PIKE RIVER COAL

PIKE RIVER COAL LIMITED

Results for announcement to the market – 25 August 2010

Reporting period: 12 months ended 30 June 2010

Previous reporting period: 12 months ended 30 June 2009

	12 months to 30 June 2010	12 months to 30 June 2009	Increase / (decrease)
	NZD 000's	*NZD 000's*	%
Revenue from ordinary activities	3,346	5	66820 %
Loss for the period from ordinary activities after tax attributable to security holders	(39,028)	(13,018)	(200) %
Net loss attributable to security holders	(39,028)	(13,018)	(200) %

	As at 30 June 2010	As at 30 June 2009	Increase / (decrease)
Net tangible assets per share	$ 0.64	$ 0.72	(11) %

	Amount per security	Imputed amount per security
Interim/final dividend	n/a	n/a

Record date n/a

Dividend payment date n/a

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PIKE RIVER COAL LIMITED

Results for announcement to the market – 25 August 2010 (continued)

Reporting period: 12 months ended 30 June 2010

Previous reporting period: 12 months ended 30 June 2009

Pike River Coal Limited (PRCL) has reported a $39.0 million loss for the financial year ended 30 June 2010 (2010 financial year) reflecting that the namesake Pike River mine was in the development phase through the year. Sales revenue received from the company's first shipment of premium hard coking coal in February 2010 was $3.3 million. This coal was produced mainly from the underground "pit-bottom" area where large excavations have been made for the hydro-mining operations which are due to commence in mid-September 2010. Hydro-mining is the main method of coal mining and uses highly pressurised water to cut coal.

Costs of sales of $48.1 million included a depreciation and amortisation charge of $8.8 million. Financial expenses of $6.1 million include $4.9 million of interest expense. A slight weakening of the US dollar cross rate against the NZ dollar during the year resulted in $1.4 million of realised exchange gains and $1.3 million of unrealised exchange gains primarily on the USD denominated convertible bond.

An income tax benefit of $13.0 million has been recorded for the 2010 financial year. This tax benefit is recognised at the new company tax rate that comes into effect on 1 July 2011 of 28% and is recognised in the income statement as the company is expected to generate taxable profits in the future, against which the tax losses can be offset.

In accordance with standard accounting policies, a total of $11.4 million post production costs for pit-bottom roadway construction have been reclassified during the 2010 financial year from operating costs to production assets. These costs will be written off over the mine life based on the saleable coal production in each reporting period as a percentage of total saleable coal from the mine (the 'units of production' basis).

A further $25.2 million cash was invested in Pike River mine assets in the 2010 financial year. The total investment in mine assets at balance date was $288.1 million, this being net of accumulated depreciation and amortisation charge to 30 June 2010 financial year of $11.2 million.

The results for this period reflect that the mine is still in development. During the 2010 financial year all coal was development coal recovered by coal cutting machines - the roadheader and two continuous miners. A considerable amount of driveage in stone was required to drive the access roadways through the rock graben back into coal in April 2010. The costs of pit-bottom development work and stone driveage in the rock graben from September 2009 to 20 April 2010 have been expensed.

Accompanying this announcement are the company's financial statements for the period ended 30 June 2010 that have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). The financial statements give a true and fair view of the matters to which they relate and our auditors (KPMG) have reviewed the financial statements and their audit report is attached to the financial statements.

This announcement together with the attached financial statements provide the information required in accordance with NZX Listing Rule 10.4.2, Appendix 1 and ASX Listing Rule 4.3A

Further information:

