to \$0.90 per share has been assumed by Pike River and Campbell MacPherson.

On this basis we have reviewed a series of "sub-scenarios" which cover the potential Maximum Position and Fully Diluted Position under various Equity Issue prices within this range. We note that the results of our analysis are not particularly sensitive to the Equity Issue pricing.

As outlined earlier in this Section, the Bonds (if converted) trigger subscription rights in relation to issue of securities by the Company between the date of issue of the Liberty Bonds and the date of conversion of the Bonds. In the event that the Equity Issue is completed and NZOG subsequently converts all of its Bonds and exercises all of its subscription rights, then the maximum number of ordinary shares that would be issued to NZOG in respect of the Bonds would be between 50,435,455 and 53,120,667. This is based on the assumed Equity Issue price range of \$0.70 to \$0.90 per share as shown in the tables below.

NZOG Shares if Bonds converted (showing NZOG subscription rights to previous Pike River equity issues)

Equity Issue Price	Shares if Bonds Converted	NZOG Subscription Rights April 2009	NZOG Subscription Rights Current	NZOG Subscription Rights (Cumulative)	Maximum Shares if Bonds Converted and Subscription Rights Subscribed
0.90	33,990,765	11,676,192	3,527,910	1,240,588	50,435,455
0.85	34,263,103	11,676,192	3,735,434	1,313,564	50,988,293
0.80	34,569,483	11,676,192	3,968,899	1,395,662	51,610,236
0.75	34,916,714	11,676,192	4,233,492	1,488,706	52,315,104
0.70	35,313,549	11,676,192	4,535,884	1,595,042	53,120,667

Incorporating the subscription rights attaching to the Bonds, the results of our analysis are summarised in the Tables below in relation to the “Maximum Position” and “Fully Diluted Position”.

NZOG “Maximum Position” at different Equity Issue Prices from \$0.70 - \$0.90 per share

Equity Issue Price	NZOG Group		Maximum Shares if Bonds Converted and Subscription Rights Subscribed ¹	NZOG Options only are Exercised	Total NZOG Group Shares	Total Securities	NZOG Group %
	Shares Issued	Entitlement Under Equity Raising					
0.90	55,555,555	16,030,187	50,435,455	17,266,132	186,369,374	477,278,256	39.05%
0.85	58,823,530	16,973,740	50,988,293	17,266,132	187,865,765	481,099,069	39.05%
0.80	62,500,000	18,035,313	51,610,236	17,266,132	189,549,281	485,397,482	39.05%
0.75	66,666,666	19,238,528	52,315,104	17,266,132	191,457,364	490,269,016	39.05%
0.70	71,428,571	20,613,759	53,120,667	17,266,132	193,638,158	495,836,484	39.05%

Note 1: includes NZOG Subscription Rights.

NZOG “Fully Diluted Position” at different Equity Issue Prices from \$0.70 - \$0.90 per share

Equity Issue Price	NZOG Group		Maximum Shares if Bonds Converted and Subscription Rights Subscribed ¹	NZOG Shares if Options Exercised	Additional Shares if All Options are Exercised	Total NZOG Group Shares	Total Securities	NZOG Group %
	Shares Issued	Entitlement Under Equity Raising						
0.90	55,555,555	16,030,187	50,435,455	17,266,132	64,281,875	186,369,374	524,293,999	35.55%
0.85	58,823,530	16,973,740	50,988,293	17,266,132	64,281,875	187,865,765	528,114,812	35.57%
0.80	62,500,000	18,035,313	51,610,236	17,266,132	64,281,875	189,549,281	532,413,225	35.60%
0.75	66,666,666	19,238,528	52,315,104	17,266,132	64,281,875	191,457,364	537,284,759	35.63%
0.70	71,428,571	20,613,759	53,120,667	17,266,132	64,281,875	193,638,158	542,852,227	35.67%

Note 1: includes NZOG Subscription Rights.

Under the “Maximum Position” scenario, the maximum voting share that NZOG Group could reach would be 39.05% of the ordinary shares of the Company. Under a “Fully Diluted Position” scenario the maximum voting share that NZOG Group could reach would be 35.67% of the ordinary shares of the Company.

The above scenarios do not take account of any additional shares that might be issued to NZOG as a result of dilutionary rights under the Bonds being triggered should the Company make future share issues below the dilutionary trigger price prescribed by the terms of issue of the Bonds.

Ownership by NZOG Group & Associates

Associates of NZOG Group (assumed for the purposes of this Report as being Gujarat and Saurashtra) currently collectively hold 48,555,662 fully paid ordinary shares in Pike River, equivalent to 13.97% of the fully paid ordinary shares of the Company. Associates of NZOG Group do not hold any 2011 Options. NZOG and its Associates therefore currently collectively hold 43.49% of the fully paid ordinary shares of the Company. On a fully diluted basis (based on exercise of all outstanding 2011 Options, but before conversion of any Bonds) NZOG Group and its Associates collectively hold 40.27% of the ordinary shares of the Company.

By virtue of the fact that Saurashtra is not participating in the Placement, NZOG and its Associates will only be subscribing for 37.07% of the Placement. Also, because the Placement is made prior to the Rights Issue, NZOG and its Associates are entitled to subscribe for their pro-rata share of the Rights Issue. However, in the case of the Rights Issue, their pro-rata entitlement varies from 40.17% to 40.19% over the range of Equity Issue prices from \$0.70 to \$0.90 per share, due to the impact of Saurashtra’s non-participation in the Placement.

We have used the same “Maximum Scenario” and “Fully Diluted” scenarios as above for the collective shares and 2011 Options held by NZOG and its Associates to analyse their potential collective ownership of Pike River in the future.

Results of our analysis are summarised in the Tables below.

NZOG & Associates “Maximum Position” at different Equity Issue Prices from \$0.70 - \$0.90 per share

Equity Issue Price	NZOG Group, Gujarat & Saurashtra		Maximum Shares if Bonds Converted and Subscription Rights Subscribed ¹	NZOG Options only are Exercised	Total NZOG Group, Gujarat & Saurashtra		NZOG Group, Gujarat & Saurashtra %
	Shares Issued	Entitlement Under Equity Raising			Shares	Total Securities	
0.90	55,555,555	21,981,441	50,435,455	17,266,132	240,876,290	477,278,256	50.47%
0.85	58,823,530	23,272,240	50,988,293	17,266,132	242,719,927	481,099,069	50.45%
0.80	62,500,000	24,724,101	51,610,236	17,266,132	244,793,731	485,397,482	50.43%
0.75	66,666,666	26,369,179	52,315,104	17,266,132	247,143,677	490,269,016	50.41%
0.70	71,428,571	28,248,795	53,120,667	17,266,132	249,828,856	495,836,484	50.39%

Note 1: includes NZOG Subscription Rights.

NZOG & Associates “Fully Diluted Position” at different Equity Issue Prices from \$0.70 - \$0.90 per share

Equity Issue Price	NZOG Group, Gujarat & Saurashtra		Maximum Shares if Bonds Converted and Subscription Rights Subscribed ¹	NZOG Shares if Options Exercised	Additional Shares if All Options are Exercised	Total NZOG Group, Gujarat & Saurashtra		NZOG Group, Gujarat & Saurashtra %
	Shares Issued	Entitlement Under Equity Raising				Shares	Total Securities	
0.90	55,555,555	21,981,441	50,435,455	17,266,132	64,281,875	240,876,290	524,293,999	45.94%
0.85	58,823,530	23,272,240	50,988,293	17,266,132	64,281,875	242,719,927	528,114,812	45.96%
0.80	62,500,000	24,724,101	51,610,236	17,266,132	64,281,875	244,793,731	532,413,225	45.98%
0.75	66,666,666	26,369,179	52,315,104	17,266,132	64,281,875	247,143,677	537,284,759	46.00%
0.70	71,428,571	28,248,795	53,120,667	17,266,132	64,281,875	249,828,856	542,852,227	46.02%

Note 1: includes NZOG Subscription Rights.

Under the “Maximum Position” scenario, the maximum voting share that NZOG Group and its Associates could reach would be 50.47% of the voting securities of the Company. Under a “Fully Diluted Position” scenario the maximum voting share that NZOG Group could reach would be 46.02% of the voting securities of the Company.

We note that the ownership levels outlined for NZOG and its Associates under the “Maximum Position” and “Fully Diluted Position” scenarios are materially different from the ownership levels that could be reached by NZOG on its own, under the same scenarios.

2.8 Potential Impact on Control of Pike River

Shareholder Voting

Ordinary resolutions require approval of more than 50% of the votes cast by shareholders. Special resolutions require approval of more than 75% of the votes cast by shareholders. A shareholder holding more than 25% of a company is able to block special resolutions. A shareholder holding more than 50% of the voting securities of a company is able to pass (or block) ordinary resolutions. A shareholder holding more than 75% of the voting securities of a company is able to pass special resolutions (in each case assuming the shareholder is eligible to vote). A shareholder’s ability to influence voting on ordinary or special resolutions may be impacted by other legal and regulatory factors such as the Companies Act, Takeovers Code, NZSX and/or ASX Listing Rules, and the Company’s constitution.

We note that in a listed company which has a large number of minority shareholders (such as Pike River), a shareholding of 25-35% is generally believed to provide a significant degree of control. However, this level of control is potentially reduced if there are several shareholdings of a similar size held by non-associated shareholders.

NZOG Group currently holds 29.53% of the fully paid ordinary shares in Pike River and 29.52% of the voting rights of Pike River. It is therefore able to block special resolutions, but not ordinary resolutions of the Company’s shareholders (so long as more than 59.04% of the voting rights are exercised). An increase in NZOG Group’s shareholding to 39.05% as outlined in the “Maximum Position” scenario, may, in our view, materially alter its ability to pass or block ordinary shareholder resolutions.

NZOG Group and its Associates currently collectively hold 43.49% of the fully paid ordinary shares of Pike River. Therefore, if they act collectively, they are able to block special resolutions, and may be able to pass or block ordinary resolutions of the Company’s shareholders (so long as less than 86.98% of the voting rights are exercised).

An increase in the shareholding held by NZOG Group and its Associates to 50.47% as outlined in the “Maximum Position” scenario, will in our view, materially alter their ability, if they act collectively, to pass or block ordinary shareholder resolutions, since they will collectively have a clear majority position above 50% of the voting securities.

We note that, under the conditions of the Exemption Notice 2007, the original IPO Prospectus for Pike River included information on the potential maximum control percentage of NZOG Group in Pike River as a result of the allotment of shares on exercise of the 2009 Options, as follows;

- The maximum percentage of voting rights that NZOG Group could have potentially reached was 38.00%.

The “Maximum Position” scenario outlined for NZOG Group in this Report is therefore slightly above that outlined at the time of the IPO Prospectus.

NZOG Control as a Secured Bond Holder

In the event that NZOG becomes a secured lender to Pike River through issue of the Bonds, Pike River will be required to meet its obligations under the terms and conditions of those Bonds. These terms will include meeting certain financial ratios in relation to debt serviceability and maintenance of capital, and a range of other undertakings applicable to a financing instrument of this type.

If Pike River has an Event of Default under the terms of the Bonds, this would, in our view place NZOG in a position of increased control as a first ranking secured lender to the Company.

Board of Directors

The Board of Directors of Pike River currently comprises 7 Directors, two of whom are independent (including the Chairman), two of whom are appointees of NZOG Group, one of whom is an appointee of Gujarat, and one of whom is an appointee of Saurashtra.

The Independent Directors of Pike River have advised us that, as far as they are aware, an increase in NZOG Group’s shareholding to the “Maximum Position” of 39.05% will have no impact on the composition of the Company’s Board of Directors. However, the Independent Directors note that an increase in the collective holding of NZOG Group and its Associates to 50.47% would potentially allow those shareholders, if they were to act collectively, to control the appointment of Directors to the Board of the Company by virtue of their holding, collectively, a majority of the voting securities of Pike River.

2.9 Other Benefits to Shareholders other than NZOG

Completion of the Proposed Transaction will in our view have the following benefits for non-associated shareholders:-

- The repayment of the Liberty Bonds will reduce Pike River’s level of financial risk, particularly in relation to removal of the FSSPD;
- The proposed new Bond facility with NZOG should allow adequate time for Pike River to achieve and sustain steady state coal production from its new mine.
- Australasian trading banks appear to have limited appetite for project finance in the New Zealand market. As a result Pike River must focus on funding the mine development from alternative debt and equity sources until such time a steady state production is achieved.
- The increased financial investment by NZOG in Pike River may more closely align minority shareholder interest with NZOG, the largest cornerstone shareholder.
- At one time Pike River was a wholly owned subsidiary of NZOG and NZOG’s current offer to provide further funding and take out the Liberty Bonds demonstrates NZOG’s clear commitment to support Pike River until the mine becomes fully operational.
- Conversion of the Bonds prior would result in reduced financing costs for Pike River and a lower gearing (i.e. debt to equity) ratio.
- In the event that the Option is exercised Pike River will have secured a new contracted coal customer for up to a further 30% of its mine output (beyond 31 March 2013).
- NZOG has also agreed (subject to certain conditions) to provide interim funding of a further \$15 million to cover short-term working capital requirements of Pike River until the Equity Issue is completed.

