PIKE RIVER COAL

Submission to the Ministry of Economic Development

‘Maximising our Mineral Potential: Stocktake of Schedule 4 of the Crown Minerals Act and Beyond’

May 2010

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Pike River Coal Limited (Pike River) makes this submission on the Government discussion document "Maximising Our Mineral Potential: Stocktake of Schedule 4 of the Crown Minerals Act and Beyond".

Discussion Document Issues

Q1. On the areas proposed for removal from Schedule 4:

Pike River welcomes the Government review and strongly supports the removal of these areas from Schedule 4, or at the very minimum the Government allowing companies to undertake low impact exploration work to determine if the mineral potential warrants a transfer. The areas proposed for removal are potentially highly prospective for mineralisation. By doing the exploration work first, the amount of land transferred from Schedule 4 can be reduced to a fraction of the current proposal.

This would be a win-win for the environment and business. Once exploration shows there is an attractive deposit, the land can be transferred from schedule 4, and a mine development can be completed which will generate additional royalties and taxes. Royalties can be invested back into the environment through the proposed contestable conservation fund and taxes back into the economy through central government.

Pike River shows how modern mines can be successfully developed on Department of Conservation administered land (please refer to attachment "Pike River Coal – Modern Mining"), for the mutual benefit of the company (and our 8,900 investors including more than 7,800 New Zealand resident investors) and the local environment. We only use 8 hectares of Department of Conservation land but run extensive pest and predator control programmes covering an area of 1,300 hectares in the local catchment area. This is in addition to a blue duck (whio) enhancement programme.

Prior to any prospecting and mining activity occurring, approval for an access agreement would need to be obtained from the Department of Conservation. There are many existing environmental protections and controls which would be applied to ensure that conservation values are appropriately managed, including stringent resource management act resource consent conditions.

Q2. On the areas proposed for addition to Schedule 4:

The mineral potential of the area proposed for addition in the Paparoa National Park north west area is not defined in the discussion document. Pike River believes that the mineral potential needs to be assessed before a decision on whether to add this area to Schedule 4 is made.

Pike River has no comments on the other areas proposed for addition.

Q3. On the assessment of areas:

(a) In general terms we agree with the assessment.

(b) We have no further information to provide.

Q4. On the proposal to further investigate the mineral potential of some areas:

(a) Outcrop sampling and surface mapping will be the lowest impact prospecting tool for defining coal potential. However, we note that limited low impact surface drilling (eg individual drillholes with a surface impact of less than 10 by 20 square metres) will be necessary in the exploration and evaluation process and legislative changes should be made to accommodate this.

(b) Pike River supports the further investigation of the Schedule 4 areas suggested by Government.

Pike River also believes the Government initiative should be part of a broader strategy to do more baseline assessment in other prospective parts of New Zealand including other Schedule 4 land.

Pike River notes that nearly all national parks will not be affected. Only one of the country's 14 national parks is currently proposed to have some land transferred, and this area with known coal deposits, was transferred to Schedule 4 in 2008 against the recommendation of the Department of Conservation.

Q5. On a new contestable conservation fund:

(a) Pike River is strongly supportive of the proposed conservation fund which will ensure that a portion of the benefits from mining on conservation land is directly invested back into environmental programmes. Pike River agrees with the proposed objective.

(b) The fund should be used for large scale environmental programmes. Examples include biological control of possums (see possumbiocontrol.agresearch.co.nz.) which is said to cost the country the staggering amount of $111 million per year plus production losses of a further $40 million per year, or creation of safe haven predator free zones for nationally endangered bird or fauna species. Whilst there are existing projects in areas such as possum control, the injection of substantial funding in the research and development phase may be the catalyst needed to make the breakthrough.

(c) Yes.

(d) Yes. If there is insufficient royalties generated for the fund, the Government could consider meeting the shortfall recognising the long lead times necessary to develop new mining operations.

(e) The panel members should as part of a consultation process on the programmes to be implemented, consider submissions from those minerals companies which make significant contributions to the conservation fund. Minerals companies operate in public conservation land, are often managing substantial pest control programmes and are building knowledge and expertise in these areas which is available to be shared with the Department of Conservation for mutual benefit.

The principles under which the fund would be managed need to be clearly defined and the outcomes need to be measurable and transparent.

Q6. On approval of access arrangements.

Joint approval is entirely appropriate. This process is essential for good decision making processes and recognizes that the public are the ultimate owners of the minerals as well as the conservation

asset The overall objective in these proposals is to achieve an appropriate balance between environmental and economic considerations in relation to potential and actual projects.

Q7. On any other issues

Pike River considers there are other areas of Schedule 4 land not included in the Government Stocktake which should be reviewed for mineral potential and environmental values, to determine if they should be removed.