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Company Secretary

Gordon Ward +64 4 494 0190
Chief Executive and Managing Director

Pike River Coal Limited

Financial statements

For the year ended 30 June 2010

Contents

Statement of comprehensive income

In thousands of New Zealand dollars	*Note*	Group 12 months ended 30 June 2010 *(Audited)*	Group 12 months ended 30 June 2009 *(Audited)*	Parent 12 months ended 30 June 2010 *(Audited)*	Parent 12 months ended 30 June 2009 *(Audited)*
Revenue		3,346	5	3,346	5
Cost of sales		(48,101)	(5,004)	(48,101)	(5,004)
Gross income/(loss)		**(44,755)**	**(4,999)**	**(44,755)**	**(4,999)**
Other income	*23*	-	-	-	7,500
Administrative expenses	*5*	(4,050)	(6,214)	(4,050)	(6,214)
Operating loss from operating activities		**(4,050)**	**(6,214)**	**(4,050)**	**1,286**
Financial income	*6*	2,911	5,009	2,911	5,009
Financial expenses	*6*	(6,149)	(10,625)	(6,149)	(10,625)
Net financing income/(costs)		**(3,238)**	**(5,616)**	**(3,238)**	**(5,616)**
Loss before income tax		(52,043)	(16,829)	(52,043)	(9,329)
Income tax benefit	*7*	13,015	3,811	13,165	1,561
Total comprehensive income for the period		**(39,028)**	**(13,018)**	**(38,878)**	**(7,768)**
Loss per share					
Basic/Diluted (cents per share)	*22a/ 22b*	(11.00)	(4.42)	(10.96)	(2.64)

The notes on pages 7 to 28 are an integral part of these financial statements.

Statement of changes in equity

In thousands of New Zealand dollars	*Note*	Share capital	Retained earnings	Total equity
Group (Audited)				
Balance at 30 June 2009		266,090	(13,197)	252,893
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(39,028)	(39,028)
Contributions from owners				
Issue of share capital	20	47,794	-	47,794
Value of employee services received	20	647	-	647
Balance at 30 June 2010		314,531	(52,225)	262,306
Group (Audited)				
Balance at 30 June 2008		218,032	(179)	217,853
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(13,018)	(13,018)
Contributions from owners				
Issue of share capital	20	47,372	-	47,372
Value of employee services received	20	686	-	686
Balance at 30 June 2009		266,090	(13,197)	252,893
Parent (Audited)				
Balance at 30 June 2009		266,090	(7,947)	258,143
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(38,878)	(38,878)
Contributions from owners				
Issue of share capital	20	47,794	-	47,794
Value of employee services received	20	647	-	647
Balance at 30 June 2010		314,531	(46,825)	267,706
Parent (Audited)				
Balance at 30 June 2008		218,032	(179)	217,853
Total loss for the period and total comprehensive loss for the period				
Profit/(loss) for the period		-	(7,768)	(7,768)
Contributions from owners				
Issue of share capital	20	47,372	-	47,372
Value of employee services received	20	686	-	686
Balance at 30 June 2009		266,090	(7,947)	258,143

The notes on pages 7 to 28 are an integral part of these financial statements.

Statement of financial position

In thousands of New Zealand dollars	*Note*	Group As at 30 June 2010 *(Audited)*	Group As at 30 June 2009 *(Audited)*	Parent As at 30 June 2010 *(Audited)*	Parent As at 30 June 2009 *(Audited)*
Assets					
Property, plant and equipment	8	97,026	47,851	97,026	47,851
Mine development assets	9	43,162	217,863	43,162	217,863
Mine production assets	10	141,405	-	141,405	-
Intangible mine assets	11	6,499	5,439	6,499	5,439
Bonds and deposits	12	2,324	3,474	2,324	3,474
Deferred tax assets	13	18,957	5,942	16,857	3,692
Total non-current assets		**309,373**	**280,569**	**307,273**	**278,319**
Cash and cash equivalents	14	20,597	21,746	20,597	21,746
Trade and other receivables	15	1,708	1,667	1,708	1,667
Inventories	16	8,317	2,385	8,317	2,385
Intercompany loans	23	-	-	7,500	7,500
Total current assets		**30,622**	**25,798**	**38,122**	**33,298**
Total assets		**339,995**	**306,367**	**345,395**	**311,617**
Liabilities					
Rehabilitation provision	18	1,207	916	1,207	916
Convertible bonds	19a	41,667	42,096	41,667	42,096
Total non-current liabilities		**42,874**	**43,012**	**42,874**	**43,012**
Trade and other payables	17	10,841	9,756	10,841	9,756
Secured bank facilities	19b	22,917	-	22,917	-
Employee benefits		1,057	706	1,057	706
Total current liabilities		**34,815**	**10,462**	**34,815**	**10,462**
Total liabilities		**77,689**	**53,474**	**77,689**	**53,474**
Net assets		**262,306**	**252,893**	**267,706**	**258,143**
Equity					
Share capital	20	314,531	266,090	314,531	266,090
Retained earnings		(52,225)	(13,197)	(46,825)	(7,947)
Total equity		**262,306**	**252,893**	**267,706**	**258,143**

John Dow (Chairman)

Date: 25 August 2010

Stuart Nattrass (Director)

Date: 25 August 2010

The notes on pages 7 to 28 are an integral part of these financial statements.