2.10 Other Disadvantages to Shareholders other than NZOG

Completion of the Proposed Transaction will in our view have the following potential disadvantages for Non-Associated shareholders:-

- If approved the Proposed Transaction will increase Pike River’s financial dependence on NZOG. This dependence includes NZOG taking up its share rights entitlement in full, funding the repayment of the Liberty Bonds through a new Bond facility and the provision of a \$15 million working capital facility during the period of the Rights Issue.
- The repayment of the Liberty Bonds in the manner proposed may reduce Liberty’s desire to work with Pike River in the future. However, we are advised by Pike River that the relationship with Liberty remains commercially sound so we consider this risk is low.
- In the event that shareholders approve the NZOG Bond, Pike River will lose its early redemption rights under the Liberty Bonds, which were due to expire in March 2011. Providing the funding to replace the Liberty Bonds permits NZOG to become a first ranking security holder (alongside certain facilities with BNZ) over all the assets and undertakings of the Company.
- As outlined in Section 5.4 of this Report, Pike River already has existing off-take arrangements in place with Gujarat, Saurashtra and certain Japanese steel mills. These off-take arrangements will account for between

77% to 82% of total mine production for the first 3 years and 55% to 60% of total mine production for the remaining life of mine. The Coal Option Agreement will not impact on these existing coal contracts. However, in the event that the Option is exercised, the contracted portion of the mine's output will change to between 77% to 100% of total mine production for the first 3 years and 55% to 90% of total mine production for the remaining life of mine (i.e. there will be an increase in the upper limits of contracted production over the life of the mine).

It is therefore possible, but not certain, that the total amount of coal that Pike River is able to sell on the spot market may be lower due to the entry by the Company into the Coal Option Agreement.

We note that Pike River has previously indicated to the market that it would ideally like to retain 10% to 15% of annual production for the spot market. The position proposed with NZOG under the Coal Contract (beyond 31 March 2013) is not materially different from that objective.

2.11 No Change in Business Risk

Completion of the Proposed Transaction between NZOG and Pike River will not change the underlying business risk profile of the Company. Pike River remains a mining company developing a single underground coal mine on the West Coast of New Zealand. The recent first export shipment of 20,000 tonnes to an Indian customer is a sign of its long term potential.

Some key risks remain and include:

- Developing the necessary underground infrastructure and capability to mine 1,000,000 tonnes per annum (tpa);
- Understanding the in situ geology, coal seam dynamics and mine planning to ensure large scale hydro mining is sustainable; and
- Ensuring the Company has adequate funding available until it achieves positive cash-flow from ongoing coal revenues.

As a single coal mine operation Pike River is not without a significant level of business risk although some of these business risks are expected to decline as the mine moves from development phase to full production.

2.12 Implications if the Resolutions are not Approved

Ordinary resolutions 1, 2 and 3 are interdependent and therefore require sequential approval. So if Resolution 1, 2 and 3 are not all approved the Proposed Transaction cannot proceed.

NZOG and Pike River have spent considerable time and cost negotiating the Proposed Transaction. NZOG estimates their costs at \$330,000, payable by Pike River regardless of whether the Bond Facility and Coal Option Agreement proceed, plus the \$1.2 million break fee payable to NZOG should the Bond Facility and Coal Option Agreement not proceed. Furthermore, the proposed \$50 million Equity Issue must be successfully completed before the Bond will be subscribed for by NZOG. In any event all conditions between Pike River and NZOG must be satisfied or waived by 30 June 2010.

In the event that Pike River is unable to redeem the Liberty Bonds by 30 June 2010 or is unable to secure the necessary shareholder approvals and other consents required to facilitate the subscription of NZOG to the Bonds or allow the Company to conduct the Equity Raising, then Liberty Harbor will be entitled to give notice to Pike River that the Liberty Bonds are immediately due and payable pursuant to the terms of the Liberty Bond facility. Such a notice would severely compromise the financial viability of the Company as it would be difficult to find alternative funding at such short notice.

If the Proposed Transaction is not approved then Pike River will be placed in a very difficult financial position. The Company has over 150 employees on the payroll working 24/7 to develop the new underground mine. The Directors require certainty of funding to continue to develop the mine to achieve coal production. Without the funding from the Proposed Transaction Pike River would be left in a weak bargaining position with existing and future lenders. Pike River's current undrawn facilities and cash available would allow the business to trade for a further four weeks (the NZOG short term funding facility does provide funding through to the end of June 2010, assuming certain pre-conditions are satisfied) before some other form of recapitalisation was required. Due to difficulties experienced with mine development (and hence delayed production and coal sales) the Company's need for further funding is immediate.

In summary the key implications if the Resolutions are not approved are:

- The Company only has funding for another four weeks operation and would need to urgently pursue other capital sources.
- Other sources of funding will be difficult to obtain and most likely will have a higher borrowing cost and/or more onerous terms than the proposed NZOG Bonds.
- Pike River will need to reimburse NZOG's costs and pay a break fee, which in total would exceed \$1.5 million.

- There is a greater risk that Pike River may default on its Liberty Harbor Bond facility, and in the event that the Liberty Bonds become immediately due and payable, this could place the Company in significant financial distress.
- The \$50 million Equity Issue will not be able to be subscribed to as currently proposed because the Bond and Coal Option are a precondition to NZOG supporting the Equity Issue.
- In the event the Bond is not approved, a single equity raising for Pike River for the full amount required (i.e. \$90+ million) may be problematic in the current Australasian equity market.

The Independent Directors of Pike River believe the Proposed Transaction is in the best interests of all non-associated shareholders and recommended that it be approved.

2.13 Voting For or Against the Resolution

Resolutions 1, 2 and 3 are conditional upon all of the resolutions being approved. If shareholders vote against any of the resolutions then the Proposed Transaction will not proceed.

Voting for or against the resolutions in respect of the Proposed Transaction is a matter for individual shareholders to consider based on their own views as to value, control, future market conditions, state of the global economy and coal sector, risk profile and other factors. Shareholders will need to consider carefully these consequences and consult their own professional adviser as appropriate.

2.14 Summary of Evaluation of Fairness

This Report is for the benefit of the shareholders and optionholders of the Company (excluding NZOG and its appointees to the Board of the Company).

In our opinion, taking into account all of the relevant factors, the Proposed Transaction (including the terms and conditions) are fair and reasonable to the shareholders and optionholders of the Company (excluding NZOG and its Associates) and are in the best interests of Pike River.

The grounds for our opinion are;

- The terms of the Bonds (from Pike River's perspective) are, in aggregate, superior to the existing Liberty Bonds, superior to the proposed revised terms of the Liberty Bonds and superior to other financing alternatives available to the Company.
- Refinancing of the Liberty Bonds is an important step in maintaining the financial integrity of Pike River and minimising financial costs and risks associated with ongoing funding of mine development.
- The Directors (excluding Messrs Radford and Meyer) have extensively canvassed a wide range of funding options for the Company over the past six months and the Independent Directors of Pike River strongly recommend the issue of the Bonds and the Coal Option Agreement.
- The entry by Pike River into the Coal Option Agreement, while having an estimated value in the order of US\$1 million to NZOG, is outweighed by the net benefits to Pike River of the Bonds.
- The provision of the Short-Term Loan Facility of \$15 million is beneficial to Pike River to provide working capital until such time as the Equity Issue is completed.
- The terms of the Coal Option Agreement provide for ongoing sale of uncontracted coal by Pike River on the spot market until the Option is exercised.
- The terms of the Coal Contract (resulting from exercise of the Option) currently outlined are, in our view, commercially sound and in line with other off-take agreements previously entered into by the Company.
- NZOG Group currently holds 29.53% of the voting rights of Pike River. Under our "Maximum Position" scenario NZOG Group could increase its ownership of the voting securities of the Company to 39.05%. We consider that this potential increase in ownership of the Company by NZOG Group may increase its ability to exercise effective control of the Company. However, we also consider that NZOG Group may already have an ability to exercise effective control of the Company by virtue of its existing shareholding and board representation (two directors).
- NZOG and its Associates collectively currently hold 43.49% of the fully paid ordinary shares of Pike River. Under our "Maximum Position" scenario NZOG Group and its Associates could increase their ownership of the voting securities of the Company to 50.47%. We consider that this potential increase in ownership of the Company by NZOG and its Associates would increase their ability, if they act collectively, to exercise effective control of the Company (by virtue of holding between them a clear majority interest). However we consider that NZOG Group and its Associates, if they act collectively, may already have effective control of the Company through their existing shareholdings and collective board representation (four directors).

In our opinion the information to be provided by the Company, being the Notice of Meeting, the Explanatory Notes and this Report, is sufficient to enable shareholders and optionholders to understand all relevant factors, and make an informed decision, in respect of the question of whether or not the Proposed Transaction (including the consideration and the terms and conditions of the Proposed Transaction) is fair and reasonable to the shareholders and optionholders of the Company (excluding NZOG and its appointees to the Board of the Company).

We have obtained all information we believe desirable for the purpose of preparing this Report, including all material information which is or should have been known to any Director of the Company and made available to the Directors of the Company.

The material assumptions on which the opinion is based are:

- The Rights Issue and Placement will have identical offer pricing and will be priced at between \$0.70 and \$0.90 per share.
- Assumptions in respect of the valuation of the Coal Option Agreement, including future coal prices, future Pike River annual coal production, exercise dates of the Option, and other assumptions outlined in more detail in Section 6 of this Report.
- Pike River continues to comply with the solvency test under the New Zealand Companies Act.
- The Company will not (during the term of the Bonds) make future share issues below the dilutionary trigger price prescribed by the terms of issue of the Bonds.
- Pike River annual coal production rates and revenues will reach the levels currently projected by the Company.
- The proposed Equity Issue will raise NZ\$50 million and will be achieved at a price per share of between \$0.70 and \$0.90 per share.
- BNZ and Solid Energy will provide the necessary consents to the arrangements (as described in the conditions to the Bonds) to allow NZOG and Pike River to enter into the Bonds.

3. Merits of the Exercise By Nzog Of Rights Attaching to the Convertible Bonds

3.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the potential allotment to NZOG of new shares in Pike River through conversion of the Bonds, having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:-

- the Takeover Panel guidance note on the role of independent advisers dated August 2007;
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- overseas precedents; and
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits should focus on:

- The rationale for the Proposed Transaction;
- The terms of the Bonds and the Coal Option Agreement;
- The value of the Coal Option Agreement;
- Potential alternatives to the Proposed Transaction;
- Potential impact on the control of Pike River by NZOG;
- Other benefits and disadvantages to NZOG Group;
- Other benefits and disadvantages for the Non-associated Shareholders, and;
- The implications of the resolutions in respect of the Proposed Transaction not being approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

3.2 Rationale for the Proposed Transaction

The rationale and background to the Proposed Transaction is provided in Section 2.2 of this Report.

3.3 Terms of the Bond and the Coal Option Agreement

The issue of the Bonds and the Coal Option Agreement are each conditional, among other things, upon approval by the Company's shareholders and successful completion of the Rights Issue and Placement. The issue of the Bonds and the Coal Option Agreement are interdependent, such that neither proceeds without the other.

Key terms of the Bonds and Coal Option Agreement are provided in Section 2.3 and 2.4 of this Report.

3.4 Value of the Coal Option Agreement

Campbell MacPherson has engaged specialist coal market advisers MinAxis Pty Limited (**MinAxis**) to assist in determining the value of the Option granted under the Coal Option Agreement. Results of this analysis are provided in detail in Section 6 and are summarised in Section 2.5.

MinAxis analysed the value of an option on 300,000 tpa of premium grade hard coking coal on the basis that the Option is for up to 30% of Pike River's forecast annual production of 1 million tpa. Two valuation methodologies were employed; a) valuation based on recent market transactions, and; b) valuation based on future coal price "protection", or alternatively, potential coal price arbitrage opportunity gain.

Results using methodology a) indicate an Option value of US\$0.5 – 1.5 million. Results using methodology b) indicate an Option value of US\$1.5 – 2.5 million. MinAxis consider that methodology a) carries more weight and therefore assign a "most likely" value to the Option of US\$1 million.

