

# Pike River Coal Limited: Chief Executive Address At 2010 Annual General Meeting

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Sydney, Australia (ABN Newswire) - Pike River Coal Limited (NZE: PRC) (PINK: PKRRF) is pleased to release Chief Executive Address at 2010 Annual General Meeting:

## **Good afternoon ladies and gentlemen, and welcome.**

It is always pleasing to see large numbers of our loyal investors making the annual journey to our mine site. I know many of you have travelled long distances to get here and I appreciate your efforts.

This annual meeting is my first as Chief Executive and I aim to be as accessible in this role as I was in my last role as General Manager Mines. To be given the opportunity to run this organization, that I know so intimately and have grown with, is a great opportunity. It is personally very satisfying that the board of Pike River has shown the confidence in me to take on the role.

In preparing for this AGM, looking back on the past year has been an interesting exercise for me. The company has experienced its fair share of challenges but has also notched up several notable successes.

The earlier part of this period was focused on completing the construction of underground coalhandling facilities at pit bottom and in advancing underground roadways into the graben zone and out to the coal reserves. Modifications were made to the heavy coal-mining machines that cut underground roadways in late 2009, resulting in some small performance improvements but not the whole answer. All of this was necessary to provide access for the equipment we use for hydromining - a milestone I will touch on later.

The latter part was focused on getting our coal out to our first customer, something we achieved in February this year. This also allowed us to fully commission our coal handling rail facilities at Ikamatua. The first export shipment, worth in excess of NZ\$3 million, was a significant event for the company and represented the culmination of intensive efforts to bring the mine into production. Twenty thousand tonnes of our premium hard coking coal was shipped from Port Lyttelton to Bedi Port in Gujarat, India, to one of our life-of-mine customers, Gujarat NRE where it was used for coke production, an essential part of the steel-making process.

While this milestone was a significant boost for the company and its investors, the fact remained that the geological challenges we had been facing for some time, continued to have a negative impact on our production forecasts, affecting the rate of underground mine development and ultimately progression to full production: a frustration shared by both us and you. This, of course, has a roll-on effect and, inevitably, net cash-flow is impacted. As a result, the company embarked on a \$50 million capital raising exercise to provide working capital to help complete the underground mine development. That was successfully completed in May 2010. A pro rata rights issue that raised \$40 million of the package saw more than 6,100 investors take up their rights entitlements for 43.4 million shares - 95% of the total offer of 45.45 million shares. Prior to that, a \$10 million placement was completed with New Zealand Oil & Gas, Gujarat NRE and institutional investors. At the same time a new US\$28.9 million convertible bond was established with NZOG to refinance the facility previously held with Liberty Harbor.

During this time, the company was very pleased to announce a major operational development: getting through the rock graben back into coal. This news was greeted by the company, and yourselves, with a huge sigh of relief. Prior to this, much of the driveage of the underground roadways was, frustratingly, in stone rather than coal. Not only did we get back into the coal seam at the right horizon, but once there, predictions of better conditions were realised - the quality of the coal and the thickness of the seam provided us with much-needed reassurance as did good cutting conditions. However congested mining areas continued to hamper our ability to realize significant gains.

In September Pike River made its second export shipment of premium hard coking coal. This shipment was worth almost double our inaugural shipment and, again, went to Gujarat NRE. The event coincided with the massive earthquake that hit Canterbury but luckily the damage to the wharf area at Port Lyttelton did not

have a significant impact on us and the panamax vessel with approximately 21,000 tonnes of our coal left just one day later than planned.

While we celebrated this good news, the second shipment was, overall, a month behind schedule, reflecting the difficulty in accurately forecasting the production profile in these early stages of mine development. It was becoming increasingly clear that we needed to take steps to improve the mine's ability to reach its stated production target - which was, at the time, 620,000 tonnes of saleable coal for this year to 30 June 2011. With that in mind, we contracted additional mining equipment and labour as well as hiring additional engineering and mining staff. Perhaps the most critical step we took at this time was the decision to lease a large, reconditioned Sandvik ABM20 single pass continuous mining machine to boost underground capacity. As well as some additional related equipment and taking on extra contract staff to work the machine, the NZ\$4 million we are investing in this area has already made a significant operational impact. We brought forward the planned start date for the machine from December to August in order to enable one of our two Waratah continuous miners to be removed from the mine for overhaul and upgrade. We have previously talked of the wholly unreliable electric drives on these machines. There are a number of other significant design issues which we will now also take the opportunity to correct while the machine is in the Greymouth workshop. That machine is due back underground before Christmas and, depending upon its performance, we will make a decision on overhauling its twin.

The lack of reliability and performance from these Waratah machines has been a major factor in this recent reforecast. Despite having one of the Waratah machines still in service, our reforecast now does not assume any production from it, making any metres we achieve a bonus. When the overhauled machine returns to the mine it will similarly not be scheduled but will be used as a spare machine.