Statement of cash flows

In thousands of New Zealand dollars	Note	Group 12 months ended 30 June 2010 *(Audited)*	Group 12 months ended 30 June 2009 *(Audited)*	Parent 12 months ended 30 June 2010 *(Audited)*	Parent 12 months ended 30 June 2009 *(Audited)*
Cash flows from operating activities					
Cash from customers		3,360	-	3,360	-
Cash paid to suppliers and employees		(47,533)	(6,152)	(47,533)	(6,152)
Interest received		400	2,319	400	2,319
Interest paid		(3,707)	(3,169)	(3,707)	(3,169)
Net cash from/(used in) operating activities	*27*	**(47,480)**	**(7,002)**	**(47,480)**	**(7,002)**
Cash flows from investing activities					
Acquisition of tangible mine development assets		(13,048)	(77,384)	(13,048)	(77,384)
Acquisition of intangible mine development assets		(1,060)	-	(1,060)	-
Acquisition of production assets		(10,451)	(2,334)	(10,451)	(2,334)
Acquisition of plant, property and equipment		(649)	(117)	(649)	(117)
Repayment of bonds and deposits		1,150	1,320	1,150	1,320
Payment of bonds and deposits		-	-	-	-
Net cash from/(used in) investing activities		**(24,058)**	**(78,515)**	**(24,058)**	**(78,515)**
Cash flows from financing activities					
Proceeds from issue of share capital		47,472	43,354	47,472	43,354
Repayment of loans		(7,624)	-	(7,624)	-
Loan drawdowns		30,541	-	30,541	-
Net cash from/(used in) financing activities		**70,389**	**43,354**	**70,389**	**43,354**
Net (decrease)/increase in cash and cash equivalents		**(1,149)**	**(42,163)**	**(1,149)**	**(42,163)**
Opening cash and cash equivalents		21,746	63,909	21,746	63,909
Closing cash and cash equivalents	*14*	**20,597**	**21,746**	**20,597**	**21,746**

The notes on pages 7 to 28 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

Pike River Coal Limited ('Pike River' or 'Company') is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ('NZSX') and Australian Stock Exchange ('ASX'). Pike River is an issuer in terms of the Financial Reporting Act 1993.

Financial statements for the Company ('Parent') and consolidated financial statements are presented. The consolidated financial statements of Pike River Coal Limited as at and for the year ended 30 June 2010 comprise the Company and its subsidiary (together referred to as the 'Group').

Where the 2009 and 2010 Company and Group numbers are the same, they are presented and disclosed in one column in the relevant notes to the financial statements.

The registered office is located on Level 3, 1 Willeston Street, PO Box 25 263 Wellington, New Zealand.

The Group is primarily involved in the exploration and evaluation, development, and production of coal.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

These financial statements were approved by the Board of Directors on 25 August 2010.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value

(c) Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. Unless otherwise indicated, all financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 10-Mine production assets
- Note 11-Intangible mine assets
- Note 18-Rehabilitation provision
- Note 21-Share based payments
- Note 25-Commitments

(e) Adoption status of relevant new NZIFRS and Interpretations

New standards the Group adopted in the year to 30 June 2010 included:

- NZ IAS 1: *Amendments to presentation of the Statement of Comprehensive Income.*
- NZ IAS 23: *Borrowing costs*
- NZ IAS 27: *Consolidation and separate financial statements.*
- NZ IAS 39: *Financial instruments by category*
- NZ IFRS 2: *Share based payments*.
- NZ IFRS 7: *Financial instruments disclosures*
- NZ IFRS 8: *Operating segments*

The adoption of these standards did not have a material impact on the Group's financial statements.

