

Pike River Coal Limited

Activities Report

Quarter ended 30 September 2007



MINE DEVELOPMENT PROGRESS

Pike River Coal Limited has made good progress with the coal mine development during the September 2007 quarter with a consistent improvement in the rate of tunnel advance since the previous report. The tunnel, which provides access to the company's premium quality hard coking coal reserves, is now 74% complete. Ground conditions continued to be more difficult than expected during the quarter and higher tunnelling costs have resulted in the Pike River board increasing the mine development budget by \$11 million (6%) to \$185 million (excluding contingency) in September 2007. At the same time, the Pike River mine is poised to benefit from an expected jump in hard coking coal prices next year with market observers expecting prices of US\$120-125 per tonne.

OPERATIONAL HIGHLIGHTS

- Tunnel at 1700 metres – 74% complete
- Mine offices complete and staff relocated to mine site
- Delivery of initial key underground equipment to site
- \$3.8 million roadheader mining machine completed
- Three new boreholes confirmed geological model in pit-bottom area
- Off-site works on coal preparation plant commence

COAL MARKET AND PRICES

Market observers are currently expecting premium hard coking coal to sell at about US\$120-125 per tonne in the next Japanese Fiscal Year (commencing 1 April 2008). This compares to the current price of US\$96 per tonne and the IPO prospectus forecast of US\$100 per tonne. Demand from India and China continues to be highly influential. For the first time ever, China has this year become a net importer of both thermal and coking coal. Longer term coking coal prices from 2010 onwards are also expected to lift due to ongoing strong international demand.

Pike premium coal has some very good selling properties including an ultra low ash content (ash is a non-combustible waste product) and high fluidity (useful for binding coals when making coke). Seventy percent of the first three year's production has been pre-sold by Pike River under long-term contract, subject to annual agreement on the sales price.

The impacts of a higher than expected New Zealand dollar are being buffered by higher coal prices. Typically, higher New Zealand and Australian exchange rates relative to the US dollar translate to higher international coal prices as the Australian coal producers dominate the supply of product.



New borehole being drilled



Underground grader

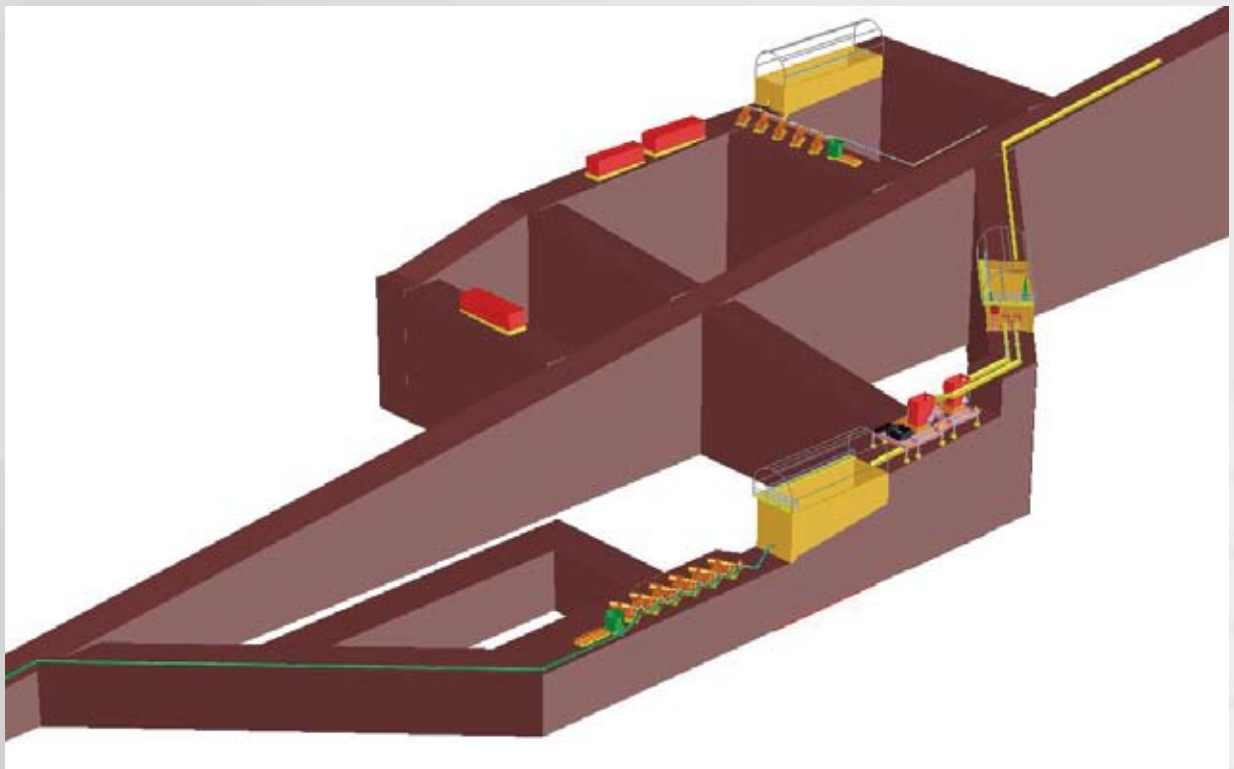
TUNNELLING PROGRESS

Progress in the Pike River tunnel has shown consistent improvement since the last update. The tunnel has been progressed a further 590 metres in the period 31 July to 31 October to a total length of 1700 metres – 74% of the total 2300 metres required to intersect coal. In the last quarter the rock conveyor was extended a further 500 metres in the tunnel to support tunnel advance, with record daily advances of 12 metres being set twice during October.

