PIKE RIVER COAL

PIKE RIVER COAL LIMITED

Results for announcement to the market – 24 August 2009

Reporting period:	12 months ended 30 June 2009
Previous reporting period:	12 months ended 30 June 2008

	12 months to 30 June 2009 *NZD 000's*	12 months to 30 June 2008 *NZD 000's*	Increase / (decrease) %
Operating revenue	5	10	(100) %
Loss for the period from ordinary activities after tax attributable to security holders	(13,018)	(1,144)	(1038) %
Net loss attributable to security holders	(13,018)	(1,144)	(1038) %

	As at 30 June 2009	As at 30 June 2008	Increase / (decrease)
Net tangible assets per share [1]	$ 0.89	$ 0.99	(24) %

	Amount per security	Imputed amount per security
Interim/final dividend	n/a	n/a

Record date	n/a
Dividend payment date	n/a

[1] NTA per share is calculated with reference to the weighted average number of shares on issue during the relevant year (being 282,333,000 for the year ended 30 June 2009 and 216,178,000 for the year ended 30 June 2008)

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PIKE RIVER COAL LIMITED

Results for announcement to the market – 25 August 2009 (continued)

Reporting period:	12 months ended 30 June 2009
Previous reporting period:	12 months ended 30 June 2008

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

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

At 30 June 2009, Pike held cash of $21.7m and had $26.0m of available undrawn debt facilities. Interest received on invested funds for the 12 month period totalled $2.0m

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

Accompanying this announcement are the company's financial statements for the year ended 30 June 2009 that have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). The financial statements give a true and fair view of the matters to which they relate and our auditors (KPMG) have audited the financial statements and their audit report is attached to the financial statements.

This announcement together with the attached financial statements provide the information required in accordance with NZX Listing Rule 10.4.2, Appendix 1.

Further information:

Gordon Ward +64 4 494 0190
Chief Executive and Managing Director

Pike River Coal Limited

Financial statements

For the year ended 30 June 2009

Contents

Income statement

In thousands of New Zealand dollars	*Note*	Group Year ended 30 June 2009	Parent Year ended 30 June 2009	Parent Year ended 30 June 2008
Revenue		5	5	10
Operating expenses		(653)	(653)	-
Administrative expenses	*5*	(10,565)	(10,565)	(5,842)
Operating loss from operating activities		**(11,213)**	**(11,213)**	**(5,832)**
Finance income	*6a*	5,009	5,009	6,535
Finance expense	*6b*	(4,414)	(4,414)	(1,974)
Unrealised foreign exchange losses	*6b*	(6,211)	(6,211)	(2,004)
Net finance income (expense)		**(5,616)**	**(5,616)**	**2,557**
Other income	*23*		7,500	
Other income			**7,500**	
Loss before income tax		(16,829)	(9,329)	(3,275)
Income tax benefit	*7*	3,811	1,561	2,131
Loss for the period		**(13,018)**	**(7,768)**	**(1,144)**
Loss per share				
Basic/Diluted (cents per share)	*22a/22b*	(4.42)	(2.64)	(0.51)

The notes on pages 7 to 28 are an integral part of these financial statements.

Statement of changes in equity

In thousands of New Zealand dollars	*Note*	Share capital	Retained earnings	Total equity
Parent				
Balance at 1 July 2007		81,464	965	82,429
Total recognised income and expense for the period				
Loss for the period		-	(1,144)	(1,144)
Contributions from owners				
Issue of ordinary shares	*20*	136,107	-	136,107
Value of employee services received	*20*	461	-	461
Balance at 30 June 2008		218,032	(179)	217,853
Parent				
Balance at 1 July 2008		218,032	(179)	217,853
Total recognised income and expense for the period				
Loss for the period		-	(7,768)	(7,768)
Contributions from owners				
Issue of ordinary shares	*20*	47,372		47,372
Value of employee services received	*20*	686	-	686
Balance at 30 June 2009		266,090	(7,947)	258,143
Group				
Balance at 1 July 2008		218,032	(179)	217,853
Total recognised income and expense for the period				
Loss for the period		-	(13,018)	(13,018)
Contributions from owners				
Issue of ordinary shares	*20*	47,372		47,372
Value of employee services received	*20*	686	-	686
Balance at 30 June 2009		266,090	(13,197)	252,893

The notes on pages 7 to 28 are an integral part of these financial statements.

Balance sheet

In thousands of New Zealand dollars	*Note*	Group As at 30 June 2009	Parent As at 30 June 2009	Parent As at 30 June 2008
Assets				
Property, plant and equipment	*8*	47,851	47,851	246
Tangible mine assets	*9*	217,863	217,863	188,080
Intangible mine assets	*10*	5,439	5,439	3,105
Bonds and deposits	*11*	3,474	3,474	5,050
Deferred tax assets	*12*	5,942	3,692	2,131
Total non-current assets		**280,569**	**278,319**	**198,612**
Cash and cash equivalents	*13*	21,746	21,746	63,909
Trade and other receivables	*14*	1,667	1,667	2,082
Inventories	*15*	2,385	2,385	103
Deferred expenditure	*16*	-	-	334
Intercompany loan	*23*	-	7,500	-
Total current assets		**25,798**	**33,298**	**66,428**
Total assets		**306,367**	**311,617**	**265,040**
Liabilities				
Convertible bonds	*19a*	42,096	42,096	37,826
Provisions	*18*	916	916	676
Total non-current liabilities		**43,012**	**43,012**	**38,502**
Convertible notes	*19c*	-	-	501
Trade and other payables	*17*	9,756	9,756	8,046
Employee benefits		706	706	138
Total current liabilities		**10,462**	**10,462**	**8,685**
Total liabilities		**53,474**	**53,474**	**47,187**
Net assets		**252,893**	**258,143**	**217,853**
Equity				
Share capital	*20*	266,090	266,090	218,032
Retained earnings		(13,197)	(7,947)	(179)
Total equity		**252,893**	**258,143**	**217,853**

John Dow (Chairman)

Stuart Nattrass (Director)

Date: 24 August 2009

Date: 24 August 2009

The notes on pages 7 to 28 are an integral part of these financial statements.

