

## Key Points

- Mine performance continues to improve
- Heavy mining machines modified
- Successful in-seam drilling
- First coal shipment scheduled for January – March 2010 quarter
- First hydro-mining scheduled for April – June 2010 quarter
- Spot prices for hard coking coal at US\$160 per tonne

## Mine Performance CONTINUES TO IMPROVE



Mining performance continued to improve during the month of September 2009, as the impact of a series of operational initiatives took effect.

Operations underground since 8 June 2009 have been focused on completing roadways and finalising installation of coal handling and transport infrastructure in the pit-bottom area. Roadways are constructed by heavy cutting machines (roadheader and continuous mining machines) and also by drilling and blasting in stone.

The pit-bottom roadways have now largely been completed. Installation of ventilation structures, extension of the coal slurry flumes, and commencement of installation of the first of the main underground fans will take place in this area of the mine over the coming months. Roadways are being developed in coal to the south of the pit bottom area for storage of clean water for hydro-mining and mining of saleable coal. The drives in stone towards the hydro-mining areas to the north-west have also now started.

All modifications identified as being required on the heavy coal mining machines have either been made or will be made over coming weeks. The machines are now operating far more reliably.

The replacement tracks for Pike River's continuous mining machines have been constructed and

**Pike River mining with a continuous miner**

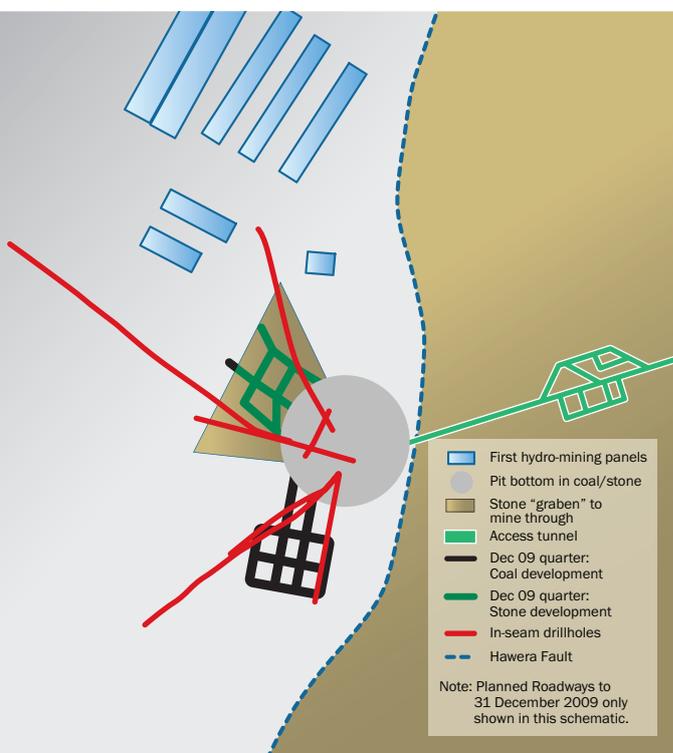
Availability of underground coal/rock haulage machines greatly improved during September

The replacement tracks for Pike River's continuous mining machines have been constructed and delivered by the German manufacturer at their cost ...



In-seam drill rig (Image courtesy of Valley Longwall Mining Services)

Illustrative Schematic showing planned roadway development in the quarter ended 31 Dec 2009 and location of First Hydro-mining Panels



delivered by the German manufacturer at their cost and are currently being fitted. In the interim, temporary engineering modifications to the tracks allowed one continuous miner to continue working throughout September 2009 in conjunction with the roadheader. Completion of the scheduled modifications to the continuous miners will provide another step change in reliability and performance.

Availability of underground coal/rock haulage machines greatly improved during September and additional machines have been leased for the next six months due to the amount of rock haulage required. These will arrive in the current December quarter.

Further improvements are needed in roadway advance rates during the October - December 2009 quarter and a number of operational steps have been taken to achieve this.

## Successful IN-SEAM DRILLING

Pike River's underground "in-seam drilling" unit, used to help with mine planning, is continuing to prove invaluable.

The unit has been drilling ahead of planned roadways in the pit-bottom area and towards the first hydro-mining panels.

Two in-seam holes had previously been drilled northwest and southwest of pit-bottom which intersected a complex 'graben' like structure initially estimated to be approximately 150 to 180 metres wide. This graben has dislocated the coal seam. Pike River took a conservative position by assuming all roadways required to traverse this zone would have to be drilled and blasted through stone – a process considerably slower than developing roadways in coal.

The most recent in-seam hole completed in October 2009 has bisected the above two holes and intersected coal 96 metres to the west of pit-bottom, approximately 50 metres earlier than modeled for this location. Drilling of this in-seam hole has been continued in coal for a further 400 metres to the west, only intersecting one minor fault.

The in-seam drilling unit will complete this current hole over the next couple of weeks, branching to confirm the upper and lower boundaries of the seam. The rig will then be moved to the northern part of pit bottom in the October - December 2009 quarter to drill a fan of holes to the north and north-west to cover the first hydro-mining areas.

As expected, the level of roof support in the more recent roadways on the western side of pit-bottom has been reduced reflecting increasing geotechnical experience and improving roof conditions. This will result in quicker roadway advance rates for future mining operations and will continue to be monitored and re-evaluated.