We concur with these results. However, as discussed in Section 2.5, we note that the MinAxis analysis makes the (reasonable) assumption that the owner of the Option will seek to maximise value through securing the maximum amount of coal available (i.e. 30% of total production p.a.). It is possible that the owner of the Option may choose to enter into the Coal Contract for a lower percentage of mine output and/or the annual production from the mine may be less than 1 million tpa in any given year. These risk factors could lead to a reduced value of the Option.

3.5 Potential Alternatives to the Proposed Transaction

A discussion regarding potential alternatives to the Proposed Transaction is provided in Section 2.6.

3.6 Impact on Ownership and Control

The potential impact of the issue and subsequent conversion of the Bonds on the ownership by NZOG and its Associates of Pike River is set out in detail in Section 2.7 and 2.8.

Under our "Maximum Position" scenario, the maximum holding that NZOG Group could reach would be 39.05% of the ordinary shares of the Company. Under our "Fully Diluted Position" scenario the maximum holding that NZOG Group could reach would be 35.67% of the ordinary shares of the Company.

When Associates of NZOG are included in the analysis the maximum holding that NZOG Group and its Associates could reach under the "Maximum Position" scenario would be 50.47% of the ordinary shares of the Company and the maximum holding that NZOG Group and its Associates could reach under a "Fully Diluted Position" scenario would be 46.02% of the ordinary shares of the Company.

The above scenarios do not take account of any additional shares that might be issued to NZOG and its Associates as a result of dilutionary rights under the Bonds being triggered should the Company make future share issues below the dilutionary trigger price prescribed by the terms of issue of the Bonds.

As discussed in Section 2.8 NZOG Group currently holds 29.53% of the fully paid ordinary shares of Pike River and 29.52% of the voting rights of Pike River. It is therefore able to block special resolutions, but not ordinary resolutions of the Company's shareholders (assuming more than 59.04% of the voting rights attaching to voting securities of Pike River are voted on the relevant resolution). An increase in the NZOG Group shareholding to 39.05% as outlined in the "Maximum Position" scenario, may, in our view, materially alter its ability to pass or block ordinary shareholder resolutions.

NZOG Group and its Associates currently collectively hold 43.49% of the fully paid ordinary shares of Pike River. Therefore, if they act collectively, they will be able to block special resolutions, and may be able to pass or block ordinary resolutions of the Company's shareholders (assuming less than 86.98% of the voting rights attaching to voting securities of Pike River are voted on the relevant resolution). An increase in the shareholding held by NZOG Group and its Associates to 50.47% as outlined in the "Maximum Position" scenario, will in our view, materially alter their ability, if they act collectively, to pass or block ordinary shareholder resolutions to the extent that they will have a collective clear majority of the voting securities.

3.7 Other Benefits / Disadvantages to NZOG Group

Benefits

Approval of the Resolutions would allow NZOG to freely exercise its right to convert its Bonds to ordinary shares in Pike River at any time during the term of the Bond (i.e. before 13 March 2012), without having to first obtain shareholder approval should it be increasing its ownership percentage of the voting securities of Pike River. This would provide NZOG with the same level of flexibility around exercise of the 2012 Convertible Bonds that is afforded to it through holding its 2011 Options.

In its annual and quarterly reports to shareholders NZOG discloses commentary on its investment in Pike River. NZOG has stated that Pike River is not a core asset and lies outside of NZOG's primary business of oil and gas exploration and production but there are no immediate plans to dispose of its stake. In the event that it did wish to do so, the additional benefit of being able to assign the Coal Option Agreement (or the Coal Contract in the event the Option is exercised), would, in our view increase the potential bargaining position of NZOG in its negotiations with third party buyers of its Pike River shares, particularly if those prospective buyers are significant consumers of premium hard coking coal. However, if NZOG was to sell its shares to a buyer under a takeover

offer, then all shareholders participating in that offer would benefit from the price offered under the offer (an independent adviser's report would also need to be prepared in relation to that offer). As the largest shareholder in Pike River, NZOG has several times partially underwritten rights Issues as an expression of confidence and commitment to the Company.

In our view, issue of the Bonds may provide NZOG with a stronger negative control position in Pike River in the future in the event that Pike River is unable to comply with the terms of the Bonds or is in default for any reason. NZOG will also become a first-ranking security holder alongside the BNZ.

In the event the Resolutions are not approved NZOG will receive a \$1.2 million break fee payment. Legal and other costs (excluding NZOG internal costs) currently estimated at \$330,000 are also payable to NZOG regardless of whether the Proposed Transaction proceeds or not.

We note that NZOG and Gujarat will each receive an underwriting fee of 2% of the amount raised respectively by each party under the Equity Issue. In return for facilitating the equity raising, NZOG will also receive a facilitation fee of 1.5% of the amount raised by it under the Equity Issue.

Disadvantages

Entering into the Bonds will increase NZOG's risk exposure to Pike River. There is also the potential that, as both a debt and equity holder in the Company, there may be conflicting benefits and costs associated with future decisions by NZOG in relation to maximising the value of its debt position versus maximising the value of its equity position.

Whilst the Coal Option Agreement provides the ability for NZOG to enter into the Coal Contract, NZOG is not currently a user of hard coking coal and therefore, in the event that it exercised this option, would likely need to sell the coal on the spot market or under contract to a third party.

In the event the Resolutions are not approved, NZOG will not be able to proceed and complete the Proposed Transaction with Pike River. Because NZOG already holds over 20% of the voting securities in Pike River, NZOG will not be able to increase its holding of voting securities further without first having obtained relevant approvals under the Takeovers Code.

3.8 Other Benefits / Disadvantages to Non-associated Shareholders

Other benefits and disadvantages of the Proposed Transaction to the Non-Associated Shareholders of Pike River are outlined in Sections 2.9 and 2.10 of this Report.

3.9 Summary and Opinion

In our opinion, taking into account all of the relevant factors, we consider that the aggregate advantages of the Proposed Transaction to the Non-associated Shareholders of Pike River significantly outweigh the aggregate disadvantages.

Key grounds for our opinion are;

- The terms of the Bonds (from Pike River's perspective) are, in aggregate, superior to the existing Liberty Bonds, superior to the proposed revised terms of the Liberty Bonds, and superior to other financing options available to the Company.
- Refinancing of the Liberty Bonds is an important step in maintaining the financial integrity of Pike River and minimising financial costs and risks associated with ongoing funding of mine development.
- The Directors (excluding Messrs Radford and Meyer) have extensively canvassed a wide range of funding options for the Company over the past six months and the Independent Directors of Pike River strongly recommend the issue of the Bonds and the Coal Option Agreement.
- The entry by Pike River into the Coal Option Agreement, while having an estimated value in the order of US\$1 million to NZOG, is outweighed by the net benefits to Pike River of the Bonds.
- The provision of a Short-Term Loan Facility of \$15 million is beneficial to Pike River to provide working capital until such time as the Equity Issue is completed.
- The terms of the Coal Option Agreement provide for ongoing sale of uncontracted coal by Pike River on the spot market until the Option is exercised.
- The terms of the Coal Contract (resulting from exercise of the Option) currently outlined are, in our view, commercially sound and in line with other off-take agreements previously entered into by the Company.
- NZOG Group currently holds 29.52% of the voting rights of Pike River. Under our "Maximum Position" scenario NZOG Group could increase its ownership of the voting securities of the Company to 39.05%. We consider that this potential increase in ownership of the Company by NZOG Group may increase its ability to exercise effective control of the Company. However, we also consider that NZOG Group may already have an ability to exercise effective control of the Company by virtue of its existing shareholding and board representation (two directors).
- NZOG and its Associates collectively currently hold 43.49% of the fully paid ordinary shares of Pike River. Under our "Maximum Position" scenario NZOG Group and its Associates could increase their ownership of the voting securities of the Company to 50.47%. We consider that this potential increase in ownership

of the Company by NZOG and its Associates would increase their ability, if they act collectively, exercise effective control of the Company (by virtue of holding between them a clear majority interest). However we consider that NZOG Group and its Associates, if they act collectively, may already have effective control of the Company through their existing shareholding and collective board representation (four directors).

3.10 Implications if the Resolutions are not Approved

Shareholder approval in respect of the issue of shares upon conversion of the Bonds is being sought under Resolution 2 of the Notice of Meeting. All Resolutions are inter-dependent and none can proceed without all being voted in favour. The implications of the Resolutions not being approved are outlined in Section 2.12 of this Report.

3.11 Voting For or Against the Resolution

Voting for or against the Resolutions is a matter for individual shareholders to consider. Such a decision by each shareholder would be based on their own views as to control, future market conditions (i.e. coal and equity markets), future share price and other factors. Shareholders will therefore need to weigh up carefully these consequences and consult their own professional advisor as appropriate.

4. Overview of the International Coking Coal Market

4.1 Background

The Pike River mine produces premium grade hard coking coal (HCC), a metallurgical coal type used in the production of coke (also referred to as coal coke), which provides most of the energy and reductants that blast furnaces utilize to reduce and smelt iron ore to pig iron – known in its molten form as “hot metal”. Blast furnace hot metal (pig iron) is then processed to steel in BOF (basic oxygen furnace) converters by removing excess carbon and unwanted elements. The blast furnace/BOF process is still the lowest-cost steelmaking route, and currently accounts for more than 60% of world steel production.

Pike River hard coking coals have been tested and assessed by international steelmakers and merchant coke producers as being eminently suitable for the production of coke, which is predominantly used in the blast furnace to make pig iron, or in other applications in the non-ferrous and chemical sectors. Demand for internationally traded metallurgical coal and hard coking coal, which are both primarily driven by international steel production, has grown at a compound annual rate of 2.0% and 3.6% respectively over the past 7 years (2002-2009). Historical trends in metallurgical coal demand are provided in the table below.

Internationally Traded Metallurgical Coal Demand

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Demand (Million Tonnes)										
Hard Coking	119	121	115	120	129	141	139	151	157	147
Semi-Soft Coking	51	49	49	50	57	53	51	54	55	51
Coking*	170	170	164	170	186	195	190	205	211	198
PCI	30	32	34	36	34	36	36	37	34	29
Total MetCoal	200	202	198	206	220	230	226	242	246	228
Annual Growth rate										
Hard Coking	6.3%	2.0%	-5.4%	4.4%	7.6%	9.7%	-1.7%	8.9%	3.5%	-6.2%
Semi-Soft Coking	4.6%	-3.9%	0.6%	2.6%	13.0%	-6.6%	-4.9%	5.8%	1.8%	-6.4%
Coking*	5.8%	0.2%	-3.7%	3.8%	9.2%	4.7%	-2.6%	8.1%	3.0%	-6.3%
PCI	9.2%	6.8%	5.8%	5.4%	-4.0%	3.6%	0.9%	3.8%	-7.6%	-14.3%
Total MetCoal	6.3%	1.2%	-2.2%	4.1%	7.0%	4.6%	-2.0%	7.4%	1.4%	-7.4%
Metallurgical Coal Type Proportions										
Coking Coal/MetCoal	85%	84%	83%	83%	84%	85%	84%	85%	86%	87%
HCC/Coking Coal	70%	71%	70%	70%	69%	73%	73%	74%	74%	74%
HCC/MetCoal	60%	60%	58%	58%	59%	61%	62%	63%	64%	65%

Intl. traded figures are seaborne + overland across-border import deliveries. Demand figures in Mt.

Hard Coking est. incl. semi-hard coking coal. PCI = LVPCI + MVPCI + HVPCI. *Coking = HCC + SSCC

Metcoal est. include coking and PCI coal. Sources incl. Country stats. agencies, IEA, EIA, WSA MinAxis estimates.

4.2 International Coking Coal Trade – Supply and Demand

The generic term “coking coal” refers to the aggregate of hard, semi-hard and semi-soft coking coals, while metallurgical coal is coking coal plus another form of coal known as PCI coal. The term “weak coking coal” refers primarily to semi-soft coking coal, but may contain some lower quality semi-hard coking coals (SHCC).