Statement of cash flows

In thousands of New Zealand dollars	Note	Group Year ended 30 June 2009	Parent Year ended 30 June 2009	Parent Year ended 30 June 2008
Cash flows from operating activities				
Cash paid to suppliers and employees		(6,152)	(6,152)	(6,051)
Interest received		2,319	2,319	3,841
Interest paid		(3,169)	(3,169)	(361)
Net cash from/(used in) operating activities	*27*	**(7,002)**	**(7,002)**	**(2,571)**
Cash flows from investing activities				
Acquisition of tangible mine assets		(77,384)	(77,384)	(97,659)
Acquisition of intangible mine assets		(2,334)	(2,334)	(1,597)
Acquisition of other fixed assets		(117)	(117)	(136)
Repayment of bonds and deposits		1,320	1,320	2,617
Payments of bonds and deposits		-	-	(2,800)
Net cash from/(used in) investing activities		**(78,515)**	**(78,515)**	**(99,575)**
Cash flows from financing activities				
Proceeds from issue of share capital		43,354	43,354	140,106
Proceeds from issue of convertible bonds		-	-	37,377
Deferred expenditure		-	-	(334)
Repayment of borrowings		-	-	(18,500)
Net cash from/(used in) financing activities		**43,354**	**43,354**	**158,649**
Net increase/(decrease) in cash and cash equivalents		**(42,163)**	**(42,163)**	**56,503**
Opening cash and cash equivalents		63,909	63,909	7,406
Closing cash and cash equivalents		**21,746**	**21,746**	**63,909**

The notes on pages 7 to 28 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

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

Financial statements for the Company ('Parent') and consolidated financial statements are presented. The consolidated financial statements of Pike River Coal Limited as at and for the year ended 30 June 2009 comprise the Company and its subsidiary (together referred to as the 'Group').

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

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

2. Basis of preparation

(a) Statement of compliance

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

These financial statements were approved by the Board of Directors on 24 August 2009.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

- Note 8 – Property, plant and equipment
- Note 9 – Tangible mine costs
- Note 10 – Intangible mine costs
- Note 12 – Deferred tax
- Note 18 – Provisions
- Note 21 – Share based payments
- Note 25 - Commitments

(e) Adoption status of relevant new NZIFRS and Interpretations

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

- NZ IAS 1 *Presentation of financial statements* – revision approved in November 2007 and effective for annual reporting period beginning on or after 1 January 2009.
- NZ IAS 23 *Borrowing costs* – revision approved in July 2007 and effective for annual reporting period beginning on or after 1 January 2009.
- NZ IAS 27 *Consolidated and separate financial statements* – revision approved in June 2008 and effective for annual reporting period beginning or after 1 January 2009.
- NZ IFRS 1 *First time adoption of New Zealand equivalents to International Financial Reporting standards* – revision approved in June 2008 and effective for annual reporting period beginning or after 1 January 2009.
- NZ IFRS 2 *Share-based payment* – revision approved in Feb 2008 and effective for annual reporting period beginning or after 1 January 2009.
- NZ IFRS 7 *Financial instruments: Disclosures* – revision approved in June 2008 and effective for annual reporting period beginning or after 1 January 2009.
- NZ IFRS 8 *Operating segments* – approved in December 2006 and effective for annual reporting period beginning on or after 1 January 2009.

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

Notes to the financial statements

3. Significant accounting policies

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

(a) Foreign currency transactions

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

(b) Financial instruments

(i) Non-derivative financial instruments

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other receivables

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

Advances, bonds and deposits

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

Trade and other payables

Trade and other payables are stated at cost.

Interest-bearing loans and borrowings

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

Convertible notes

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

Convertible bonds

Convertible bonds are accounted for as financial liabilities given their conversion features. As such they are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition, the convertible bonds are stated at amortised cost with any difference between cost and current redemption value being recognised in the income statement over the term of the convertible bonds on an effective interest basis. The foreign denominated amortised cost is retranslated into functional currency at each reporting date in line with note 3(a) with any resultant gains or losses flowing through the income statement for each reporting period. Upon conversion (if any) of the bonds the amount recognised in share capital will be based on the underlying contractual terms of the bonds with any foreign exchange gains or losses previously recognised in relation to the converted bonds being recycled through the income statement in the period of conversion.