## First Coal SHIPMENT

A 14,000 tonne stockpile of premium hard coking coal now sits at Pike River's coal preparation plant. Coal production levels from roadway development are expected to ramp-up from the current few thousand tonnes per month to more than 15,000 tonnes per month, prior to hydro-mining commencing.

All coal is transported from the mine down the coal slurry pipeline 10 kilometres to the coal preparation plant at the foot of the Paparoa mountain range.

Due to fixed costs being spread over lower production during the ramp-up period, the estimated mining and transport (FOB) cost during the period to 30 June 2010 is estimated to range between NZ\$200 (US\$148\*) to NZ\$250 (US\$185\*) per tonne of coal, more than double the FOB cost when the mine is at full production.

Pike River has agreed with its customers that its first coal shipment will be a 20,000 to 30,000 tonne cargo in the January - March 2010 quarter.

\* at NZD/USD cross rate of 0.74 at 20 October 2009



# First Hydro-Mining IN APRIL-JUNE 2010 QUARTER

Hydro monitor pumps and electrical systems were delivered during the September 2009 quarter. All other hydro-mining equipment has either been delivered to mine site or is tracking on schedule. The monitors themselves are currently in Australia and the total system of monitor, crawler mounted mobile roof support and coal receiver/crusher (the "Guzzler") is due to be completed for delivery later this year.

First hydro-mining of coal is scheduled for the April - June 2010 quarter as advised to the stock exchanges on 24 August 2009.



## Financing

As previously advised, Pike River has requested Liberty Harbor to extend the US\$27.5 million convertible bond production condition date of 30 November 2009 to 30 June 2010. This condition currently requires that the mine be capable of producing 800,000 tonnes (66,700 per month) in the 12 months from the condition date. This requirement is not expected to be met by 30 November 2009. Liberty Harbor's initial response to the requested extension was favourable and a technical review is currently being conducted by their independent adviser before Liberty Harbor formally advises its position. If Liberty Harbor does not agree to the extension then it would be entitled to require the bonds to be redeemed, with the repayment date not being earlier than 90 days after 30 November 2009.

The Pike River Board is satisfied that, given the operating status of the mine, the state of international coking coal markets and its ability to raise further funding to the extent necessary, the company will be able to fund the costs of the production delays and/or any bond redemption obligations.

Notwithstanding the substantial operational improvements gained over the last two months, the resultant push-out of dates for first deliveries of coal and resultant sale proceeds has increased working capital requirements, which management and the Board are actively addressing. Indicatively, existing funds and loan facilities will need to be bolstered with additional cash to meet operational outgoings in the first half of 2010 by approximately NZ\$20 million.

The optimal means of obtaining these funds is being addressed which may include additional debt or equity. The company has engaged a specialist international coal industry commercial adviser to pursue certain funding options. That party's opinion is that there would be strong interest from international coal customers in securing a long term coal offtake agreement at competitive market prices in the present buoyant climate for hard coking coal, and that may also include a share placement which may be at a premium to the company's present share price.

**Left Photo: Hydro-monitor unit used to cut coal using high pressure water**

**Right Photo: The Guzzler – Pike River's coal receiving and crushing unit which will collect the flow of coal from the hydro-mining process and discharge it into steel flumes**

By October 2009, international spot prices for hard coking coal had increased to US\$160 per tonne.

A pest and predator control officer clears and resets a stoat trap at Pike River



## Hard Coking Coal SPOT PRICES AT US\$160 PER TONNE

Pike River contracted coal sales to 31 March 2010 at US\$128 per tonne, equivalent to the international benchmark price achieved by major Australian coal producers. By October 2009, international spot prices for hard coking coal had increased to US\$160 per tonne.

China has had a major impact this year on world trade in coking coal. In the eight months to August 2009, China is estimated to have imported 15.7 million tonnes of hard coking coal (note 1), significantly offsetting reduced demand in Europe and the United States. Chinese hard coking coal imports for the entire 2008 calendar year were estimated to be 2.5 million tonnes.

Total imports of hard coking coal around the world for calendar year 2009 are estimated at 139 million tonnes and forecast to grow in calendar year 2010 to 154 million tonnes (note 1).

## Paparoa SEAM TESTS

Further tests on the quality of three potentially workable coal seams from the Paparoa coal seams that underlie the Brunner Seam have shown that following washing, the seams produce coal with exceptionally high fluidity combined with strong swelling numbers (9+), low ash (3.9 – 5.4%) and very low sulphur content (0.33 – 0.41%). It is possible that recoverable resources of up to 8 million tonnes may be present from these coal seams.

## Recruitment, SAFETY AND TRAINING

Recruitment of the mining, engineering, processing and support staff is well on the way to being completed ahead of the commencement of hydro-mining production. So far, 146 staff have been recruited.

## Environmental

Pike River's commitment to creating a safe haven for native birds in the mine area resulted in 449 rats and 60 stoats having been killed for the entire August 2008 to September 2009 trapping season. The start of the 2009-2010 season (September-October) has yielded 111 rats and 7 stoats.

Note 1: Source – Minaxis Pty Limited Coal Market Wrap and Analysis report October 2009

### For Further Information

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