MINE DESIGN – PIT BOTTOM AREA

Detailed planning is now well underway for the “pit bottom” areas located east and west of the Hawera fault. This fault represents the eastern boundary of the coal seam and will be intersected by the tunnel at a distance of 2150 metres. The remainder of the tunnel will be driven with Pike River’s roadheader until the coal seam is intersected at 2300 metres. The “pit bottom” excavations will house the coal slurry sumps, pumps and supporting electrical installations as well as water dams.

Since the June 2007 quarterly report, Pike River has successfully completed three more surface boreholes in the pit bottom areas adjacent to the Hawera fault. These holes have provided further information about conditions in the area and have verified Pike River’s geological model for the position of the fault and for the location and orientation of the coal seam to the west of the fault. Another hole is currently being drilled into the coal measures at the intended site of the exhaust ventilation shaft. This will add further information to the geological model and allow more detailed planning for the construction of the shaft, due to commence in the December 2007 quarter.



Pit bottom conceptual layout



INFRASTRUCTURE AND EQUIPMENT

Completion of the electrical supply infrastructure to the mine in the June 2007 quarter, has now allowed the mine site to be energised on the national grid.

Completion of the mine's administration and engineering buildings and workshop has allowed Pike River staff to relocate from Greymouth to the mine site. Apart from a small head office presence in Wellington, all of the company's operational management and staff are now located at the mine site.

The roadheader is undergoing final checks and pre-delivery reviews by Pike River management in Newcastle, NSW, prior to dispatch by ship to the mine site. The other two mining machines, the continuous miners, are en route from Germany to Newcastle at present and are expected to be delivered to the mine in January 2008.



Roadheader mining machine



Underground loader

HEALTH, SAFETY AND ENVIRONMENT

The mine and project works continue to operate in a safe and environmentally responsible manner with no serious harm accidents on the mine development to date. Pike River has commenced its pest and predator control programme with 35 kilometres of tracks being established in the valley along with four hundred and sixty rat bait stations and stoat kill traps. The objective is to significantly reduce predation which has seriously harmed native birdlife including the locally found blue duck (whio).

RECRUITMENT

Pike River has appointed a highly experienced management team with over 180 years of combined coal mining experience, with our coal preparation plant manager being the most recent appointment. Recruitment of the general mine work force is now a major activity. Over the next six months, 50 staff will be recruited in time for first coal.

TRANSPORT

Pike River coal is proposed to be transported by the West Coast Coal Company Limited (WCCC) consortium by road to Greymouth and moved on two purpose built self propelled vessels to Port Taranaki for export to India, Japan, Brazil, Europe and other markets.

Commencement of ship and port construction is pending completion of WCCC's financing arrangements, and Pike River and WCCC have agreed an extension of time to complete arrangements to 15 November 2007 (or such later date as the parties agree).

As foreshadowed in the IPO prospectus, several alternatives for transporting the first six months of coal exports, in the region of 60,000 tonnes, are being explored. This includes shipping by barge from Greymouth or railing through Solid Energy's transport chain to Port Lyttelton.

CARBON EMISSIONS TRADING POLICY

The New Zealand Government announced its carbon emissions trading policy in September 2007. Whilst the policy is yet to move through the legislative process, importantly, coal exports are to be exempted from the proposed emissions trading scheme. To do otherwise would be to penalise the New Zealand coal industry compared to our international competitors. Pike River is encouraged to see this matter being treated rationally.

PROJECT EXPENDITURES AND FINANCING

During the September 2007 quarter a further \$24 million was invested in the mine development, taking the total cash invested since the project was green-lighted in September 2005 to \$90 million.

Cash held at 30 September 2007 was \$47 million.

Subsequent to the Board's decision to add \$11 million to the development budget, the remaining capital expenditure (from end September 2007) is now NZ\$95 million (excluding contingency). Bank project financing to complete capital construction of mine facilities and to provide initial working capital continues to be negotiated. Pike River directors are also evaluating the merits of other means of funding a portion of future capital outlays.

ANNUAL MEETING OF SHAREHOLDERS

The 2007 annual meeting was held at the mine site on 24 October 2007 and attended by some 85 shareholders. The meeting was judged to be very successful, with shareholders putting a range of interesting technical and financial questions to directors and management. Resolutions to re-elect Messrs Dow, Natrass, Jagatramka and Radford as directors of the Company were all approved by shareholders.

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Pike River shares are quoted on the NZSX and the ASX under the code "PRC"

If you wish to receive future quarterly, interim or annual reports electronically please go to <http://www.pike.co.nz/shareholder-section/electronic-notices-reports> on the Pike River website to make this election