International coking coal trade (across country borders, deliveries by both seaborne and overland route) is derived from individual country imbalances of coal production and demand. For example:

- Japan, the world's largest importing country, has virtually no domestic production of metallurgical coal and therefore imports all of its demand requirements (by seaborne delivery).
- India's domestic metallurgical coal production is insufficient for its growing demand and therefore the country is importing increasing quantities of metallurgical coal as its steel production capacity expands. Again, India's coking coal imports are via seaborne delivery.
- Country importers predominantly receiving coking coal via land-based or overland delivery include former Eastern European countries, Ukraine and Canada. However, in recent times seaborne deliveries to many of these countries has been increasing.
- China became the world's second largest importer of coking coal in 2009 after its imports rocketed from 6.7 million tonnes (Mt) (3% of the world international market) in the previous year to 34.5Mt (17% of the market).
- Australia, the world's largest metallurgical and coking coal exporter, produces vastly in excess of its domestic needs and therefore is the major seaborne supplier to importing countries. Australia's coking coal exports of 113Mt in 2009 accounted for 57% of estimated world trade. Other major metallurgical and coking coal exporters are USA (34Mt coking coal), Canada (21Mt) and Russia (>10Mt).
- New Zealand has had a presence in the international coking coal markets with exports of circa 2 million tonnes per year from state owned enterprise, Solid Energy New Zealand Limited.

Estimated world coking coal imports (across country border, by both seaborne and overland delivery) rose by 3.0% year-on-year to 211Mt in 2008 before falling by 6.3% to 198Mt in 2009, predominantly due to the ongoing effects of global economic crisis. Independent research company MinAxis estimates that seaborne coking coal import delivery accounted for approximately 89% of total international coking coal trade in 2008.

In 2009 the top 10 coking coal importing countries accounted for approximately 81% of total world coking coal import demand of 198 million tonnes. Japan is by far the single largest importer at 44Mt (plus 8Mt of PCI coal), China with 34.5Mt and with India third at 29 million tonnes.

During the past two years there has been a structural shift in demand as China has moved from a small net importer of coking coal (e.g. 2-3 million tonnes per year) to net imports of 34 million tonnes in 2009. This rapid increase in demand was partly caused by the Chinese government forced closure or restructuring of small coal mines for safety and environmental reasons in Shanxi – China's top producing coal area – and other producing provinces, losses of production due to mine accidents, strong domestic demand growth, and other factors.

4.3 The International Hard Coking Coal Market and Long-term Outlook

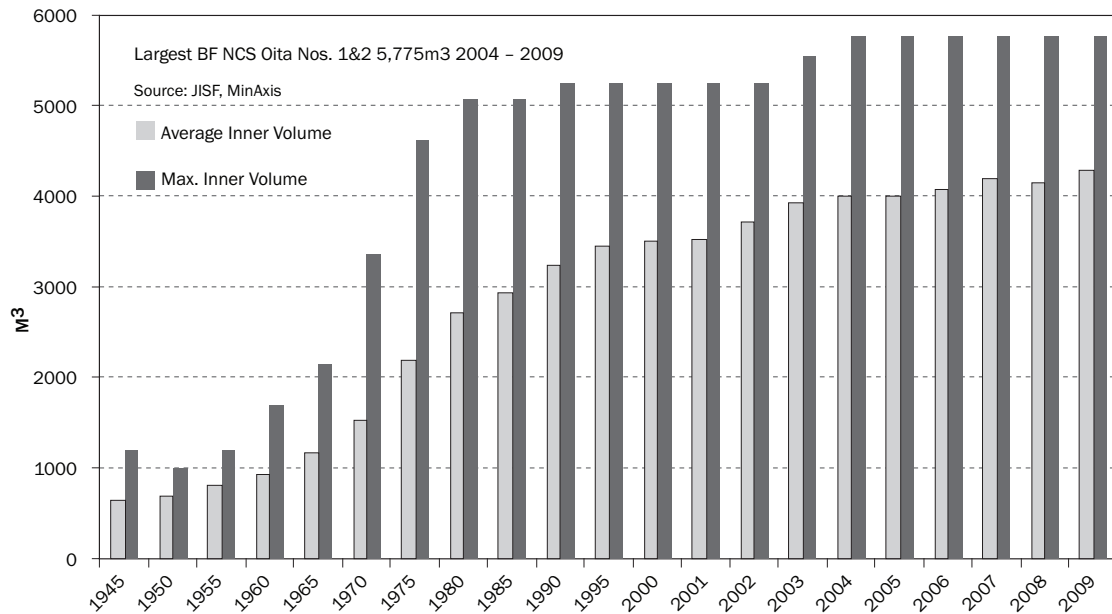
Estimated world hard coking coal imports (across country border, both seaborne and overland delivery) rose by 3.5% year-on-year to 157Mt in 2008 before falling by 6.2% to 198Mt in 2009, predominantly due to the ongoing effects of global economic crisis. Seaborne coking coal import delivery is estimated to have accounted for more than 90% of total international coking coal trade in 2008. Independent coal analyst MinAxis Pty Limited (**MinAxis**) estimates that, in 2009, hard coking coal imports represented 74% and 65% of total coking coal and metallurgical coal (includes PCI) trade.

Hard coking coal represents the highest quality and the most valued of the coking coal spectrum due to coke making and blast furnace operations value-in-use considerations. Import demand for hard coking coals that are at the higher end of the quality spectrum, particularly for premium grade coking coals (such as Pike River hard coking coal), is traditionally strong, as compared with lesser coking coal quality categories.

The purchase of premium grade hard coking coal traditionally forms the major element in buyer selection of coking coals. However, when there are expectations for the international coking coal market to return to balance or surplus, or coking coal supply is already in surplus – which usually reflects a slowing trend in steel demand and production – short-term interest in higher proportional usage and purchase of cheaper, lower coking coal grades of hard, semi-hard and semi-soft coking coal, focussed on relative price competitiveness, will usually occur.

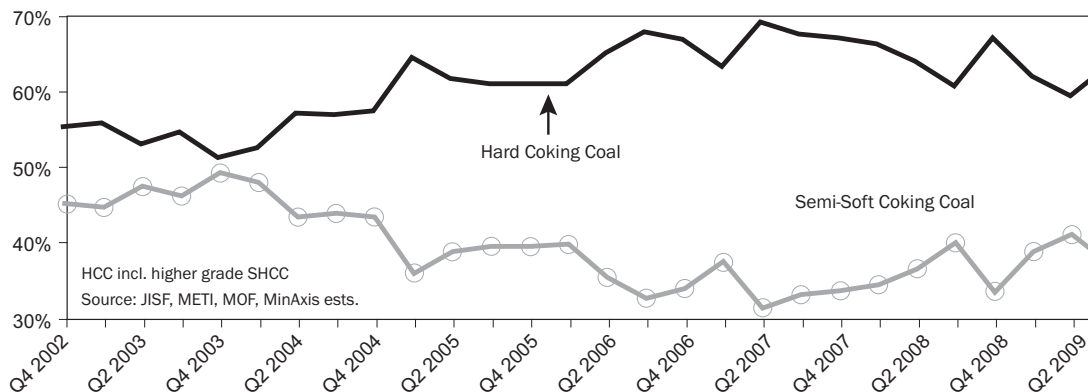
An important long-term driver of hard coking coal demand growth is the increasing use of larger blast furnaces (as shown in the graph below). Larger blast furnaces require higher strength coke to support larger and heavier volumes of blast furnace burden. To produce higher strength coke, a combination of higher quality coking coals (e.g. premium HCC) and/or higher proportions of the same in the coke making blend are required.

Japanese Steel Mills Blast Furnace (BF) Inner Volume (m3) Trend



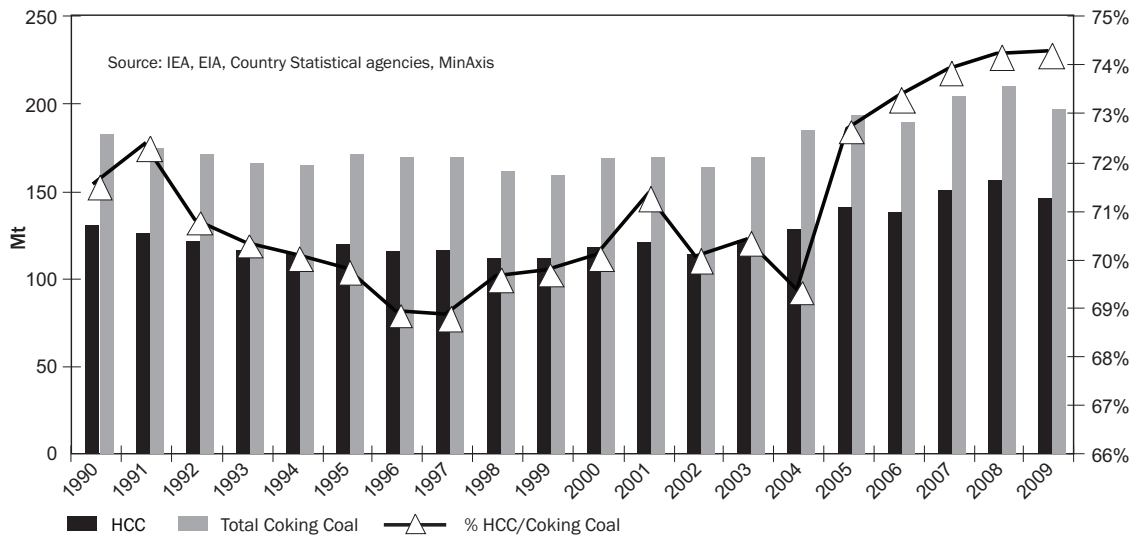
The trend of replacing some hard coking coal in the coke making blend with lower cost semi-soft and semi-hard coking coal peaked in 2003. The introduction of larger blast furnaces in Japan and other countries has driven the estimated globally traded proportion of hard coking coal to total coking coal from a low of 69% in 2003 to 74% in 2008 and 2009.

Japanese Steel Industry Coke making Blend Component Trends



MinAxis projects this trend (the increasing ratio of traded HCC to total coking coal) to continue gradually during the current decade. This is one of the reasons why incremental hard coking demand coal growth in the current decade (+ 91Mt during 2010-2019) is projected by MinAxis at well over double that of the last decade (i.e. +37Mt 2000-2009). It also explains why steel companies with significant expanding capacity programs – such as we are seeing in India, China and Brazil – are relatively keen to both trial premium hard coking coals, and to then lock in secured supply under long-term agreements.

Coking Coal Component Import Trends 1990-2009



4.4 Coking Coal Pricing

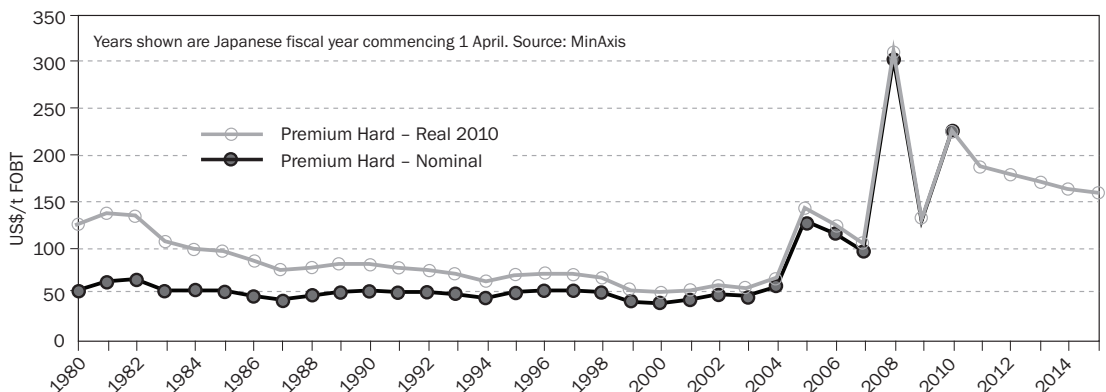
Long term contracts for the purchase of imported metallurgical coal usually define the annual delivery period as the Japanese Fiscal Year (JFY), which commences 1 April. There are some exceptions to this, mainly in relation to Indian and to a lesser extent some Brazilian buyers, and also some European contracts. During the past 20 to 30 years, the Japanese steel mills (JSM) have traditionally determined the global market price each year in their annual negotiations with Australian long-term contract suppliers, which in the case of HCC is usually headed by the world’s largest export metallurgical coal supplier BHP Billiton, usually via BHP Mitsubishi Alliance (BMA). In recent times, ArcelorMittal has taken an increasing role in the international annual HCC/SHCC benchmark contract price negotiations. In the JFY 2008 contract negotiation in Singapore, ArcelorMittal and NSC jointly settled on the JFY 2008 HCC and SHCC contract benchmark with BHP Billiton in late March 2008.

On 8 March 2010, the largest and most dominant international coking coal exporter, BHP Billiton has announced details of quarterly price settlements at US\$200 per tonne (t) “free on-board trimmed” (FOBT) effective April 1 with key Japanese steel mills. The US\$200 per tonne price represents a 56% increase from the US\$128/t headline price for the past coal supply year to March 31 2010.