(ii) Derivative financial instruments

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

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

Notes to the financial statements

3. Significant accounting policies (continued…)

(c) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Leased assets

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

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

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

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

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

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

(i) Production interests

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

(ii) Development interests

Development interests comprise both tangible costs (mining development assets) and intangible costs (intangible development assets) incurred on areas of interest in which economically recoverable resources have been identified and which are being developed for production. Such costs include direct costs plus overhead expenditure incurred which can be directly attributable to the development process. All development costs incurred prior to the commencement of commercial levels of coal production from each area of interest are capitalised. No amortisation is provided in respect of development assets until they are reclassified as production interests following commencement of coal production. The carrying amounts are subject to impairment testing in accordance with note 3(g). Intangible assets not yet available for use must be tested for impairment annually.

(iii) Exploration and Evaluation interests

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

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

Notes to the financial statements

3. Significant accounting policies (continued…)

(d) Production, Mine Development, Exploration and Evaluation Expenditure (continued…)

(iii) Exploration and Evaluation interests (continued…)

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

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

(iv) Research

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

(e) Intangible assets

(i) Intangible assets

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

(f) Inventories

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

(g) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

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

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

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

(ii) Non-financial assets

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

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

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

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

Notes to the financial statements

3. Significant accounting policies (continued...)

(g) Impairment (continued...)

(iii) Exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when:

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

(h) Provisions

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

(i) Rehabilitation provision

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

(i) Employee benefits

(i) Short-term benefits

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

(ii) Share-based payments

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

(j) Revenue

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

(k) Other income

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

(l) Lease payments

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

(m) Finance income and expenses

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

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

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

(n) Income tax

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

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

Notes to the financial statements

3. Significant accounting policies (continued…)

(n) Income tax (continued…)

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

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

(o) Earnings per share

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

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

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

(p) Segment reporting

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

4 Segment reporting

The Group currently operates within one primary segment, being the operation of a coal mine based near Greymouth on the West Coast of the South Island, New Zealand. Sales revenues are expected to be initially derived primarily through sales of coal to the Asia Pacific region.

5 Administrative expenses

The following items of expenditure are included in administrative expenses:

Administrative expenses		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars	*Note*		
Auditors remuneration:			
- audit of financial statements		(70)	(53)
- other audit-related services		-	(4)
- fees for tax advisory services		(133)	(86)
Total auditors remuneration		**(203)**	**(143)**
TSA termination expenses	*(i)*	(1,934)	(2,066)
Value of employee services provided	*20*	(686)	(461)
Depreciation		(2,137)	(121)
Other administrative expenses	*(ii)*	(5,605)	(3,051)
		(10,565)	**(5,842)**

(i) *TSA termination expenses*

Included within 'TSA termination expenses' for year ended 30 June 2009 is an amount of $829,000 (30 June 2008: $1,674,000) for full settlement of obligations with Jebsens GmbH and Kristian Jebsens Rederi AS in connection with a Transport Services Agreement ('TSA') for transportation of Pike River's coal that was terminated by Pike River on 18 November 2007.

Also included is an amount of $388,000 (30 June 2008: $387,000) being the current portion of a contribution agreement reached with Port Westland Limited and the Grey District Council ('GDC') following termination of the TSA. Pike River has agreed to contribute a further $387,000 to the GDC between balance date and 31 March 2010.

(ii) *Other administrative expenses*

Employee benefits totalling $11,097,000 were paid by Pike River during the current period (2008: $3,007,000). Of this total, $9,873,000 has been capitalised to Tangible Mine Assets.

Notes to the financial statements

6 Net finance costs

(a) Finance income

Finance income		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Interest income		2,033	4,218
Realised foreign exchange gains		2,841	1,711
Unrealised foreign exchange gains		-	606
Change in fair value of derivatives		135	-
		5,009	6,535

(b) Finance expense

Finance expense		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Interest expense		(3,520)	(1,751)
Unwind of discount on provisions		(50)	(67)
Amortisation of discount on convertible bonds		(844)	(156)
Total finance expenses		(4,414)	(1,974)
Unrealised foreign exchange losses		(6,211)	(2,004)
		(10,625)	(3,978)

7 Income tax in the income statement

Income tax on the face of the income statement comprises:

Income tax in the income statement		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of dollars	*Note*			
Current tax				
Current period		-	-	-
Adjustment for prior periods		-	-	-
		-	-	-
Deferred tax				
Recognition of current period tax losses		7,301	5,051	804
Origination and reversal of temporary differences		(5,016)	(5,016)	307
Recognition of previously unrecognised tax losses		2,546	2,546	1,020
Derecognition of previously recognised tax losses		(1,020)	(1,020)	-
		3,811	1,561	2,131
Total income tax		3,811	1,561	2,131

Notes to the financial statements

7 Income tax in the income statement (continued...)

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

Reconciliation of effective tax rate		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of dollars	*Note*			
Loss before income tax		(16,829)	(9,329)	(3,275)
Income tax @ 30% tax rate		5,049	2,799	983
Add/(deduct):				
Recognition of tax losses previously unrecognised		2,546	2,546	1,020
Non-deductible expenses		(223)	(223)	(54)
Temporary differences previously not recognised		(2,541)	(2,541)	182
Derecognition of tax losses previously recognised		(1,020)	(1,020)	-
Total income tax		3,811	1,561	2,131