The last government transferred 7,500 square kilometres into the Schedule 4 conservation land estate in November 2008 without the mineral potential being assessed. That is more than 180 times the total land currently mined in New Zealand. The total land area used for all New Zealand's current minerals mining activities is 40 square kilometres.

New Zealand is currently borrowing $250 million per week as the country cannot pay its bills. New Zealand cannot continue like that if it wants to avoid being the Greece of the South Pacific. We are leaving a massive debt for our next generation to pay back. That does not seem fair to our kids and grandkids. A well managed process of exploration and development has the potential to make some serious in-roads into this problem.

The primary concern reported in the media, is that any conservation land removed from Schedule 4 will automatically be mined, and with insufficient regard for exceptional environmental values. This is simply not true. Controls already in place mean that even if any exploration proceeded to mining, it could only occur in a controlled and responsible manner where environmental values are fully considered and appropriate safeguards and controls are in place.

Attached is a letter to Pike River investors which contains further information on why the Government initiative should be supported. This letter as well as the document titled "Pike River Coal – Modern Mining" forms part of our submission and is included in support of Question 7.

Yours faithfully

Gordon Ward
Chief Executive Officer

Attachments: Letter to Investors – "Mining – The Truth is Out There"
Pike River Coal – Modern Mining

PIKE RIVER COAL

Dear Investor

Mining - The Truth is Out There

As an investor in Pike River Coal you have a real interest in the current debate around the New Zealand Government's proposal to look at the mineral potential in some of its conservation land. Unfortunately, the debate to date, has been far from rational and sensible, due in large part to some seriously misleading and untruthful information being promoted by the objectors. These tactics are unhelpful and prevent a very important issue from being given the proper hearing it deserves. In this letter, we try to help rebalance the debate.

Mining minerals and petroleum in New Zealand presently generates $6.9 billion* of revenues a year from less than 40 square kilometres of land. The net surplus from mining before tax was $2.05* billion. There is no other major industry in this country that comes anywhere close to that wealth generation from such a small area. Doesn't it makes sense to find out whether small but highly valuable deposits lie beneath other parts of our country in areas not considered an iconic part of our landscape?

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What Can You Do?

We need to do something as a nation – our collective futures and that of future generations are dependent upon the country improving its performance in a range of areas. You can do something about this issue.

By lodging a submission on the Government's proposal by 26 May 2010, the voice of reason can be heard. Without it, there is a danger that once again the silent majority will not be heard. This is a rare opportunity where the country can make substantial economic gains without any significant adverse impact on our environment. Attached for your assistance is an example submission for your consideration. Let the government know what you think.

Fact or Myth

So who to believe? The reasoned voice of Government and industry, or the earnest entreaties of objectors most recently fronted by a well known TV actor.

Let's look at some of the claims made by both sides during the debate with some facts to help you form your own view.

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* Source – Statistics NZ, Annual Enterprise Survey, 2008

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Our National Parks are going to be Mined – A Myth

We have 14 national parks. The facts are: (a) the Government has proposed to explore the mineral potential of some land in one national park (Paparoa) which was transferred there in 2008 by the last government apparently without fully evaluating the mineral potential and against the recommendation of the Department of Conservation; and (b) it wants to look at mineral potential in some parts of the Rakiura National Park on Stewart Island. The Government has stated categorically that the other 12 national parks will not be touched.

Prospecting and Exploring has Significant Impacts on the Environment – A Myth

The type of prospecting techniques that will be typically used will be airborne surveys, ground mapping and sampling by hand. This means flying over the prospective areas with geophysical equipment and geologists walking across the ground with a rock hammer to chip some samples and map interesting surface features. Even if surface drilling is conducted like at Pike River, a drilling rig lifted in by helicopter is typically used. The drilling platform is suspended 1 to 1.5 metres above the low vegetation and the total area required is not more than 10 metres by 20 metres. Vehicle access tracks are not necessary for these prospecting activities. They have a minimal impact. This is because at this stage the explorers are simply having a look at what's there to evaluate whether or not mining is feasible.

New Mines on Schedule 4 land will be Big Stripping Operations – A Myth

It is likely that new mines developed on Schedule 4 land are likely to be underground mines like the Pike River coal mine or the Favona gold mine at Waihi. In such case, the surface impact is small, the infrastructure is removed at the end of mining and the small areas affected are restored. On the small areas affected - trees grow back.

Significant cash bonds and insurances are lodged by mining companies before mining starts, to ensure the Department of Conservation (and the public) are protected from any environmental issues during the mine operation and subsequent restoration activities.

Mining will kill the Tourism Industry and Wreck the "Pure" New Zealand brand – A Myth

Mining revenues on the West Coast have increased by more than 300% from 2001 to today. Tourism on the West Coast has increased by 31% in the same period. The claim that the two industries can't and don't co-exist is untruthful and this claim has the potential to cause damage to our tourism industry.