BHP Billiton’s initial move to quarterly prices in Japan and other regions represents a significant change from past supply contract renewal and pricing mechanisms. This shift away from the industry’s traditional annual contract pricing model to a quarterly based structure to some degree reflects the supply demand imbalance that currently exists, partly due to weather related supply disruptions from Queensland. While there have also been some contract prices struck in India for the full year commencing 1 April 2010, most major coal suppliers are currently choosing to unbundle some of their contracted annual supply volumes from annual pricing on the expectation that prices will remain strong in coming years.

Trends in historic annual HCC benchmark pricing are shown in the graph below. Prices remained relatively stable in nominal terms for over 20 years through to 2004 at around US\$50/t FOBT. However, since this time benchmark HCC prices have increased dramatically largely reflecting the growth in import demand from India, Brazil, Ukraine and more recently, China. Term prices reached as high as US\$300/t FOBT in 2008 before falling back to under US\$130/t FOBT in 2009. HCC Benchmark prices for 2010, although yet to be established in Japan and other regions to date, are projected at circa US\$225/t FOBT.

Premium Grade Hard Coking Coal – Annual Benchmark Contract Prices



While current spot and some initial one-year term pricing for premium grade HCC has been struck at circa US\$225/t FOB, partly as a result of weather related supply disruptions from Queensland, MinAxis forecasts the long-term price for premium grade HCC at US\$140/t FOB basis real (i.e. inflation adjusted) 2010 terms. The latter reflects the long-term coking coal supply/demand outlook, and takes into account the sustainability of steelmaking raw material prices from a steel market perspective.

5. Profile on Pike River Coal

5.1 Capital Structure and Substantial Shareholders

Pike River currently has 347,674,728 voting rights, comprising 347,626,204 fully paid ordinary shares and 48,524 voting rights attached to 6,394,910 partly paid shares.

NZOG holds 29.53% of the fully paid ordinary shares on issue. The top ten shareholders in Pike River are provided in the table below as at 14 April 2010.

Pike River Coal Limited - Top Ten Shareholders (14 April 2010)

Shareholder	Notes	No. of Shares	%
NZOG Group	1	102,637,600	29.53%
Gujarat NRE Limited		26,246,304	7.55%
Saurashtra World Holdings Private Limited		22,309,358	6.42%
Accident Compensation Corporation - NZCSD		16,881,320	4.86%
M & B Fuels & Associates		7,325,273	2.11%
New Zealand Superannuation Fund Nominees Ltd		4,990,141	1.44%
AMP Capital Strategic Equity Growth Fund		5,103,132	1.47%
Kevin Douglas & Michelle Douglas		3,803,283	1.09%
Abu Dabi Investment Authority		2,921,997	0.84%
UBS Emerging Companies Fund		2,375,309	0.68%
Others (8,453)		153,032,487	44.02%
Total Fully Paid Ordinary Shares on Issue		347,626,204	100.00%
Voting Rights attached to 6,394,910 partly paid shares		48,524	
Total Voting Rights on Issue		347,674,728	

Note 1: NZOG Services Limited + New Zealand Oil & Gas Limited

Pike River also has 64,281,875 unlisted options on issue. Each option allows the holder to subscribe for one new ordinary share in Pike River for \$1.25 on or before 24 April 2011 (**2011 Options**). The 2011 Options are non-voting and do not carry any right to dividends. The top ten option holders in Pike River are provided in the table below as at 14 April 2010.

Pike River Coal Limited - Top Ten Option Holders (14 April 2010)

Option Holder	Notes	No. of Options	%
NZOG Group	1	17,266,132	4.97%
Kevin Douglas & Michelle Douglas		2,789,744	0.80%
AMP Investments Strategic Equity Growth Fund		2,557,238	0.74%
Accident Compensation Corporation - NZCSD		2,081,232	0.60%
NZGT Nominees Limited - AIF Equity Fund		2,071,323	0.60%
New Zealand Superannuation Fund Nominees Ltd		1,573,640	0.45%
National Nominees New Zealand Limited		1,140,336	0.33%
Joy Jones		1,000,000	0.29%
James Douglas & Jean Ann Douglas		940,808	0.27%
Darcy Brandon Jones		900,000	0.26%
Others (4,965)		31,961,422	9.19%
Total Options on Issue		64,281,875	18.49%

Note 1: Held by NZOG Services Limited

Substantial security holders of Pike River are NZOG Group, Gujarat and Saurashtra. Details on the shares and options held by substantial security holders are provided in the table below.

Pike River Coal Limited - Substantial Security Holders (14 April 2010)

Holder	Notes	No. of Voting Securities	%	No. of 2011 Options	%	No. of Voting Securities + 2011 Options	%
NZOG Group	1	102,637,600	28.99%	17,266,132	26.86%	119,903,732	28.66%
Gujarat		26,246,304	7.41%	-	0.00%	26,246,304	6.27%
Saurashtra		22,309,358	6.30%	-	0.00%	22,309,358	5.33%
Other Security Holders	2	202,827,852	57.29%	47,015,743	73.14%	249,843,595	59.73%
Total Voting Securities on Issue		354,021,114	100.00%	64,281,875	100.00%	418,302,989	100.00%

Notes 1: NZOG Services Limited + New Zealand Oil & Gas Limited.

2: Includes 6,349,910 partly paid ESOP shares which collectively hold 48,524 voting rights.

5.2 Board of Directors

The current Directors of Pike River are:

- John Dow – Independent Non-executive Chairman;
- Gordon Ward – Executive Director;
- Raymond Meyer – Non-executive Director;
- Dipak Agarwalla – Non-executive Director;
- Arun Jagatramka – Non-executive Director;
- Stuart Nattrass – Independent Non-executive Director; and
- Roy Antony (Tony) Radford – Non-executive Director.

The following Directors are also Directors of NZOG:

- Raymond Meyer; and
- Roy Antony (Tony) Radford.

The following Director is also Director of Gujarat NRE Coke:

- Arun Jagatramka

The following Director is also a Director of Saurashtra Fuels:

- Dipak Agarwalla

5.3 Overview of Mining Operations

The Pike River coal mine is located on the eastern side of the Paparoa Range, about 50 kilometres northeast of Greymouth on the West Coast of the South island. The Company holds a 40 year mining permit (MP 41-453) covering approximately 2,400 hectares. The mine hosts New Zealand's largest known deposit of high fluidity hard coking coal (HCC) with 58.5 million tonnes of in-ground resource. The current mine plan is based on extraction of 17.6 million tonnes of saleable coal over an 18 year period with annual production expected to average approximately 970,000 tonnes.

Pike River has secured conditional contracts with international coke and steel companies including two Japanese steel mills and the Company's Indian shareholders Gujarat NRE Coke and Saurashtra Fuels (see Section 5.4).

Pike River produces a premium HCC which is used internationally by steel mills and coke making plants. The coal produced by Pike River has a very low ash content by world standards and high fluidity. The main benefit of low ash content is that the coal uses less energy and produces less waste in the coke manufacturing process. Coke is a key input into the steel making process.

The method of mining used is a mix of mechanised equipment and approximately 80% hydraulic mining (at full production rates). The Pike River coal mine is accessed by a 2.3 kilometre underground tunnel. Once mined, the coal is transported out of the mine by a gravity and pump fed slurry pipeline of some 10 kilometres in length to a coal preparation plant (completed) then stockpiled and delivered by road to a new rail siding constructed at Ikamatua. The coal is then railed 250 kilometres to the Port of Lyttleton for export.

During the past year Pike River has experienced a number of operational challenges as it has moved from development to commercial mining. Key issues and milestones have included:-

- Restoration of the ventilation shaft after a major rockfall (Feb-June 2009).
- Recommencement of mining (June 2009).
- Delays and subsequently modifications to the continuous mining equipment (September-December 2009).
- Provision of additional underground rock/coal haulage machines.
- Additional in-seam drilling.
- Slow progress tunnelling through a 150 metre fault zone (graben) ahead of pit bottom.
- First coal export shipment of 20,000 tonne to India (Feb 2010).

The net result of these matters outlined above has been to delay the commencement of hydraulic coal mining or “hydro mining” until the July-September 2010 quarter, approximately 16-19 months later than originally planned in March 2009. However, the timing of the first hydro mining remains dependent upon advance rates through the graben, construction of raw coal sumps in the stone area and creation of access roadways through the coal seam.

A second shipment of 20,000 to 30,000 tonnes of coal is expected to be exported to India during the July to September quarter 2010.

5.4 Coal Off-take Agreements

Pike River currently has coal supply or “off-take” agreements with several parties comprising;

- Gujarat – 40% of production for life of mine.
- 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 – Conditional agreement (subject to shareholder and other approvals) 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 (currently the subject of Resolution 3) 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 with reference to premium Queensland hard coking coal prices.

5.5 Summary Financial Information

The financial performance, position and cash flows of Pike River are summarised below for the financial years ending 30 June 2007 (FY07), 30 June 2008 (FY08), 30 June 2009 (FY09) and the interim six months to 31 December 2009 (H1 FY10). Annual accounts of Pike River are audited, interim accounts are unaudited. We note that the Company has not, to date, issued any forecast financial statements.

Historical Financial Performance

Pike River Summary Financial Performance

NZ\$000's	6 Months to 31-Dec-09	Year to 30-Jun-09	Year to 30-Jun-08	Year to 30-Jun-07
Operating Revenue	-	5	10	-
Operating Expenses	(21,475)	(11,218)	(5,842)	(1,094)
Net Finance Costs	1,538	(5,616)	2,557	91
Net Profit/(Loss) before tax	(19,937)	(16,829)	(3,275)	(1,003)
Tax Benefit	5,862	3,811	2,131	122
Net Profit/(Loss) after income tax	(14,075)	(13,018)	(1,144)	(881)

Pike River has recorded cumulative net losses after tax for the period from 1 July 2006 to 31 December 2009 totalling \$29.118 million. Financial performance to date reflects the development and pre-production status of the Pike River coal mine. The majority of the costs incurred in developing the mine have been capitalised as tangible mine development assets.

The operating loss before tax for H1 FY10 was \$21.475 million including \$3.785 million of depreciation and amortisation. Net finance costs were a positive \$1.538 million assisted by an unrealised foreign exchange gain \$4.331 million gain on convertible bonds.

Historical Financial Position

Pike River Summary Financial Position

NZ\$000's	6 Months to 31-Dec-09	Year to 30-Jun-09	Year to 30-Jun-08	Year to 30-Jun-07
Current assets	19,558	25,798	66,428	11,967
Non-current assets	293,965	280,569	198,612	104,981
Total assets	313,523	306,367	265,040	116,948
Current liabilities	58,741	10,462	8,685	33,029
Non-current liabilities	15,173	43,012	38,502	1,490
Total Liabilities	73,914	53,474	47,187	34,519
Net Assets / Equity	239,609	252,893	217,853	82,429

As at 31 December 2009 Pike River had net assets of \$239.609 million, equating to a net asset backing of approximately \$0.69 per fully paid ordinary share. Current assets included cash and cash equivalents of \$10.879 million.

The Liberty Bonds were reclassified during the most recent reporting period from a non-current liability of \$42.096 million (as at 30 June 2009) to a current liability of \$39.036 million (as at 31 December 2009) on the basis that Pike River intends to repay them within the next 12 months. The Company also had various fully drawn secured facilities with the Bank of New Zealand (BNZ) totalling \$24.135 million as at 31 December 2009. Further information on debt facilities of Pike River is provided in Section 5.6.

Historical Cash Flows

Pike River Summary Cash Flow

NZ\$000's	6 Months to 31-Dec-09	Year to 30-Jun-09	Year to 30-Jun-08	Year to 30-Jun-07
Net cash flow from/(used in) operating activities	(21,463)	(7,002)	(2,571)	(371)
Net cash flow from/(used in) investing activities	(13,987)	(78,515)	(99,575)	(49,304)
Net cash flow from/(used in) financing activities	24,583	43,354	158,649	45,803
Net increase/(decrease) in cash & cash equivalents	(10,867)	(42,163)	56,503	(3,872)
Closing cash and cash equivalents	10,879	21,746	63,909	7,406

The ramp up in development and mining activities over the last six months of 2009 resulted in a significant increase in net operating cash outflows. Net cash flow used in operating activities during H1 FY10 totalled \$21.463 million, including an increase in inventories during the period of \$4.872 million. A further \$13.987 million of cash was used in investing activities, principally comprising \$13.266 million of tangible mine development assets.

Financing cash flows during H1 FY10 have principally come from draw-down of secured facilities with the BNZ (net cash draw-down during the period of \$24.135 million).

5.6 Overview of Current Debt Facilities

Pike River currently has two key sources of debt finance, the Liberty Bonds and the debt facilities with the BNZ.

