



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?

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.

New Zealand is currently borrowing \$250 million per week as we cannot pay our bills. We cannot continue like that if we want 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.

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.

* Source – Statistics NZ, Annual Enterprise Survey, 2008

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 prostate 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.

* 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

A handwritten signature in black ink, appearing to read 'Gordon Ward'. The signature is stylized with a large, sweeping initial 'G' that loops back over the rest of the name.

Gordon Ward
Chief Executive
17 May 2010