The Group has elected not to early adopt the following relevant standards which have been issued but are not yet effective:

- NZ IFRS 2 *Share-based payment* – revision approved in August 2009 and effective for annual reporting periods beginning or after 1 January 2010.
- NZ IFRS 8: *Operating segments*: and effective for annual reporting periods beginning on or after 1 January 2010.
- NZ IFRS 9 *Financial instruments:* and effective for annual reporting periods beginning on or after 1 January 2013.
- NZ IAS 1: *Amendments to presentation of financial statements:* and effective for annual reporting periods beginning on or after 1 January 2010.
- NZ IAS 7: *Amendments to Statement of Cash Flows:* and effective for annual reporting periods beginning on or after 1 January 2010
- NZ IAS 24 *Related party disclosures (revised 2009)* –approved November 2009 and effective for annual reporting periods beginning or after 1 July 2011.
- NZ IAS *32 Amendment: Financial instrument: Classification of rights issue* approved October 2009 and effective for annual reporting periods beginning on or after 1 February 2010.
- NZ IFRIC 19 *Extinguishing financial liabilities with equity instruments*-approved December 2009 and effective for annual reporting periods beginning on or after 1 July 2010.

Upon adoption, these standards are not expected to have a material impact on the Group's financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative amounts have been reclassified to conform with the current years presentations.

(a) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, bonds and deposits, advances, loans and borrowings, convertible notes, convertible bonds and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Advances, bonds and deposits

Advances, deposits and short term bonds are stated at their cost less impairment losses. Long term bonds are amortised using effective interest rates.

Trade and other payables

Trade and other payables are stated at cost.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Convertible notes and Bonds

Convertible notes are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion mechanism. The interest expense recognised in profit or loss is calculated using the effective interest rate method.

(ii) Derivative financial instruments

In line with its stated risk management strategies, the Group may, from time to time, use derivative financial instruments to hedge its exposure to interest rate risk, foreign exchange risk, and (where possible) commodity risk arising from operational and financing activities.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, capitalised borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment

is capitalised as part of that equipment. The cost also includes dismantling and site rehabilitation costs to the extent that these are recognised as a provision.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at the amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Lease payments are accounted for as described in accounting policy 3(m),

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The useful life of such equipment is dependant upon future production and remaining reserves. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

➢ Technical and computer equipment	2 to 5 years
➢ Plant and equipment	4 to 18 years
➢ Motor vehicles and trucks	5 years
➢ Office furniture and fittings	5 to 8 years
➢ Buildings	18 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(e) Production, Mine Development, Exploration and Evaluation Expenditure

Expenditure incurred on coal 'areas of interest' is accounted for using the successful efforts method. An area of interest is defined by the Group as being a licence or permit area. Exploration and evaluation expenditure is written off in profit or loss under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest, or any part thereof, is no longer prospective for economically recoverable resources or when the decision to abandon an area of interest is made.

(i) Mine production assets

Mine production assets comprise development costs (excluding expenditure on property, plant and equipment) incurred in relation to areas of interest in which coal production has commenced. Expenditure on production assets is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable resources. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall in accordance with the impairment testing requirements stated under note 3(h).

(ii) Mine development assets

Mine development assets comprise tangible costs (mine development costs) incurred on areas of interest in which economically recoverable resources have been identified and which are being developed for production. Such costs include direct costs plus overhead expenditure incurred which can be directly attributable to the development process. All development costs incurred prior to the commencement of commercial levels of coal production from each area of interest are capitalised. No amortisation is provided in respect of development assets until they are reclassified as production assets following commencement of coal production. The carrying amounts are subject to impairment testing in accordance with note 3(h).

(iii) Exploration and Evaluation interests

Exploration and evaluation interests comprise both tangible and intangible costs incurred in areas of interest for which rights of tenure are current and:

- ➢ such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or
- ➢ exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable resources, and active and significant operations in, or in relation to, these areas are continuing.

The ultimate value of areas of interest is contingent upon the results of further exploration and agreements entered into with other parties and also upon meeting commitments under the terms of permits granted and any other related agreements.