8 Property, plant and equipment

Property, plant and equipment		Land	Buildings, plant & equipment	Motor vehicles	Office furniture & fittings	Total
In thousands of dollars	*Note*					
Parent						
As at 1 July 2007						
Cost or deemed cost		65	262	18	24	369
Accumulated depreciation		-	(127)	(6)	(5)	(138)
Net carrying amount		65	135	12	19	231
Year ended 30 June 2008						
Opening net carrying amount		65	135	12	19	231
Additions		-	42	33	61	136
Transfers in from mine development assets		-	-	-	-	-
Disposals		-	-	-	-	-
Depreciation charge		-	(99)	(11)	(11)	(121)
Closing net carrying amount		65	78	34	69	246
As at 30 June 2008						
Cost or deemed cost		65	304	51	85	505
Accumulated depreciation		-	(226)	(17)	(16)	(259)
Net carrying amount		65	78	34	69	246
Group and Parent						
Year ended 30 June 2009						
Opening net carrying amount		65	78	34	69	246
Additions		-	110	-	7	117
Transfers in from mine development assets		-	49,513	56	56	49,625
Disposals		-	-	-	-	-
Depreciation charge		-	(2,113)	(12)	(12)	(2,137)
Closing net carrying amount		65	47,588	78	120	47,851
As at 30 June 2009						
Cost or deemed cost		65	49,927	107	148	50,247
Accumulated depreciation		-	(2,339)	(29)	(28)	(2,396)
Net carrying amount		65	47,588	78	120	47,851

Notes to the financial statements

9 Tangible mine assets

Tangible mine assets (at cost or deemed cost)		2009 Group and Parent	2008 Parent
In thousands of dollars			
Opening balance		188,080	97,749
Additions		79,408	92,009
Amounts transferred to property, plant & equipment		(49,625)	-
Amounts written off		-	(1,678)
Closing balance		**217,863**	**188,080**

At 30 June 2009 a total of $217,863,000 was transferred from tangible mine development assets to tangible mine assets. No depreciation or amortisation has been charged during the financial year on tangible mine assets.

During the year $49,625,000 has been transferred from tangible mine assets to property, plant & equipment.

Interest totalling $580,000 has been capitalised during the current period (2008: $1,069,000) in relation to borrowing costs that are directly attributable to acquisition and construction of tangible mine assets.

At 30 June 2008 $1,678,000 has been identified as no longer meeting the recognition criteria for capitalised interests as set out in note 3(d) and has consequently been charged to the income statement. These costs primarily comprise initial start-up costs associated with marketing the Pike River product and securing Pike River's human capital. The decision to write-off this expenditure was taken as Pike River cannot control the timing of future economic benefits arising from incurring this expenditure.

As at 30 June 2009 tangible mine assets with a carrying amount of $26.6 million (2008: $17.3 million) are subject to registered first ranking charges in favour of the Bank of New Zealand Limited ('BNZ') by way of security granted in relation to the CreditPlus committed bank facility and the Multi-option bank facility (refer note 19(b)).

10 Intangible mine assets

Intangible mine assets (at cost or deemed cost)		2009 Group and Parent	2008 Parent
In thousands of dollars			
Opening balance		3,105	1,508
Additions		2,334	1,597
Closing balance		**5,439**	**3,105**

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

11 Bonds and deposits

Bonds and deposits		2009 Group and Parent	2008 Parent
In thousands of dollars	*Note*		
Bonds	*(i)*	2,324	2,249
Deposits	*(ii)*	1,150	2,801
		3,474	**5,050**

(i) *Bonds*
Bonds of $1,049,000 (30 June 2008: $1,049,000) have been lodged with the Department of Conservation ('DOC') in accordance with the conditions of access agreement permits granted to Pike River. In the event access agreement conditions are not maintained, the bonds may be forfeited.

Similarly, bonds of $1,200,000 (30 June 2008: $1,200,000) have been lodged with various local body authorities in accordance with conditions attaching to resource consents issued to Pike River. In the event that resource consent conditions are not maintained, the bonds may be subject to forfeiture.

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

11 Bonds and deposits (continued…)

(ii) Deposits
A cash-backed third party guarantee has been provided to Westpower Limited ('Westpower') in relation to an agreement for supply and installation of high voltage electricity supply infrastructure to the mine. Under the terms of the third party guarantee Pike River has $1,150,000 of cash lodged with ANZ National Bank Limited ('ANZ') (the provider of the guarantee) as at 30 June 2009. Cash lodged with the ANZ to secure the guarantee is refunded by the ANZ to Pike River on a monthly basis in line with Pike River's satisfaction of its monthly obligations under the Westpower infrastructure supply agreement.

12 Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Recognised deferred tax assets and liabilities		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of dollars	*Note*			
Deferred tax assets				
Opening balance		2,131	2,131	-
Current period tax losses		7,301	5,051	804
Value of previously unrecognised tax losses		2,546	2,546	1,020
Derecognition of previously recognised tax losses		(1,020)	(1,020)	-
Provisions		134	134	321
Total Deferred tax assets		**11,092**	**8,842**	**2,145**
Deferred tax liabilities				
Mine development assets		(5,150)	(5,150)	-
Other		-	-	(14)
Total deferred tax liabilities		**(5,150)**	**(5,150)**	**(14)**
Net deferred tax asset		**5,942**	**3,692**	**2,131**

As at 30 June 2009, with coal production underway and following assessment of the coming financial year's likely results, a deferred tax asset in relation to carry-forward tax losses has been recognised given the probability that sufficient future taxable profits will be generated to offset these tax losses.