Liberty

The Liberty Bonds are convertible bonds issued by Pike River that mature on 12 March 2011. These bonds are denominated in USD and have a current interest rate of 10.75% p.a. payable quarterly in arrears. (Interest of 6.75% p.a. is payable in cash quarterly in arrears and interest of 4% p.a. is payable quarterly in arrears by the issue of new convertible bonds).

The Liberty Bonds are convertible into ordinary shares in Pike River at the option of the holder at any time before maturity.

The Principal amount of the Liberty Bonds is currently US\$28,616,833 (as at 15 April 2010). The conversion price is currently fixed at one new ordinary share for each US\$0.870376 of outstanding bond (subject to any future anti-dilution adjustments).

The Liberty Bonds are secured by a first ranking charge over the assets of Pike River (excluding certain items of mining equipment covered by the BNZ Creditplus security arrangement) that ranks pari-passu with the charge granted to BNZ in relation to the Multi-option facility provided to the Company (see below).

BNZ

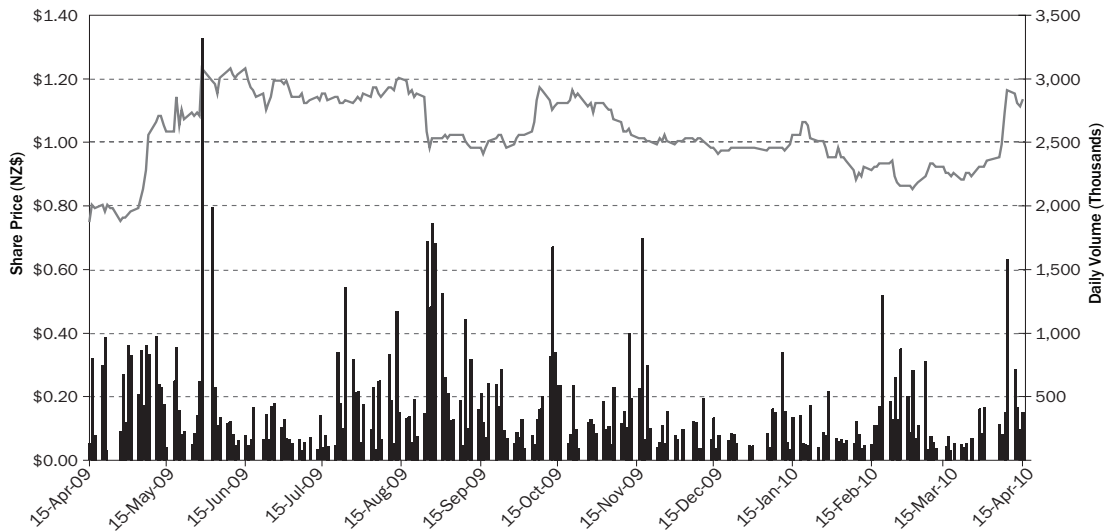
Pike River has two secured bank facilities with BNZ;

- *CreditPlus 5 year term debt facility* – fully redrawable and repayable at Pike River's option during the term of the facility. Initial facility limit of \$16,167,000 amortising on a monthly basis. Interest is payable based on a margin above BKBM with a quarterly rate reset. The facility balance was \$14.1 million as at 31 December 2009 (fully drawn). The CreditPlus facility is secured via a first ranking charge of \$16.5 million over certain items of mobile mining equipment owned by Pike River.
- *Multi-option debt facility* – structured as a series of flexible and scalable sub-facilities with an aggregate limit of \$10,000,000. The facility is a floating rate facility with pricing at various margins. The facility balance was \$10 million as at 31 December 2009 (fully drawn). The Multi-option facility is secured via a \$10,000,000 charge over the assets of Pike River (excluding certain items of mining equipment covered by the BNZ Creditplus security arrangement) that ranks pari passu with the charge granted to Liberty Bond holders.

5.7 Share Price History

Pike River is listed on both the NZSX and ASX. The recent NZSX share price performance of Pike River for the last 12 months to 15 April 2010 is shown below:

Pike River Coal Limited – NZX Daily Closing Share Price (NZ\$) & Volume 15/04/2009 to 15/04/2010



Over the past 12 months Pike River shares on the NZSX have traded in a range between \$0.75 and \$1.23 per share. The total volume of stock traded on the NZSX over the last 12 months was equivalent to 28.8% of the current total ordinary shares on issue.

6. Valuation of the Coal Option

6.1 Background

The issue of the Bonds and the Coal Option Agreement are interdependent, such that neither proceeds without the other. In our view an evaluation of the merits and fairness of the Bonds and Coal Option Agreement should include an assessment of the value, on a stand-alone basis) of the option (**Option**) granted to NZOG under the Coal Option Agreement.

The key terms of the Coal Option Agreement are summarised in Section 2 of this Report and provided in more detail in the Notice of Meeting.

Campbell MacPherson has engaged specialist coal market advisers MinAxis Pty Limited (**MinAxis**) to assist in determining the value of the Option. MinAxis is an independent consultancy firm based in Australia, the principal of which is Mr Graham Wailes. MinAxis has extensive knowledge and experience in the Australasian and international coal sectors and has previously been engaged by Pike River to prepare independent reports to the New Zealand Stock Exchange on the fairness of the price payable under coal offtake contracts between Pike River and two of its shareholders (Gujarat and Saurashtra).

A summary of the valuation assessment by MinAxis is provided below. Campbell MacPherson has reviewed the methodologies, inputs, assumptions and results of MinAxis' valuation of the Option and considers that the valuation completed by MinAxis is sound and reasonable.

6.2 Valuation Methodology

MinAxis employed two separate methodologies to value a contract option intended to be granted to NZOG for up to 30% of all currently uncontracted coal for the life of the Pike River mine (averaging 300,000 tonnes per annum (**tpa**) based on a forecast annual production rate of 1 million tpa) at a price linked to the market benchmark for premium grade (prime) coking coal;

(a) Valuation based on recent market transactions

This form of valuation is based on what consumers of the coal (steel mills, coke makers), or trading companies may pay for securing a long-term 300,000tpa purchase contract based on the strategic value of the same.

(b) Valuation based on future coal price "protection", or alternatively, potential coal price arbitrage opportunity gain.

This form of valuation is based on two alternative premises:

- The 300,000tpa offtake option would represent coal price "protection" for a coal consumer, by way of potential avoidance (to the limit of that tonnage) of relatively higher cost purchases of spot priced supply

as compared with purchasing the same tonnage at benchmark (term) contract price levels.

- Alternatively, for a trading company, the 300,000tpa offtake option would represent a potential opportunity to arbitrage some or all of the same tonnage in relation to the option's benchmark purchase price and the corresponding spot market price prevailing at the time of shipment availability.

6.3 Valuation Based on Recent Market Transactions

While it is common for consumers and traders to take equity and offtake positions in start-up and established mines, it is difficult to establish what, if any, premium can be ascribed to the offtake. Generally, it is the case of mutual benefit where the consumer invests in a desirable project for both the returns and for a strategic position, and the producer secures both a source of development funds and long-term sales contracts.

A case in point is the relatively recent sale of equity tranches in Whitehaven's Narrabri project. In February 2007, the Guangdong Group purchased 7.5% for US\$67.5m and entered a long-term purchase contract of 0.5m tonnes per annum rising to 1.5m tonnes per annum. In August 2008, JPower and EDF both purchased 7.5% equity for US\$125m and US\$120m respectively. Presumably, both entered into similar purchase contracts and the value difference reflects a lower risk profile for the project. MinAxis has also advised a recent entry by a large trading group into a mine development where a higher entry price was negotiated (that is, above the Net Present Value (NPV) of the project) but was compensated by a higher than usual marketing fee across all of the production. This reflected the differing profiles of the two parties in respect of access to finance.

For the purpose of assessing the value of the Option, two major Asian coal procurement companies were approached on a no-names basis with no indication of coal quality details except that it was premium grade (prime) hard coking coal. The source as New Zealand was not defined. Thus any possible attractiveness of Pike River's hard coking coal (with its unique 1% ash content) for blending was not tested. However, given the volumes available, the sulphur content of Pike River coal and the logistics (small cargo sizes and the isolation of New Zealand), this is not considered material.

The approach to these companies was on the basis of what they would they pay to secure a coal allocation of 300,000tpa for 17 years from a party who had such an allocation but did not wish to sell or manage it directly. Pricing for the allocation was to be based on whatever benchmarking system was in operation for premium grade (prime) hard coking coal. Based on the commission rates obtained and assuming a HCC price of US\$ 150/tonne, their income would be circa US\$450,000 per annum with a maximum purchase price in the order of 1½ to 2 years commission. MinAxis note that both parties saw considerable risk in both supply and demand.

The NPV of a US\$450,000 per annum income stream at a discount rate of 15% over 17 years is some US\$2.7m, which given the volatility that exists in the coal market, suggests that a low value exists for the purchase of the option on this basis, maybe US\$0.5 – US\$0.7 million

Assuming that one cargo (60,000tpa) was sold at a spot price of US\$5/t and US\$10/t above benchmark, the NPV would rise to US\$4.2 million and US\$6.0 million respectively. On these assumptions, the value of the option may rise to USD\$1.0 - US\$1.5 million. However, MinAxis notes that this could be difficult to place and might only be achieved in a very tight market. While the metallurgical coal market has lifted significantly over the past few months, potential investors may see a premium as a risk until Pike River's production profile is more assured.

MinAxis concludes, using this form of methodology, that in the current circumstances, the Option could be worth in the range of US\$0.5 million to US\$1.5 million, but to achieve this may require market conditions to tighten (as we are seeing now), and then to remain so.

6.4 Valuation Based on Future Coal Price "Protection", or alternatively, Potential Coal Price Arbitrage Opportunity Gain.

MinAxis has reviewed historical monthly trends of the FOBT spot price for standard grade hard coking coal (HCC) and the corresponding Australia-Japan long-term annual contract (benchmark) price for premium grade hard coking coal (typically BHP Mitsubishi Alliance's Goonyella brand).

A time frame of 59 months was considered in most instances, dating between April 2005 and February 2010. While further monthly price data was available as far back as September 2003, MinAxis took the view that any analysis that is based on the historical relativity between HCC spot and benchmark prices should only be based on more recent and relevant years where the annual benchmark price for premium grade HCC was near to or in excess of US\$100/t FOBT. The main reasons for this were that the so called "modern era" of the HCC trade arrived only after China's entry into the international HCC market post 2003 (with major impact by 2009), and that partly in recognition of this, and many other factors, MinAxis long-term annual price forecast for Pike River Hard Coking Coal (Low sulphur product 1.2%) is US\$140/t FOBT basis in Real (i.e. inflation-adjusted) 2010 terms as shown in the table below.

MinAxis Forecast – Annual Price Forecast Pike River Hard Coking Coals

US\$/tonne FOB Real 2010						
Japanese Fiscal Year	Pike River HCC		Reference/Benchmark Prices			
	Low Sulphur (1.2%)	High Sulphur (1.9%)	Premium Hard Coking Coal	Standard Hard Coking Coal	Semi-Hard Coking Coal	Thermal Coal
2008	300.00		300.00	289.00	265.00	125.00
2009	127.90		128.00	120.00	94.00	70.50
2010	225.00	220.80	225.00	211.50	185.75	95.00
2011	186.49	182.29	186.49	175.30	151.45	92.26
2012	178.02	173.82	178.02	167.34	143.81	89.49
2013	169.64	165.44	169.64	159.47	136.28	87.65
2014	161.54	157.34	161.54	151.85	129.46	84.92
2015	158.22	154.02	158.22	148.72	126.80	82.27
2016	150.53	146.33	150.53	141.50	120.34	80.58
2017	143.10	138.90	143.10	134.52	114.09	78.06
2018	140.16	135.96	140.16	131.75	111.32	78.15
2019	139.77	135.57	139.77	131.39	111.45	78.21
2020	140.16	135.96	140.16	131.75	111.91	78.23
2021	140.00	135.80	140.00	132.00	112.00	78.00
2022	140.00	135.80	140.00	132.00	112.00	78.00
2023	140.00	135.80	140.00	132.00	112.00	78.00
2024	140.00	135.80	140.00	132.00	112.00	78.00
2025	140.00	135.80	140.00	132.00	112.00	78.00
2026	140.00	135.80	140.00	132.00	112.00	78.00
2027	140.00	135.80	140.00	132.00	112.00	78.00
2028	140.00	135.80	140.00	132.00	112.00	78.00

*Nominal prices 2008-2009 + Forecast prices 2010-2028 are Real 2010. Source: MinAxis

Reference Prices

Premium Hard Coking coal prices are for Goonyella brand.