Certain intangible exploration and evaluation costs, including the costs of acquiring mining licenses and resource consents, are capitalised as intangible exploration and evaluation assets ('E&E assets') pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist. When a license is relinquished or a project is abandoned, the related costs are recognised in profit or loss. If the project proceeds to the development phase when economically recoverable resources are determined, the tangible and intangible E&E assets are first assessed for impairment before they are reclassified to 'mining development assets' and 'intangible development assets' respectively. The carrying amounts of E&E assets are subject to impairment testing in accordance with note 3(h).

(iv) Research

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

(f) Intangible Mine assets

(i) Intangible mine assets

Intangible mine assets comprise development costs (excluding expenditure on property, plant and equipment) incurred in relation to areas of interest in which coal production has commenced. Expenditure on intangible production assets is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable resources. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall in accordance with the impairment testing requirements stated under note 3(h).

(ii) Intangible development assets

Intangible development assets comprise definite life intangible E&E assets previously capitalised and then reclassified when economically recoverable resources are determined. It also includes any subsequent development costs incurred that are of an intangible nature. The intangible development assets are stated at cost less accumulated impairment losses. No amortisation is provided in respect of these assets until they are reclassified as production assets following commencement of coal production.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

(iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, with the exception of intangible development assets which are not amortised until production commences, after which they are reclassified and amortised using the production output method.

(g) Inventories

Inventories of saleable coal are valued at the lower of weighted average cost or net realisable value. Costs include direct material, labour and transportation expenditure incurred in getting such inventories to their existing location and condition, together with an appropriate portion of overhead expenditure. Inventories of materials, consumable supplies and maintenance spares expected to be used in production are valued at weighted average cost. All inventory is valued at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(h) Impairment

The carrying amounts of the Group's assets with the exception of deferred tax assets, and inventories are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

(i) Impairment of receivables (including bonds, deposits and advances)

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than, inventories, E&E assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when:

- the period of exploration right has expired or will expire in the near future,
- substantive expenditure on further development or exploration for mining coal in the specific area is neither budgeted or planned,
- exploration for and evaluation of coal in the specific area have not led to the discovery of commercially viable quantities, or

- the Group has decided to discontinue such activities in the area or there is sufficient data to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by production and sale.

(i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Rehabilitation provision

Rehabilitation expenditure to be incurred subsequent to the cessation of production from production areas of interest is provided for and expensed in the profit or loss based on best estimates of the expenditure required to settle the present obligations at balance date.

(j) Employees benefits

(i) Short-term benefits

Short-term employee benefit obligations e.g. holiday pay, are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term employee benefits if Pike River has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Share-based payments

The grant date fair value of partly-paid shares granted to employees of Pike River are recognised as employee expenses, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to ownership of the partly-paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly-paid shares that have been granted.

(k) Revenue

Revenue from the sale of coal, including development coal is recognised only when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The timing of revenue recognition may vary depending on the individual terms of the contract of sale. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

(l) Other income

Other income comprises revenue from the sale of prospecting and mining permit rights and is measured at the fair value of the consideration received or receivable. It is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Other income also includes net gains on disposal of property, plant and equipment.

(m) Lease payments

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, foreign currency gains and gains on hedging instruments that are recognised in the profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables) and losses on hedging instruments that are recognised in the profit or loss. All borrowing costs are recognised in the profit or loss using the effective interest method.

Borrowing costs incurred for the construction of any qualifying assets e.g. mining development assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Borrowing costs that have been capitalised as part of mine development assets are amortised in accordance with note 3(d).

(o) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences where the initial recognition of assets or liabilities relates to a transaction that is not a business combination and at the time of that transaction it affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Pike River by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

(q) Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing related products or services, which is subject to risks and rewards that are different from those of other segments. Pike River's primary format for segment reporting is based on business segments.

4. Segment reporting

The Group currently operates within one primary segment, being the operation of a coal mine based near Greymouth on the West Coast of the South Island, New Zealand. The operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. During the current financial period there was one sale of coal with the value of $3,345,000 to Gujarat NRE Coal (NSW) Pty Limited (see related parties note 23).