13 Cash and cash equivalents

Cash and cash equivalents		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Bank balances		3,810	1,338
Cash on deposit		17,936	62,571
		21,746	**63,909**

14 Trade and other receivables

Trade and other receivables		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Prepayments		717	62
GST receivable		651	1,074
Customs GST receivable		185	315
Other receivables		114	631
		1,667	**2,082**

Notes to the financial statements

15 Inventories

Inventories		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Coal stock		734	-
Mine consumables and spare parts		1,651	103
		2,385	103

16 Deferred expenditure

Deferred expenditure		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Deferred expenditure in relation to			
bank debt finance facility		-	334

17 Trade and other payables

Trade and other payables		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Trade payables		5,261	2,196
Accruals		4,101	5,500
Other creditors		394	350
		9,756	8,046

Trade and other payables denominated in currencies other than the functional currency comprise $108,000 of liabilities denominated in USD (2008: $338,000), $337,000 of liabilities denominated in EUR (2008: Nil) and $1,364,000 of liabilities denominated in AUD (2008: $297,000).

18 Provisions

Rehabilitation provision		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Opening balance		676	210
Provisions made during the period		321	373
Unwind of discount		50	67
Impact of change in discount rate		(131)	26
Closing balance		916	676

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

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

An additional provision of $321,000 was made during the current period (2008: $373,000) reflecting the increased area of mine development and a re-assessment of the likely costs to be incurred. The provision has been calculated using a discount rate of 6.67 % as at 30 June 2009 (30 June 2008: 6.35%) The expected remaining life of mine used in the determination of the provision is estimated at 18 years as at 30 June 2009 (30 June 2008: 19 years).

19 Interest bearing loans and borrowings

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

19 Interest bearing loans and borrowings (continued…)

Interest bearing loans and borrowings		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars	*Note*		
Non-current liabilities			
Convertible bonds	*(a)*	42,096	37,826
Secured bank facilities	*(b)*	-	-
		42,096	37,826
Current liabilities			
Convertible notes	*(c)*	-	501
		-	501

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

Interest bearing loans and borrowings	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
In thousands of dollars				*2009*	*2009*	*2008*	*2008*
Convertible notes	NZD	9.50 %	2008	-	-	11,000	501
Convertible bonds	USD	6.75% - 10.75%	2011	42,236	42,096	37,383	37,826
Secured bank facility	NZD	BKBM+1.20 %	2013	-	-	-	-
				42,236	42,096	48,383	38,327

(a) Convertible bonds

Convertible bonds		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Opening balance		37,826	-
Net proceeds (after costs) from issue of convertible bonds		-	35,666
Conversions during the period		(3,307)	
Amortisation of discount		844	156
Convertible bonds accrued Interest		475	-
Unrealised foreign exchange loss on translation		6,258	2,004
Closing balance		42,096	37,826

Convertible bonds issued by Pike River are denominated in USD and from 1 April 2009 bear an effective interest rate of 10.75% (payable quarterly) unless the bonds are repaid by 31 December 2009 in which event the interest rate from 1 April 2009 to date of repayment reverts to 6.75%. The bonds are convertible into ordinary shares of Pike River at any time prior to maturity (12 March 2011) at the bond holders election; or at Pike River's election provided the Pike River share price does not exceed the equivalent of US$0.70 up until 30 September 2009, increasing over time to US$0.80 by the final maturity date on 11 March 2011.

As part of the new arrangements agreed with the bond holder in March 2009, Pike River agreed to an increase in the effective interest rate of 4% per annum (taking the interest rate to 10.75%), which is met by the issue of new convertible bonds.

A condition of the convertible bonds is that the mine must achieve "first steady state production" by 30 November 2009 (revised in March 2009). The mine must then be 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. Pike River will request the bond holder to grant up to a six month extension to the production condition.

The conversion price is currently fixed at one new ordinary share for each USD$0.9392 of outstanding bond principal but is subject to anti-dilution adjustments usual for this type of financial instrument. Ordinary shares issued on conversion will rank equally in all respects with all other existing ordinary shares on issue as at that time. Given that, conversion is solely at the election of the bond-holder (at the share price currently prevailing at the date of these financial statements) and if not converted the bonds are repayable in cash, the instrument is recognised as a financial liability and carried at amortised cost translated into NZD at each reporting date.

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

During the current period 50 convertible bonds (with a face value of USD$2,500,000) were converted into ordinary shares.

19 Interest bearing loans and borrowings (continued…)

(b) Secured bank facilities

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

The CreditPlus facility is secured via a first ranking charge provided over certain items of mobile mining equipment (as set out in note 9).

As at 30 June 2009 Pike River has not drawn against the CreditPlus facility.

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

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

As at 30 June 2009 Pike River has not drawn against the Multi-option debt facility pending satisfaction of conditions precedent to the initial draw-down.

(c) Convertible notes

Convertible notes		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Opening balance		501	1,280
Conversion to ordinary shares		(501)	
Unwind of discount		-	(779)
Closing balance		-	501
Current liabilities		-	501
		-	501

Convertible notes on issue by Pike River converted to ordinary shares on 31 December 2008.

Notes to the financial statements

20 Share capital

This note provides information about equity instruments issued during the periods presented.