Standard Hard Coking prices are for non-premium average quality hard coking coal.

Semi-hard coking coal prices based on a cross-section of semi-hard brands incl. ULV SS, and those of Burton, Metropolitan, Tahmoor Grange, Smoky.

Thermal coal prices are for 6,700 kcal per kg GAD (6,322 kcal/kg GAR) coal.

In order to estimate the value of the potential future profits to be made by exercising the Option, a variety of statistical methods were used by MinAxis. These methods varied in approach. However, they all referenced and utilised similar base data and assumptions, namely:

- Historical annual and monthly premium grade hard coking coal *Contract* (term) FOBT prices, and monthly FOBT *Spot* prices for standard grade hard coking coal (**HCC**), September 2003 to February 2010 (Source: MinAxis). Note that these prices were recorded in nominal values.
- Forecast annual FOBT *Contract* prices for HCC, March 2010 to April 2028 (Source: MinAxis). Note that these forecast prices are in Real 2010 terms.
- Pike River Production – New tonnes by coal type 2010 to 2028 (Source: Pike River).
- Historical average CPI rate of 3.0% pa.
- 1 July 2010 option contract date.
- 2 year period for option to be exercised – 1 July 2010 to 30 June 2012.
- 6 month waiting period once option is exercised
- Once waiting period has expired, one 60,000 tonne (**60kt**) shipment each year in April.
- Annual spot 60kt shipment's split between 1.2% and 1.9% sulphur in same proportion to that year's production.
- Annual spot 60kt shipment is sold at spot rates in April each year.
- All prices in US\$/tonne FOBT.

In all statistical methods, two scenarios were analysed:

1. Assumed 1 July 2010 is contract date. Option exercised immediately on 1 July 2010. 6 month waiting period means start date 1 January 2011. Assume take up 1 spot Panamax shipment 60kt each year, in April. First shipment commences in April 2011.
2. Assumed 1 July 2010 is contract date. Option exercised at end of 2 year period i.e. 30 June 2012. 6 month waiting period means start date 1 January 2013. Assume take up 1 spot Panamax shipment 60kt each year, in April. First shipment commences in April 2013.

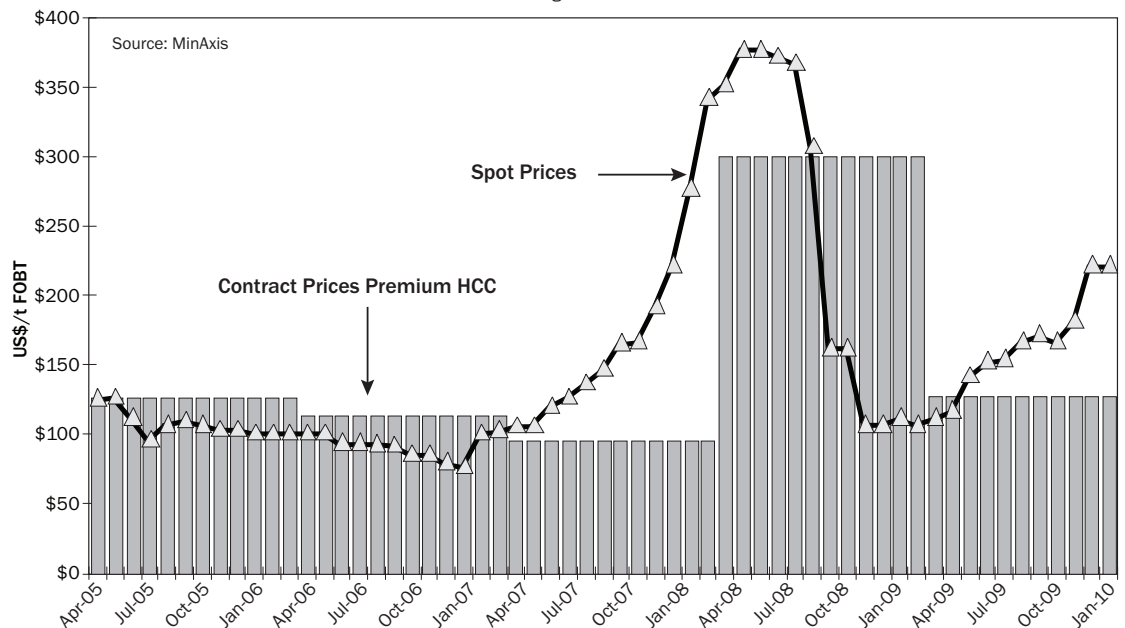
The statistical methods that were used for valuation are summarised as follows:

Method b) i) – “Average US\$/t difference between contract and spot monthly FOB T prices”

- MinAxis used historical data for the period between April 2005 to February 2010 to calculate average monthly US\$/tonne difference between contract and spot HCC monthly FOB T prices (see graph below).
- The period prior to April 2005 was not considered due to low benchmark price values (well below US\$100/t FOB T – not typical of the “modern era”).
- The average monthly US\$/tonne difference in the period April 2005 to February 2010 (after 3.0% pa adjustment for CPI) was US\$0.74.
- This USD difference was applied to the forecast 60kt pa available for resale under the option.
- Scenario 1 value to option holder (potential profit) = US\$795,161.
- Scenario 2 value = US\$706,809.
- This method was considered by MinAxis to be statistically sound.
- This method however does contain some irregularities; for example, in 2008 spot rates varied dramatically, and US\$/t variances between them and contract prices were large and variable.

Annual contract prices Premium grade HCC vs monthly spot prices Standard grade HCC (US\$/t FOB T)

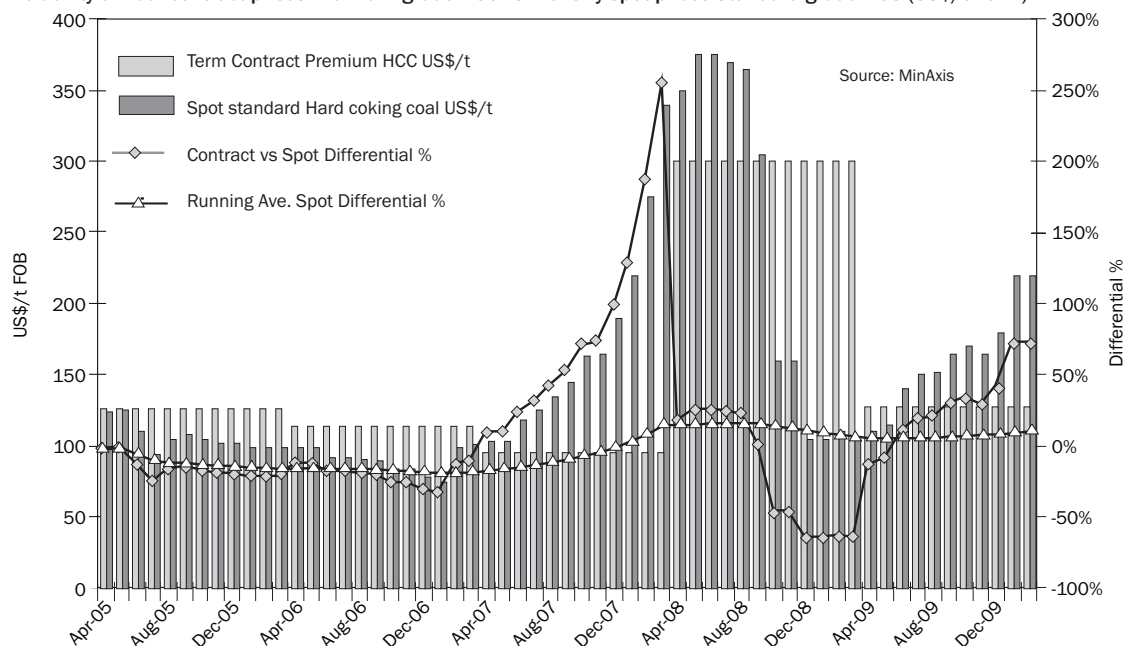
Spot Prices shown are Standard Grade Hard Coking Coal
 Contract Prices shown are for Premium Grade Hard Coking Coal



Method b) ii) – “Average % difference between contract and spot monthly FOB T prices”

- MinAxis used data for the period April 2005 to February 2010 to calculate average monthly % difference between contract and spot HCC monthly FOB T prices (see graph below).
- The period prior to April 2005 was not considered due to low benchmark price values (well below US\$100/t FOB T – not typical of the “modern era”).
- The average monthly % difference in the period April 2005 to February 2010 was 9.9%
- This % difference was then applied to the forecast 60kt pa available for resale under the option.
- Scenario 1 value = US\$15,659,171.
- Scenario 2 value = US\$13,517,114.
- This method was considered by MinAxis to be statistically sound.

Relativity annual contract prices Premium grade HCC vs monthly spot prices Standard grade HCC (US\$/t FOBT)



For completeness, MinAxis also looked at an alternative statistical approach which involved superimposing historical trend curves over future years/months using historical % differences. However, this alternative method relied heavily on judgement regarding overlaying curves and their respective start and end points, and as such was discarded.

The results of the above statistical analyses b(i) and b(ii) gave values in a wide range of US\$0.707 to US\$15.7 million. While the methodologies which derived these two values were considered sound, Minaxis considers that a risk adjusted price that a market participant may pay would be at the lower end of the range, and of the order of US\$1.5m to US\$2.5m.

The main reasons for this view (that the value is at the lower end of the above range) are as follows:

- The realisation of an “opportunity profit” through pricing arbitrage is very much dependent on shipment timing. Given that the market is dynamic, it is thought that at times, the cargo readiness of Pike River product may not necessarily be in step with a potential market arbitrage opportunity.
- A statistical analysis, by its very nature, is based on hindsight, and it projects the same pattern of historic behaviour into a theoretically perfect and predictable market. A buyer of the offtake option will reasonably take the view that the latter does not exist. A typical buyer’s view will be that the market is both unpredictable and volatile. Hence, while a statistical analysis is instructive, it certainly cannot be relied on to predict the future.

6.5 Valuation Results & Conclusions

Two different methodologies were adopted by MinAxis to value the Option on the basis of what an active market participant may pay to acquire such an option. MinAxis notes that a buyer in a volatile market will de-risk as much as possible and rarely commit to pay more than 15-25% of an assessed value. The two methodologies delivered the following valuations.

(a) Valuation based on recent market transactions.

MinAxis concludes that, using this form of methodology in the current circumstances, the Option is valued at US\$0.5 million to US\$1.5 million, but to achieve this price may require market conditions to tighten (as we are seeing now), and then to remain so.

(b) Valuation based on future coal price “protection”, or alternatively, potential coal price arbitrage opportunity gain.

The statistical analysis generated by MinAxis produced values ranging from US\$0.707 million to US\$15.7 million. MinAxis has determined that a risk adjusted price that a market participant would pay for the Option would be of the order of US\$1.5 million to US\$2.5 million.

Given the above valuations based on different methodologies, MinAxis considers that valuation (a) would carry greater weight in the market than valuation (b), primarily because of potential supply (by Pike River) risk issues in relation to the offtake option. Accordingly, MinAxis has assigned a value to the Option in a range of approximately US\$0.5 million to US\$2.5 million with a most likely price at the US\$1 million mark. The distribution of value is weighted towards the lower end of the range.

APPENDIX I. Sources of Information

I.a Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- The Notice of Meeting in respect of the special general meeting to vote on the Resolutions.
- The Takeovers Code (Class Exemptions) Notice (No. 2) 2001.
- The Takeovers Code (Pike River Coal Limited) Exemption Notice 2009.
- The proposed Takeovers Code (Pike River Coal Limited) Exemption Notice 2010.
- The Offer Document in respect of the Rights Issue dated 16 March 2009.
- The Pike River annual reports for the years ended 30 June 2007, 2008 and 2009.
- The NZOG Annual Report for the period ending 30 June 2009.
- The NZOG interim half year report to 31 December 2009 and various recent quarterly activities reports.
- The Pike River interim report for the period ending 31 December 2009.
- Pike River Coal Limited Presentation dated 24 February 2010.
- The letters from Pike River Coal Limited to NZOG in relation to fundraising for Pike River.
- The letters from Pike River Coal Limited to NZOG in relation to short term funding for Pike River.
- The letter from Pike River Coal Limited to Gujarat NRE Limited dated 23 February 2010 confirming Gujarat NRE's conditional underwriting of its pro-rata equity position in Pike River in relation to the Equity Issue.
- Various recent internal Pike River Coal Limited board reports and presentations in relation to capital raising options and alternatives.
- The draft Terms and Conditions of the Bonds issued by Pike River Coal Limited.
- The draft Bond Deed Poll between Pike River Coal Limited and each person who is from time to time a Bondholder, dated 4 March 2010.
- The draft Subscription Agreement between Pike River Coal Limited and NZOG in relation to the Bonds.
- The draft Simplified Disclosure Prospectus in relation to a Renounceable Rights Issue of shares in Pike River Coal Limited.
- The Information Memorandum dated 12 March 2008 in respect of the issue of convertible bonds to Liberty Harbor LLC, and subsequent supplementary Information Memorandums dated 18 August 2008, 16 October 2008 and 31 March 2009.
- The offer document in respect of the rights issue dated 29 January 2008.
- The offer document in respect of the IPO dated 5 June 2007.
- Data in respect of Pike River from NZX data.
- Valuation Analysis by MinAxis Pty Limited and further discussions with MinAxis Pty Limited in relation to the coal option granted to NZOG under the Coal Option Agreement with Pike River Coal Limited.