In contrast, the ABM20 continuous miner has been a very reliable and productive machine achieving development rates well beyond the other machines. It was therefore an easy decision to purchase a second ABM20 which will be at the coal face early next year. These are superb machines that are going to give us the sorts of metres of advance that we had previously forecast.

In addition to our previous inability to reliably forecast development with such unreliable machines, we have also been reviewing our mine layout for the next twelve months as we gather more detailed underground information. In the big scheme of things, these mine planning changes have little or no effect, but when looking at short or specific time frames such as financial years, especially when the mine is still developing away from the congestion of pit bottom, they have greater impact on production schedules.

These issues not only had a direct impact on our revised production forecast, which I will come to soon, but on our need to embark on a short-term working capital facility in this past quarter. I am fully aware of the disappointment the announcement of our revised production forecast has been to you all. We've almost halved our forecasts for the 2011 year so they're now sitting at between 320,000 and 360,000 tonnes. Ladies and gentlemen, there has been speculation that I have made a conscious decision to develop a more conservative style in heading the company than has been evident in the past. Well, it is more of a case of the change in leadership providing an opportune time to present a different set of parameters in terms of what I believe we can achieve. These new figures present a range of achievable possibilities rather than a best case scenario and I am personally a lot more comfortable with providing you, our investors, with a more realistic time frame and production schedule as possible while preserving a measure of upside capacity.

The previous forecasts were the best we could put out with the information available but they consistently proved to be at the upper end of the range while our operations performed at the lower end. Now it's time to be more realistic in our approach and forecast production at rates which we have a realistic chance of achieving.

The downgrade in forecast production has, naturally, necessitated a review of the company's financial requirements and an announcement detailing these plans will be made shortly.

It is regrettable that these issues took the gloss off a very significant milestone for Pike River: the commissioning of our hydro-mining equipment. I am very pleased with the way the process has gone. There have been no significant issues and the hydro system cuts and flows through the Coal Preparation Plant as it is supposed to. We have recently completed commissioning the first of our two main underground fans that has increased ventilation by around 30%. This allows us to run the hydro system as well as three roadway development units which was not previously possible. Complete installation of the clean and dirty water systems to allow the hydro-mining system to increase output from its current 50% capacity to its full 9,000 litres per minute design capacity will take place over the next couple of months. I appreciate that some of these concepts may be difficult to follow in a speech, but I also know that many of you take a detailed interest in our operation and its processes.

We expect to achieve full hydro system capacity in the June 2011 quarter at a production rate of around

60,000 tonnes of saleable coal per month and, from that point, continue to ramp up to a steady state by the December 2011 quarter when we expect average monthly production volumes to be around 80,000 tonnes going forward.

Turning to coal sales and revenues - most will be aware we have contracts in place for our premium coal specification product for the life of mine. However, during hydro-commissioning and ramp-up of production, we achieve a better product yield through the Coal Preparation Plant at slightly higher ash (as we did with the first two shipments). We are therefore looking to place our next shipment at this higher ash level. We have a sales contract in place for 60,000 tonnes at 3% ash for the end of the year and we will continue to decrease our product ash as we fine tune the Coal Preparation Plant. While 1% ash will remain our target, it will be a matter of optimizing the yield and ash contents to maximize our revenues.

## Summary

In closing, I'd like to offer reassurance to those of you whose frustration with our problems may, from time to time, overshadow your confidence in the future of the company. We share your disappointment; we take it as hard as you do and I only wish that at times we had a magic wand to address the issues that hamper the development of the business. But we don't. What we do have is a quite complex geological environment that will always throw up challenges that impact on different parts of our operation at different times - there will always be cause and effect to deal with as we develop the mine. But we continue to build knowledge and operating history and we have a very dedicated, focused and enthusiastic management team and workforce who continue to drive this business forward to success.

That is why we are constantly modifying certain aspects of the operation such as road grades and mine layout to achieve the best outcome. With the expansion of the role of the company's Operations Manager, Doug White, to cover all mine site activities as Mine General Manager, I am confident we will continue to make improvements. I remain excited about the future of Pike River Coal - while we've encountered some difficult challenges, nothing has shaken my confidence in the business fundamentally. I hope that my personal endorsement provides you with comfort moving forward as we look to achieve further milestones in production.

Thank you

## About Pike River Coal Limited:

Pike River Coal Limited (NZE:PRC) continues to make good progress in the development of its underground premium hard coking coal mine, located 50 kilometres north east of Greymouth on the South Island's West Coast. Under Pike River's mine plan 17.6 million tonnes of high quality, low ash coking coal will be produced over the mine life for use in the steel making industry, particularly in Asia and the sub-continent. Pike River's hard coking coal will be used by coke and steel makers and will be an important component in the coke making blend due to its low ash, low phosphorous and high fluidity.

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