Share capital - number		2009 *Group and Parent*	2008 *Parent*
In thousands of shares	*Note*		
Fully paid ordinary shares			
Opening balance		267,027	115,000
Issues during year:			
Conversion of convertible bonds and/or notes		14,985	-
Institutional placement		5,714	-
Initial public offering	*(i)*	-	85,000
Renounceable rights issue		58,571	66,667
Senior management share based payment	*21(a)*	-	200
Re-issue of forfeited partly-paid shares as fully paid ordinary shares		803	160
2009 options exercised		3	-
Closing balance		**347,103**	**267,027**
Partly paid ordinary shares			
Opening balance		3,577	-
Issue of partly-paid ordinary shares pursuant to the Employee Share Ownership Plan ('ESOP')	*21(b)*	3,140	3,737
Forfeiture of partly-paid shares		(803)	(160)
Closing balance		**5,914**	**3,577**
Other contributed capital			
Equity component of convertible notes		-	-
Value of employee services provided	*21(b)*	-	-
Total share capital		**353,017**	**270,604**

Share capital - value		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars	*Note*		
Fully paid ordinary shares			
Opening balance		207,793	71,783
Issues during year:			
Conversion of convertible bonds and/or notes		12,686	-
Institutional placement		4,000	-
Initial public offering		-	78,204
Renounceable rights issue	*(i)*	39,354	57,567
Senior management share based payment	*21(a)*	-	-
Re-issue of forfeited partly-paid shares as ordinary shares		794	239
2009 options exercised		4	-
Closing balance		**264,631**	**207,793**
Partly paid ordinary shares			
Opening balance		97	-
Issued under ESOP	*21(b)*	31	37
Forfeiture of partly-paid shares		(7)	(2)
Proceeds from sale of rights attaching to partly paid shares held in escrow		34	62
Closing balance		**155**	**97**
Other contributed capital			
Opening balance		10,142	9,681
Equity component of convertible notes		(9,524)	-
Value of employee services provided	*21(b)*	686	461
Closing balance		**1,304**	**10,142**
Total share capital		**266,090**	**218,032**

Notes to the financial statements

20 Share capital (continued...)

(i) *Renounceable rights issue*
As contemplated in the Investment Statement dated 16 March 2009, Pike River issued a further 58,571,429 ordinary shares on 24 April 2009 by way of a fully underwritten renounceable rights issue to existing shareholder and convertible note holders. Issued at a price of $0.70 per new share the rights issue raised $39,354,000 (net of issuance and other transaction costs) in the current period.

At balance date Pike River had on issue 64,284,677share options issued as a result of the 2009 rights issue. These options have an exercise price of $1.25 and a final maturity date of 24 April 2011. Options are exercisable at any point up to final maturity at the election of the option holders. The exercise of an option results in the issue of one new ordinary share in Pike River which will rank equally in all respects with all other existing ordinary shares on issue as at that time.

On 30 June 2009 a total of 22,496,694 options with an exercise price of $1.30 expired unexercised, and lapsed.

21 Share based payments

(a) Share based payments – issue of fully paid shares for nil consideration

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

The fair value of services received in return for the fully paid shares granted was measured by reference to the fair value of the shares at the point of grant (being the initial public offering price of $1.00 per share).

(b) Share based payments – Employee Share Ownership Plan

On 4 August 2006, Pike River established an Employee Share Ownership Plan ('ESOP') that entitles management personnel and employees to purchase partly-paid ordinary shares in the entity. Partly-paid shares issued under the ESOP are subject to an initial vesting (escrow) period of two years; an allocation price which is set at a premium above the market price at the time of issue (following the IPO the premium is 20%); and a final expiry date five years after the date of issue by which the employee must have either paid the full allocation price or the partly-paid shares are forfeited. Partly-paid shares are transferred to the ownership of the relevant individual any time after the initial vesting period on payment in full of the outstanding allocation price.

During the year 30 June 2009, a total of 3,140,306 partly-paid ordinary shares (2008; 3,736,570) were issued in accordance with the ESOP rules.

Where an employee leaves the employment of Pike River prior to expiry of their relevant escrow period, the ESOP provides for these shares to be forfeited by the employee to the company and sold into the market as fully paid ordinary shares at the prevailing market rate. During the year 803,320 partly-paid ordinary shares were forfeited and sold (2008; 160,000).

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

Vesting during financial year:	Number	Weighted average outstanding calls	Range of issue price	Market share price when issued	Fair value at measurement date
30/06/2008	1,000,500	$1.19	$1.15 to $1.20	$1.00	$0.15 to $0.26
30/06/2009	239,000	$1.15	$1.15	$1.00	$0.18
30/06/2010	2,458,150	$1.51	$1.15 to $2.52	$0.98 to $2.10	$0.20 to $0.89
30/06/2011	2,215,906	$1.48	$0.91 to $2.46	$0.76 to $2.05	$0.30 to $0.66
TOTAL	5,913,556	$1.43	$0.91 to $2.52	$0.76 to $2.10	$0.15 to $0.89

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

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

Notes to the financial statements

21 Share based payments (continued...)

(b) Share based payments – Employee Share Ownership Plan (continued...)