During the period since 2001 two major new mines have opened on Department of Conservation land on the West Coast, being the Pike River coal mine at Greymouth and the Oceana gold mine at Reefton. Tourist numbers on the West Coast have soared, independent of increased mining.

Historic and modern mining sites are an important part of tourism. The Martha Hill gold mine at Waihi attracted 40,000 visitors last year. The Department of Conservation actively manages 70 historic gold mining sites nationally. The colourful coal mining history on the Denniston plateau has been made nationally famous by the book, the "Denniston Rose" and attracts many tourists. Old gold mining sites around Queenstown and Arrowtown draw many visitors keen to pan for gold and look at old Chinese mine workings. Shantytown at Greymouth is recognised as one of the country's leading cultural and heritage attractions.

Mining is a rich part of New Zealand's history with coal, gold and other mining having been part of our communities and our economy for more than 150 years. Mining and historic mining is in fact, a drawcard for many tourists.

The Government only Gets $6 million a year of Royalties – A Myth

The annual royalty payments from minerals in 2007/08 were $13 million but this is a small fraction of the total tax take from mining.

Royalties, levies and taxes paid by all minerals and petroleum companies in New Zealand are estimated by economists at $813 million* for 2008.

The total royalty, levy and tax payments by the mining sector including PAYE on staff salary and wages, is estimated at $961 million* for 2008.

Taxes paid by the mineral resources sector in 2008 were $181,000 for each person employed, seven times the average across all industries and twenty five times the average in the tourism related trade and accommodation sector.

Mining Generates More than $1 million of Total Revenues for each Employee – A Fact

The mining industry generates $1.3 million of total revenues annually for each person employed. This is 6.6 times the contribution of people employed in the tourism related trade and accommodation sector.

Mining is a high productivity sector. The annual surplus per employee (revenues less costs) in the mining sector is $387,000 compared to $7,000 for the tourism trade and accommodation sector.

Mining Employees are High Income Earners – A Fact

The average income earned by a miner in 2008 was $93,000. That is 3.7 times higher than the average of $25,000 in the tourism related trade and accommodation sector. We re-emphasise that the two industries can happily co-exist and in fact have been prospering together.

All Schedule 4 Land is the same as National Parks – A Myth

New Zealand has more than 34,000 square kilometres of land in Schedule 4. National Parks are a part of the Schedule 4 category, but the reality is there is a range of conservation values in Schedule 4 land and any review of the mineral potential will take that into account. Land with lower conservation values in schedule 4 with mineral potential, could be swapped for land with higher conservation value not currently in schedule 4.

There are no Benefits from Looking to Open up New Mining Areas – A Myth

If the economic contribution from the mining sector could be doubled, that would be a massive win-win for the country. This is a realistic possibility. For example, the value of minerals produced from the West Coast has more than trebled in the past 7 years to $900 million.

For every $100 million earned by the Government from taxes and royalties another 2,100 teachers or nurses could be employed. Out of additional taxes, new hospitals could be funded, roads built, hip operations funded, breast and prostrate cancer operations funded, day care centres built.

What would happen on lands transferred out of Schedule 4?

The objectors have assumed that mines are guaranteed as soon as the land in the current stocktake is transferred out of Schedule 4 conservation land. That is certainly not the case. First a commercially attractive resource must be identified, then an access arrangement negotiated with the Department of Conservation. Resource consents will then be sought usually involving extensive consultation and finally the process of funding and developing a mine can get underway.

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* Source – Calculated by NZIER from Statistics NZ, Annual Enterprise Survey, 2008

Pike River believes that a pragmatic solution to the whole vexed issue may be to look at the mineral potential in the areas of interest in Schedule 4. Only when a commercially attractive mineral deposit is identified, would the relevant area be transferred out of Schedule 4. This area would be very small and comprise just a fraction of the current proposal. Then a much stronger economic argument could be made to support any proposal to lift Schedule 4 protection.

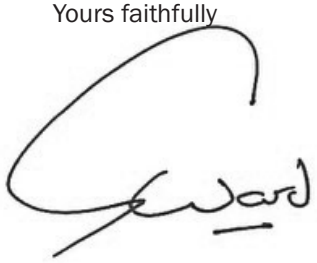
Modern exploration techniques have a minimal impact (see above). But current Schedule 4 regulations allow only an area of 4 metres x 4 metres to be disturbed. To properly evaluate the mineral potential this minimum area would need to be increased to 10 metres x 20 metres.

The Future

Importantly, and critical to the success of proposed changes to Schedule 4, is the Government's commitment to unlocking the nation's resources for economic benefit while respecting and maintaining our environmental and conservation objectives.

Pike River wholeheartedly supports and concurs with the Government that the successful marrying of economic and environmental imperatives is achievable. In fact, New Zealand has an opportunity to be a world leader in developing 'green mines". Our mine at Pike River proves that it can be done.