During the course of preparing this Report, we have had discussions with and/or received information from the Independent Directors and executive management of Pike River and Pike River's legal advisers.

The Independent Directors of Pike River have confirmed that we have been provided, for the purpose of this Independent Adviser's Report, with all information relevant to the NZOG Underwriting Arrangement and Rights Issue that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information set out in this Independent Adviser's Report is sufficient to enable the Independent Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Resolution.

I.b Reliance on Information

In preparing this Report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Pike River and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this Report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Pike River. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

I.c Disclaimer

We have prepared this Report with care and diligence and the statements in the Report are given in good faith and in the belief, on reasonable grounds, that such statements are true and correct.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the Report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the Report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this Report. Such conditions may change significantly over relatively short periods of time. We have no obligation to advise any person of any change in circumstances which comes to our attention after the date of this Report or to review, revise or update our Report.

We have had no involvement in the preparation of the notice of meeting issued by Pike River and have not verified or approved the contents of the notice of meeting. We do not accept any responsibility for the contents of the notice of meeting except for this Report.

I.d Indemnity

Pike River has agreed that, to the extent permitted by law, it will indemnify Campbell MacPherson and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the Report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Pike River has also agreed to indemnify Campbell MacPherson and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Campbell MacPherson or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Campbell MacPherson shall reimburse such costs.

APPENDIX II.

Qualifications, Declarations & Consents

II.a Qualifications

Campbell MacPherson Limited

Campbell MacPherson is a New Zealand investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, debt and equity capital-raising and prepares independent corporate advisory reports, valuation reports and strategic advice to a wide range of private and public New Zealand companies, local bodies and other organisations.

The persons in Campbell MacPherson responsible for issuing this Report are Alistair Ward, Stephen Burns and Tony Haworth. These individuals are experienced corporate finance practitioners with relevant expertise in preparing a report of this nature.

Summary profiles on each individual are provided below.

Alistair Ward B.Com (Hons), M INST D, AFNZIM

Alistair is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Stephen Burns. Alistair is a former principal of Waitiri Capital Ltd, an Auckland-based venture capital and advisory company established in 1997, the interests of which were acquired by Campbell MacPherson. He has advised many companies, business leaders and owners on issues relating to corporate governance and strategy, mergers, acquisitions and capital raising.

Alistair is a former CEO of Golden Bay Cement, the largest cement company in New Zealand and a key part of NZX-listed Fletcher Building. As a reflection of this position Alistair also chaired a variety of industry groups including the Cement and Concrete Association of NZ and the Major Energy Users Group. Alistair is a former Director of Solid Energy and continues to hold several private company directorships including New Zealand concrete pipe manufacturer Hynds Limited and Christchurch Ready Mix Concrete Limited.

Alistair holds a Bachelor of Commerce degree (Honours) from the University of Otago and is a member of the New Zealand Institute of Directors and an Associate Fellow of the NZ Institute of Management.

Stephen Burns B.Sc (Chem), B.M.S., Dip Com, C.A, M INST D, MNZIM, F FIN

Stephen is an Executive Director of Campbell MacPherson Limited and co-founded the firm in 2002 with Alistair Ward. Stephen was formerly a senior executive with the ANZ Banking Group in New Zealand and prior to that was Director - Debt Securities for Auckland investment bank, Northington Partners. He has over 18 years experience in corporate and investment banking in New Zealand and the United Kingdom, covering property, corporate and finance roles.

Stephen has extensive expertise and experience in mergers and acquisitions, corporate valuation and all aspects of debt and equity financing, including management/leveraged buyouts, general corporate and project and development funding.

Stephen holds both Bachelor of Science and Bachelor of Management Studies degrees. He is a Chartered Accountant and is affiliated to a number of other professional bodies including accreditation as a Director by the Institute of Directors.

Tony Haworth M.Sc (Tech), M.Sc (Fin), M.AusIMM

Tony is a Director at Campbell MacPherson Limited and has worked for the Company since 2004. Tony is a former General Manager of National Mining Company in Oman and a former Director of Liberty Gold Corporation in London. Prior to joining Campbell MacPherson, Tony completed a Masters in Finance at London Business School. Prior to working and studying overseas Tony held the position of geologist with Heritage Gold Limited.

Tony specialises in mergers and acquisitions, corporate valuation and financial analysis and has advised on a wide range of corporate finance transactions and assignments for public and private New Zealand companies and organisations across a variety of industry/public sectors.

Tony holds a Master of Science and Technology degree (First Class Honours) from the University of Waikato and a Master of Science (Finance) degree from London Business School. He is a Member of the Australasian Institute of Mining and Metallurgy.

Campbell MacPherson has also engaged the services of Mr Graham Wailes of MinAxis Pty Limited to assist with certain technical and valuation aspects of this Report. A summary profile on Mr Wailes is provided below.

MinAxis Pty Limited - Graham Wailes B.Sc (Metallurgy)

Graham is the Executive Director and founder of MinAxis Pty Ltd, an independent company specializing in strategic metallurgical and thermal coal industry research (including metallurgical coke and steel), coal technology, coal quality assessment and valuation, project and IPO consulting, dispute resolution, and international coal marketing consulting and market research.

Graham holds a Bachelor of Science in Metallurgy and has more than 40 years of technical, marketing and production experience relating to his employment in steelmaking and processing, coal and hard-rock (non-ferrous) mining, and the international trading and marketing sectors.

Graham's industry experience includes 10 years at Port Kembla steelworks in a technical and production capacity, and 14 years in international trading of steel and non-ferrous metals, ferrous and non-ferrous raw materials, carbon and energy products, chemical and fertilizers (7 of those years based in Seoul, South Korea and Los Angeles). He spent 15 years in the international marketing of thermal and metallurgical coals, and non-ferrous concentrates, as well as having 5 years experience in mineral economics and coal market and strategic analysis.

Positions previously held include Chief Executive, Trading Division, Elders Resources, Director Port Kembla Coal Terminal, Marketing Director Saxonvale Coal, General Manager Marketing Denehurst Ltd, General Manager Marketing Allied Coal, and Principal coal analyst AME Mineral Economics. Coal industry experience includes the international marketing and provision of technical support for Gregory, Saxonvale, Metropolitan and Bellambi coals.

II.b Independence

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with Pike River or NZOG that could affect our ability to provide an unbiased opinion in relation to this Report.

Campbell MacPherson has not had any part in the formulation of the Rights Issue nor the NZOG Underwriting Agreement nor any aspects thereof. Our sole involvement has been the preparation of this Report.

Campbell MacPherson will receive a fixed fee for the preparation of this Report. This fee is not contingent on the conclusions of this Report. We will receive no other benefit from the preparation of this Report.

II.c Declarations

Advance drafts of this Report were provided to the Independent Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of the circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the Report.

II.d Consents

We consent to the issuing of this Report in the form and context in which it is to be included in the notice of meeting to be sent to Pike River's shareholders. Neither the whole nor any part of this Report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



PIKE RIVER COAL LIMITED PROXY FORM

Common Shareholder Number _____

Number of voting securities _____

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If you propose to ATTEND the Special Meeting of Shareholders:

Bring this Proxy Form with you to the meeting.

If you do NOT propose to ATTEND the Special Meeting of Shareholders but wish to be represented by proxy:

Complete and sign the Proxy and Voting Instruction section below, and mail it in the enclosed envelope to the Company's Share Registrar (see over for mailing/delivery instructions). Alternatively you can lodge your proxy through the Internet (see Note 1 for instructions).

*If you wish you may appoint as your proxy "The Chairman of the Meeting".

I/We being a shareholder/shareholders of Pike River Coal Limited appoint

(a) _____ of _____
(full name of proxy) (full address)

or failing that person

(b) _____ of _____
(full name of proxy) (full address)

as my/our proxy to vote for me/us on my/our behalf at the Special Meeting of Shareholders of the Company to be held on Friday 7 May 2010 at The Wellesley Hotel, 2-8 Maginnity Street, Wellington, New Zealand commencing at 5.30pm Wellington time, (3.30pm Sydney time) and at any adjournment thereof and to vote on any resolution to amend any of the resolutions, on any resolution so amended and at any other resolution proposed at the meeting (or any adjournment). In the event I/we have not expressed any intention or the intention is unclear my/our direction is to abstain.

I/we direct my/our proxy to vote in the following manner:

Resolutions:

Place a tick (✓) in the box to record your vote

	PROXY			
	IN FAVOUR	AGAINST	DISCRETION	ABSTAIN
1. Issue of Convertible Bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Issue of shares on conversion of the Bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Coal Option Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If a box relating to a resolution is not ticked, the direction on that resolution is to abstain.

Signed this _____ day _____ of 2010

Signature(s) _____

YOU CAN LODGE YOUR PROXY FORM USING THE INTERNET 24 HOURS A DAY 7 DAYS A WEEK

To lodge a proxy using the Internet go to www.computershare.com/prcagmz

You will be asked to enter your Investor Number and FIN and agree to certain terms and conditions.

IF SENDING BY MAIL, AFTER COMPLETION PLACE IN THE ENCLOSED ENVELOPE AND POST

Notes

1. YOU CAN LODGE YOUR PROXY BY MAIL OR INTERNET. For your vote to be counted, your proxy must be lodged with the Company's Share Registrar, Computershare Investor Services Limited, not later than 5.30pm Wellington time, (3.30pm Sydney time) on 5 May 2010. See below for mailing/delivery instructions. To lodge a proxy using the internet go to www.computershare.com/prcagmz. You will be asked to enter your Investor Number and FIN and agree to certain terms and conditions.
2. A proxy can be any person of the Shareholder's choice and does not have to be a Shareholder. Shareholders who are not entitled to vote may be appointed as proxies, but may not be appointed as discretionary proxies. The Board has determined that New Zealand Oil & Gas Limited and its directors are the only persons who are not entitled to vote on the Resolutions. Each of Gujarat and Saurashtra has advised the Company that it does not intend to vote on the proposed Resolutions. The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose.
3. If you wish, you can appoint the Chairman of the Meeting as your proxy. If the form is returned without a direction as to how the proxy shall act on a resolution, or the intention is unclear, the proxy will abstain.
4. All of the Pike River Directors are willing to act as a proxy. You may appoint Prof. R Meyer or Mr RA Radford as a proxy, but as they are not voting on the Resolutions in their own capacity, they will not vote any discretionary proxy either in favour or against the Resolutions and therefore if you wish to appoint either of them as your proxy, you must ensure you give express instructions on how to vote.
5. All joint holders must sign. A corporation may sign under the hand of a duly authorised officer. If the form is signed under power of attorney a certificate of non-revocation must be completed and the power of attorney also forwarded, unless it has already been noted by the Company.
6. Option holders may attend the meeting but are not entitled to vote at the meeting or to appoint a proxy to attend the meeting and vote in their place.
7. If you tick the "proxy discretion" box you are directing your proxy to decide how to vote on that resolution on your behalf (you are not permitted to confer a discretionary proxy on a Shareholder who is not entitled to vote – see (note 4) above). If you tick the "abstain box", you are directing your proxy NOT to vote on that resolution. If a proxy does not vote on your behalf on a resolution, your votes will not be counted when calculating a majority for that decision.

MAILING/DELIVERY INSTRUCTIONS

1. If mailing Proxy Form from within New Zealand or Australia, place it into the enclosed reply paid envelope and post.
 2. If mailing Proxy Form from outside New Zealand or Australia, address and mail to:
Computershare Investor Services Ltd
Private Bag 92119
Auckland 1142
New Zealand
 3. If delivering Proxy Form by hand or by courier, the physical street address of the Company's Share Registrar is:
NEW ZEALAND
Computershare Investor Services Limited,
Level 2, 159 Hurstmere Road, Takapuna,
North Shore City, Auckland, New Zealand.
or
AUSTRALIA
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Melbourne, Australia
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