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

	Weighted average outstanding call 2009	Number of partly paid shares 2009 *(In thousands)*	Weighted average outstanding call 2008	Number of partly paid shares 2008 *(In thousands)*
Outstanding at 1 July 2008	$1.23	3,576	-	-
Issued during the period	$1.59	3,140	$1.22	3,736
Forfeited during the period	$1.15	(803)	$1.14	(160)
Outstanding at 30 June 2009	$1.43	5,913	$1.23	3,576

22 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2009 is based on the loss attributable to ordinary shareholders of $13,018,000 (2008: $1,144,000) and a weighted average number of ordinary shares outstanding of 294,622,000 (2008: 226,270,000), calculated as follows:

Loss attributable to ordinary shareholders for the twelve months ended 30 June		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of dollars				
Net loss attributable to ordinary shareholders (diluted)		(13,018)	(7,768)	(1,144)

Weighted average number of ordinary shares for the twelve months ended 30 June		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of shares				
Issued ordinary shares		267,027	267,027	115,000
Effect of shares issuable upon conversion of mandatorily convertible notes		12,289	12,289	10,092
Effect of shares issuable upon conversion of convertible bonds		2,633	2,633	-
Effect of shares issued on initial public offering		-	-	81,041
Effect of partly-paid shares issued pursuant to the ESOP		36	36	21
Effect of shares issued following renounceable rights issue		12,192	12,192	20,091
Effect of re-issue of forfeited partly-paid shares as fully paid ordinary shares		343	343	25
Effect of shares issues on completion of escrow period for contingently issuable shares		99	99	-
Effect of shares issued on partial exercise of share options		3	3	-
Weighted average number of ordinary shares		294,622	294,622	226,270

No adjustment to the loss attributable to ordinary shareholders for the year ended 30 June 2009 as been made in respect of interest paid on the mandatorily convertible notes as all such interest payments during the period have been capitalised to Mine Development Assets.

22 Earnings per share (continued...)

(b) Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2009 is based on the loss attributable to ordinary shareholders of $13,018,000 (2008: $1,144,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 294,622,000 (2008: 226,270,000), calculated as follows:

Loss attributable to ordinary shareholders for the twelve months ended 30 June		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of dollars	Note			
Net loss attributable to ordinary shareholders (basic)		(13,018)	(7,768)	(1,144)
Interest expense on convertible bonds, net of tax	*(i)*	-	-	-
Net loss attributable to ordinary shareholders (diluted)		**(13,018)**	**(7,768)**	**(1,144)**

Weighted average number of ordinary shares for the twelve months ended 30 June		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of shares	Note			
Weighted average number of ordinary shares (basic)		294,622	294,622	226,270
Effect of conversion of share options	*(i)*	-	-	-
Effect of contingently issuable shares	*(i)*	-	-	-
Effect of conversion of convertible bonds	*(i)*	-	-	-
Weighted average number of ordinary shares (diluted)		**294,622**	**294,622**	**226,270**

The average market value of Pike River's shares for the purposes of calculating the dilutive effect of share options and convertible bonds is based on an average quoted market price for the year ended 30 June 2009 of $1.40 (2008: $1.41).

(i) *Anti-dilution effects*
For the purposes of calculating diluted earnings per share as at 30 June 2009 these dilutive potential ordinary share items have been excluded on the basis that they would give rise to an antidilutive effect on the calculation of ordinary loss per share (i.e. reduce the ordinary loss per share). These items are only included in diluted earnings per share to the extent that they result in an increased loss per share or reduced earnings per share.

23 Related parties

Pike River Coal Limited is the ultimate parent company.

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

Related parties		2009	2008
In thousands of dollars	*Note*		
Pike Energy Limited (wholly owned subsidiary)	*(i)*		
Intercompany loan		7,500	-
		7,500	**-**
New Zealand Oil & Gas Limited	*(ii)*		
Convertible notes – liability component		-	159
Convertible notes – equity component		-	3,030
Trade and other payables		-	75
		-	**3,264**
Saurashtra Fuels Private Limited	*(ii)*		
Trade and other payables		-	21
		-	**21**
Gujarat NRE Coke Limited	*(ii)*		
Trade and other payables		-	24
		-	**24**

23 Related parties (continued…)

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

(ii) New Zealand Oil & Gas Limited, Saurashtra Fuels Private Limited and Gujarat NRE Coke Limited are significant shareholders and have representation on the Board of Directors.

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

Related parties		2009	2008
In thousands of dollars			
Underwriting fees			
New Zealand Oil & Gas Limited		308	394
Saurashtra World Holdings Private Limited		-	108
Gujarat NRE Coke Limited		-	126
		308	**628**
Short term loan commitment fees			
New Zealand Oil & Gas Limited		-	75
Saurashtra World Holdings Private Limited		-	21
Gujarat NRE Coke Limited		-	24
		-	**120**
Coupon on convertible notes			
New Zealand Oil & Gas Limited		**-**	**311**
Key management personnel compensation			
Short-term employee benefits		1,155	1,059
Post-employment benefits		-	-
Termination benefits		-	-
Other long-term benefits		-	-
Share-based payments		-	435
		1,155	**1,494**

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

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

- Coal sales agreement with Saurashtra for 40,000 to 50,000 tonnes +/- 10% of hard coking coal in JFY 2009 and 150,000 tonnes per annum thereafter for the life of the Pike River mine with an option for Saurashtra to take up to a further 100,000 tonnes on an annual basis
- Coal sales agreement with Gujarat NRE Coal (NSW) Pty Limited (‘GNCPL’) for 90,000 tonnes of hard coking coal in JFY 2009, increasing to 400,000 tonnes per annum (or 40% of mine output whichever is the lesser) from JFY 2010 for the life of the mine with an annual variation of +/- 10% at Pike River’s or GNCPL’s option

Pricing for each of these agreements is to be negotiated annually based on market derived hard coking coal prices.