Yours faithfully



Gordon Ward
Chief Executive
17 May 2010

PIKE RIVER COAL

Pike River Coal – Modern Mining

Pike River is an underground coal mine, operating at depths of 100 to 200 metres below the surface. The mine lies under Department of Conservation administered land on the eastern slopes of the Paparoa Ranges, 50 kilometres north-east of Greymouth. Pike River has striven to minimise the effects of developing the mine on the land, native vegetation, fauna and waterways, and to blend its surface operations in with the natural environment. There was extensive consultation with Department of Conservation (DOC) through this design and consenting process.

Mine buildings blended into native bush

Pike River was granted an access agreement by the Labour Government in 2004 and mine development commenced in 2005. The mine is now producing from New Zealand's largest known deposit of low-ash, premium hard coking coal. Hard coking coal and iron ore are the main ingredients used to make steel.

Substantial financial commitments were made by Pike River before development started to ensure funds were in place to meet all environmental conditions during the mine operating life and subsequent restoration activities. This included cash bonds of $2.3 million lodged with DOC and local councils and environmental insurances of $10 million.

The mine has a relatively small surface footprint on DOC land of only thirteen hectares (compared to the large area - 22,000 hectares - of conservation estate surrounding it). Eight hectares had previously been logged so only five hectares of unlogged vegetation had to be cleared, primarily for the access road and the mine administration buildings.

This extremely small footprint was achieved by slurrying coal from the mine in a pipeline reducing road width and locating infrastructure outside of the DOC estate on land owned by Pike River.

To preserve 800 year native old rimu and miro trees in the unlogged area, we zig zagged the mine access road around the trees instead of felling them. To reduce vegetation clearance in this area, an expensive insulated power line (called Hendrix cabling) was used instead of cheaper standard power lines.

Coal slurry pipeline winding through trees

Narrow access road to mine entrance

Pike River spent two years tunnelling laterally 2.3 kilometres under the Paparoa Ranges to reach the coal resulting in a low impact mine development.

Mine portal entrance into the Paparoa ranges

Acess tunnel under construction

Pike River is making a significant contribution to the local environment. Pest and predator control programmes, environmental health monitoring, ecological and biodiversity studies have been implemented at an estimated cost of $200,000 per year and a further $80,000

per year is contributed to a DOC administered Blue Duck (whio) enhancement programme. These measures can be expected to have a substantial positive impact on the environment, particularly pest and predator control in the Pike Stream catchment area which has been heavily infested by pests including rats, stoats and possums. The removal of these pests will allow the populations of native birds including Blue Duck and Great Spotted Kiwi (roroa) to expand in the area.

Stoat traps being installed

Blue duck (whio)

Pike River has minimised water take from the nearby Pike stream by recycling the majority of the water from the coal preparation plant located outside DOC land, back up to the mine for reuse. All water use and discharge is required to meet detailed resource consent conditions. Solids are removed from the water prior to discharge and after treatment and the water is tested for compliance with stringent resource consent conditions before discharge.

One of the significant protections is a conservative approach on the amount of coal mined to protect the surface effects related to subsidence. Pike River is mining just over 30% of the coal deposit to ensure subsidence does not have an adverse effect on the surface.

This means that the majority of the coal is actually left in the ground to protect the surface. Maximum subsidence levels have been set at the low end of a conservative range recommended by independent experts during the resource consents process.

Modern mining techniques are employed throughout the Pike River mine. Long range inseam drilling (horizontal directional drilling conducted underground) is used to maximise data recovery and reduce the impact on the surface through eliminating vegetation clearance for drill sites. Laser surveys are conducted to map the surface and determine what subsidence, if any, is occurring, again without having to clear access tracks on the surface for ground surveys. Where limited surface drilling is conducted, it is by helicopter mounted drill rigs which impact a tiny area of land, no greater than 10 metres by 20 metres and usually smaller.

The Pike River mine now employs more than 150 staff. More than $20 million per year is spent locally on the West Coast. The annual corporate tax payment by Pike River for 2012 is forecast at more than $50 million, based on an assumed conservative production rate of 850,000 tonnes*. In addition $5 million of royalties to the government are forecast in that year.

Small drill site with rig installed by helicopter

Pike River has undertaken to restore the site to its natural state after mine closure. The mine has a closure plan that is updated annually and restoration of the mine site will involve the removal of all structures, bridges and buildings. All entrances to the mine site will be sealed and the water draining from the tunnel entrance will be treated if required. Disturbed areas will be re-contoured where possible and the retaining walls and road will be broken up. Topsoil and logs will then be spread over any disturbed areas and seeded with native seeds.

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*Source – McDouall Stuart Securities research report, 5 May 2010