



PIKE RIVER COAL

16 January 2008

Pike River Coal Mine Development Update

Some substantial progress has been made with the Pike River mine development since the last update to shareholders on 31 October 2007. The tunnel has progressed to 1960 metres, the final design of pit bottom has been completed and excavation started and construction of the coal preparation plant is well underway. The Company's entry into a new long term transport agreement with Solid Energy NZ Limited, which substantially de-risks the project, was announced to the stock exchanges on 27 November 2007.

As a result of the Company's decision to halt the tunnel near the Hawera fault and construct the pit bottom facilities with conventional drill and blast tunnelling equipment, the date of intersecting the coal seam will move from late April 2008 to early July 2008. This is a risk mitigation step which should result in more cost-efficient construction of the pit bottom area.

The Company has also reforecast expected coal production in the first 12 months in light of new data from new boreholes drilled around the pit bottom area. Production in that ramp-up period is now forecast at 200,000 tonnes as compared to 240,000 tonnes in the IPO prospectus. A more conservative build-up is appropriate as the new boreholes show more rock will be excavated in the pit bottom area than previously modelled. There is no impact on annual production rates when hydro operations are underway in the following year. In context, a 40,000 tonne reduction translates to about half a month's production when hydro operations are in progress.

Tunnelling Progress and Pit Bottom Design

The tunnel has progressed a further 260 metres to 1960 metres since the October 2007 Quarterly Report. The tunnel is 85% complete and forecast to reach the Hawera fault in February 2008. The tunnel is now in competent Class III rock, a widening of the tunnel for the rock conveyor has just been completed and a scheduled 600 metre conveyor extension is underway. Tunnelling progress will improve again, once the conveyor extension is completed, as rock will be moved more quickly away from the rock face.

The tunnel commenced the breakaway for the "pit bottom" excavations on 18 December 2007 and following an 11 day break by contractor personnel for the holidays, work on the tunnel and the pit bottom area is now occurring simultaneously. Considerable design work has been done on the pit bottom excavations in the area east of the Hawera Fault to minimise driveage in the hard gneiss rock and therefore excavation volumes.

The tunnel will continue in parallel with the pit bottom excavations until it reaches a position some 50 metres from the intersection of the Hawera fault. The tunnel will then halt at this point to allow excavation to be completed in the hard gneiss with conventional tunnelling equipment and explosives. Once the barrier to the fault is traversed, the tunnel will be deemed to be a coal mine due to the potential presence of methane gas, and all non-flameproof equipment will be removed from the tunnel and replaced with purpose built equipment for use in a coal mine. This strategy of halting the tunnel to complete the

excavations with the more suitable equipment will reduce risk of both time and capital increases as the flameproof equipment would be much less efficient in the hard gneiss rock. However, this does not mean that the tunnel will not intersect the coal seam until early July 2008, two months later than prior projections.

Since the last update a further two boreholes have been completed in the pit bottom area. One hole was drilled at the site of the ventilation shaft west of Hawera fault and the most recent hole was drilled east of Hawera into the site of the underground coal handling facilities. The shaft hole provided further detailed knowledge of the geology of the shaft site and confirmed the geological model for the coal but also indicated that, while the coal in the immediate vicinity is greater than 9 metres thick, initial driveages around the shaft site will have to take a greater proportion of stone to accommodate the required tunnel grades. This is only an issue for this immediate area which is defined by the tunnel and shaft locations. It does not affect the greater geological model or resource where there is considerably greater flexibility in roadway positioning to achieve grade.

The pit bottom area west of Hawera in the coal measures will accommodate the ventilation shaft and the two main mine fans, the raw coal slurry ponds, the hydro monitor pump station and a large water storage facility. The pit bottom excavations to the east of Hawera will house the coal crushing plant and slurry sump, the fluming water sump and the electrical installations.

With the additional information from the five new boreholes to hand, Pike management has modeled a slightly more conservative ramp-up in production during the first 12 months of 200,000 tonnes. This compares to 240,000 tonnes forecast for the first 12 months in the IPO prospectus. There is no impact on the annual production rate in the second year onwards.

Recruitment in Full Swing

With total staff now at 27, Pike will look to recruit a further 45 employees ahead of first coal production. The current staff includes the senior management team and a range of professionals in all areas of operations and support services. Future recruitment will be more focussed on trades and general production workforce.

Mining Equipment and Infrastructure

In other project activities, the roadheader, which will drive the tunnel from the Hawera fault and most of the pit bottom coal and stone driveages, was delivered to the mine site in early January 2008, with the continuous miners due to be completed in March 2008 and delivered to the mine-site in mid 2008.

Construction on the Coal Preparation Plant (CPP) commenced in November 2007 as forecast and is progressing well, with footings being poured. The CPP will be completed ahead of coal production from the mine.

Similarly work is well advanced on the mine's bathhouse facilities opposite the CPP with foundations laid and frames erected. The bathhouse will be used by the mine's production and engineering workforces as they commence in 2008.

Installation of the 8.5 kilometre surface section of the 275 mm coal slurry pipeline is progressing well with the first 4 kilometres and two bridge crossings successfully installed. The pipeline is being laid along the edge of the access road on concrete plinths which will also carry the 300mm return water line.

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