24 Financial risk management

(a) Overview

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

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

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

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

24 Financial risk management (continued...)

(b) Credit risk

Credit risk is the risk of financial loss to Pike River if a customer or counterparty to a financial instrument fails to meet its contractual obligations and as at 30 June 2009 arises principally from Pike River's investment activities.

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

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

(c) Liquidity risk

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

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

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

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

Non derivative financial liabilities	Carrying amount	Contractual cash flows					
In thousands of dollars	*2008 Parent*	*Total*	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Convertible notes – liability component	501	523	523	-	-	-	-
Convertible bonds	37,826	46,463	673	1,331	2,692	41,767	-
Secured bank facility	-	-	-	-	-	-	-
Trade & other payables	8,046	8,046	8,046	-	-	-	-
	46,373	55,032	9,242	1,331	2,692	41,767	-

(d) Market risk

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

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

As at balance date Pike River had no outstanding derivative arrangements in place (2008: Nil).

24 Financial risk management (continued…)

(d) Market risk (continued…)

(i) *Currency risk*

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

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

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

Exposure to currency risk

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

Currency risk exposure	2009 Group and Parent			2008 Parent		
In thousands of foreign currency units	*USD*	*AUD*	*EUR*	*USD*	*AUD*	*EUR*
Deposit	800					
Convertible bonds	27,500	-	-	30,000	-	-
Trade and other payables	108	1,364	337	338	297	-
Net exposure	**28,408**	**1,364**	**337**	**30,338**	**297**	**-**

The following significant exchange rates were applied during the year:

Exchange rates	2009 Group and Parent			2008 Parent		
	USD	*AUD*	*EUR*	*USD*	*AUD*	*EUR*
Average rate for the year	0.6068	0.8143	0.4409	0.7675	0.8609	0.5262
As at 30 June	0.6511	0.8056	0.4616	0.7619	0.7918	0.4826

Sensitivity analysis

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

Currency risk sensitivity	2009 Group and Parent			2008 Parent		
In thousands of dollars	*Carrying amount*	*Impact of sensitivity*	*Sensitised carrying amount*	*Carrying amount*	*Impact of sensitivity*	*Sensitised carrying amount*
Deposit	1,229	137	1,092	-	-	-
Convertible bonds	42,096	4,677	46,773	37,826	4,203	42,029
Trade and other payables	9,756	288	10,044	8,046	116	8,162
Loss before income tax	(16,829)	(5,102)	(21,931)	(3,275)	(4,319)	(7,594)

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

(ii) *Interest rate risk*

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

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

Notes to the financial statements

24 Financial risk management (continued…)

(d) Market risk (continued…)

(iii) Commodity price risk

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

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

(e) Capital management

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

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

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

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

(f) Fair values

Fair values versus carrying amounts

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

Fair values versus carrying amounts	2009 Group and Parent		2008 Parent	
In thousands of dollars	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Cash and cash equivalents	21,746	21,746	63,909	63,909
Trade and other receivables	1,667	1,667	2,082	2,082
Bonds and deposits	3,474	3,474	5,050	5,050
Trade and other payables	(9,756)	(9,756)	(8,046)	(8,046)
Convertible notes – liability component	-	-	(501)	(394)
Convertible bonds	(42,096)	(42,236)	(37,826)	(36,491)
Secured bank facility	-	-	-	-
Unrecognised gain (loss)		**(140)**		**1,442**

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

(i) Convertible notes

Fair value, as determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at a market rate of interest as determined by reference to similar liabilities that do not have a conversion option.

(ii) Convertible bonds / Loans from shareholders

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

25 Commitments

As at 30 June 2009, Pike River had $7,981,000 of capital commitments (30 June 2008: $14,302,000) that would be payable if the current mine development activities were terminated. These commitments relate to committed non-cancellable purchases of long lead time mining equipment and development activities required as part of the ongoing mine development.

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

26 Operating lease commitments

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

Operating lease commitments		2009 *Group and Parent*	2008 *Parent*
In thousands of dollars			
Payable within 1 year		224	97
Payable between 1 and 5 years		73	191
More than 5 years		-	-
		297	288

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

Reconciliation of loss with net cash from operating activities		2009 *Group*	2009 *Parent*	2008 *Parent*
In thousands of dollars	*Note*			
Loss for the period		(13,018)	(7,768)	(1,144)
Adjustments for:				
Depreciation	8	2,137	2,137	121
Net finance income	6	5,616	5,616	(2,557)
Interest received		2,319	2,319	3,841
Realised foreign exchange gains		2,841	2,841	1,711
Interest paid		(3,169)	(3,169)	(361)
Transfer of Petroleum Exploration Permit		-	(7,500)	-
Other		240	240	(254)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities				
Change in trade and other receivables		415	415	(1,231)
Change in inventories		(2,282)	(2,282)	(104)
Change in trade and other payables		1,710	1,710	(462)
Change in net deferred tax asset		(3,811)	(1,561)	(2,131)
Net cash from operating activities		**(7,002)**	**(7,002)**	**(2,571)**

28 Group entities

Significant subsidiary

	Country of Incorporation	Ownership Interest (%)	
		2009	2008
Pike Energy Limited	New Zealand	100	-

On 23 April 2009, Pike River sold Petroleum Exploration Permit 38517 to its wholly owned subsidiary Pike Energy Limited for consideration of $7,500,000. Pike Energy Limited was incorporated on 6 April 2009 and its balance date is 30 June 2009.

29 Contingencies

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

30 Subsequent events

There were no events subsequent to balance date.