5. Administrative expenses

The following items of expenditure are included in administrative expenses:

		Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*Note*	*(Audited)*	*(Audited)*
Auditors remuneration:			
- audit of financial statements		(104)	(70)
- other audit-related services		-	-
- fees for tax advisory services		(134)	(133)
Total auditors remuneration		**(238)**	**(203)**
TSA termination expenses	*(i)*	(388)	(1,934)
Value of employee services provided	*20*	(647)	(686)
Other administrative expenses		(2,777)	(3,391)
		(4,050)	**(6,214)**

(i) *TSA termination expenses*
On 21 May 2010 a final payment of $388,000 (30 June 2009: $1,934,000) was made in relation to the settlement of the Transport Services Agreement (TSA).

6. Net finance costs

	Group and Parent ended 30 June 2010	Group and Parent ended 20 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*
Interest income on bank deposits	377	2,033
Realised foreign exchange gains	1,362	2,841
Unrealised foreign exchange gains	1,307	-
Net change in fair value of derivatives	(135)	135
Financial income	**2,911**	***5,009***
Interest expense on financial liabilities	(4,869)	(3,520)
Amortisation of discount on convertible bonds	(427)	(844)
	(5,296)	**(4,364)**
Unrealised foreign exchange losses	-	(6,211)
Unwind of discount on provisions	(61)	(50)
Other finance expenses	(792)	-
Financial expenses	**(6,149)**	***(10,625)***
Net finance income (costs)	**(3,238)**	**(5,616)**

Notes to the financial statements

7. Income tax benefit

Income tax on the face of profit or loss comprises:

	Group year ended 30 June 2010	Group year ended 30 June 2009	Parent year ended 30 June 2010	Parent year ended 30 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*
Current tax				
Current period	-	-	-	-
Adjustment for prior periods	-	-	-	-
	-	-	-	-
Deferred tax				
Recognition of current period tax losses	22,398	7,301	22,398	5,051
Origination and reversal of temporary differences	(7,001)	(5,016)	(7,001)	(5,016)
Recognition of previously unrecognised tax losses	1,020	2,546	1,020	2,546
Prior year adjustment	1,360	-	1,360	-
Derecognition of previously recognised tax losses	-	(1,020)	-	(1,020)
Recognition of tax liability on mine assets	(3,428)	-	(3,428)	-
Effect of change to 28% tax rate from 1 July 2011	(1,334)	-	(1,184)	-
	13,015	**3,811**	**13,165**	**1,561**
Total income tax benefit	**13,015**	**3,811**	**13,165**	**1,561**

The Group's tax rate is 30%. Income tax on the face of profit or loss is different from the standard rate of corporate tax and is reconciled as follows:

Reconciliation of effective tax rate	Group year ended 30 June 2010	Group year ended 30 June 2009	Parent year ended 30 June 2010	Parent year ended 30 June 2009
	(Audited)	*(Audited)*	*(Audited)*	*(Audited)*
In thousands of dollars				
Loss before income tax	**(52,043)**	**(16,829)**	**(52,043)**	**(9,329)**
Income tax benefit @ 30% tax rate	15,613	5,049	15,613	2,799
Add/(deduct):				
Recognition of tax losses previously unrecognised	1,020	2,546	1,020	2,546
Prior year adjustment	1,360	-	1,360	-
Non-deductible expenses	(216)	(223)	(216)	(223)
Temporary differences previously not recognised	-	(2,541)	-	(2,541)
Derecognition of tax losses previously recognised	-	(1,020)	-	(1,020)
Recognition of tax liability on mine assets	(3,428)	-	(3,428)	-
Effect of change to 28% tax rate from 1 July 2011	(1,334)	-	(1,184)	-
Total income tax benefit	**13,015**	**3,811**	**13,165**	**1,561**

8. Property, plant and equipment

In thousands of dollars	Land	Buildings, plant & equipment	Motor vehicles	Office furniture & fittings	Total
Parent and Group					
Year ended 30 June 2010					
Opening net carrying amount	65	47,588	78	120	47,851
Additions	-	900	60	28	988
Transfers in from mine development assets	-	56,741	-	-	56,741
Depreciation charge	-	(8,505)	(24)	(25)	(8,554)
Closing net carrying amount	**65**	**96,724**	**114**	**123**	**97,026**
As at 30 June 2010					
Cost or deemed cost	65	107,568	167	176	107,976
Accumulated depreciation	-	(10,844)	(53)	(53)	(10,950)
Net carrying amount	**65**	**96,724**	**114**	**123**	**97,026**
Parent and Group					
Year ended 30 June 2009					
Opening net carrying amount	65	78	34	69	246
Additions	-	110		7	117
Transfers in from mine development assets	-	49,513	56	56	49,625
Depreciation charge	-	(2,113)	(12)	(12)	(2,137)
Closing net carrying amount	**65**	**47,588**	**78**	**120**	**47,851**
As at 30 June 2009					
Cost or deemed cost	65	49,927	107	148	50,247
Accumulated depreciation	-	(2,339)	(29)	(28)	(2,396)
Net carrying amount	**65**	**47,588**	**78**	**120**	**47,851**
As at 1 July 2008					
Cost or deemed cost	65	304	51	85	505
Accumulated depreciation	-	(226)	(17)	(16)	(259)
Net carrying amount	**65**	**78**	**34**	**69**	**246**

9. Mine development assets

	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*
Opening balance	217,863	188,080
Additions	12,285	79,408
Transfers out to property, plant and equipment	(56,741)	(49,625)
Transfers out to mine production assets	(130,245)	-
Amounts written off	-	-
Closing balance	**43,162**	**217,863**

Mine development assets balance comprises of assets that have not yet been commissioned, principally hydro-mining equipment, therefore no depreciation has been charged during the period.

During the year to 30 June 2010 $56,741,000 (30 June 2009: $49,625,000) has been transferred from mine development assets to property, plant & equipment and $130,245,000 (30 June 2009: $Nil) has been transferred from mine development assets to mine production assets.

Interest totalling $676,000 has been capitalised during the current period (2009:$580,000) in relation to borrowing costs that are directly attributable to acquisition and construction of mine development assets.

Notes to the financial statements

10. Mine production assets

In thousands of dollars	Group and Parent ended 30 June 2010 (Audited)	Group and Parent ended 30 June 2009 (Audited)
Opening balance	-	-
Transfers in from mine development assets	130,245	-
Capitalised roadway costs	11,425	
Amortisation charges	(265)	-
Closing balance	**141,405**	**-**

Mine production assets comprise development costs (excluding plant, property and equipment) incurred in relation to areas of interest in which coal production has commenced. Amortisation has been charged based on the production output methodology.

Included in year to 30 June 2010 is $11,425,000 of post production costs for pit-bottom roadway construction which will be used and amortised on the production output methodology.

11. Intangible mine assets

In thousands of dollars	Group and Parent ended 30 June 2010 (Audited)	Group and Parent ended 30 June 2009 (Audited)
Opening balance	5,439	3,105
Additions	1,072	2,334
Amortisation	(12)	-
Closing balance	**6,499**	**5,439**

Intangible mine assets primarily comprise expenditure that Pike River has been required to make in order to obtain rights of access or operation in relation to key items of infrastructure or land necessary for operation of the coal mine. To the extent that this expenditure gives rise to long term future economic benefits it is capitalised and amortised over units of production in accordance with note 3(f).

12. Bonds and deposits

In thousands of dollars	Note	Group and Parent ended 30 June 2010 (Audited)	Group and Parent ended 30 June 2009 (Audited)
Bonds	*(i)*	2,324	2,324
Deposits	*(ii)*	-	1,150
		2,324	**3,474**

(i) *Bonds*
Bonds of $1,049,000 (30 June 2009: $1,049,000) have been lodged with the Department of Conservation ('DOC') in accordance with the conditions of access agreement permits granted to Pike River. In the event access agreement conditions are not maintained, the bonds may be forfeited.

Similarly, bonds of $1,200,000 (30 June 2009: $1,200,000) have been lodged with various local body authorities in accordance with conditions attaching to resource consents issued to Pike River. In the event that resource consent conditions are not maintained, the bonds may be subject to forfeiture.

There is also a $75,000 (30 June 2009: $75,000) bond retained in favour of the New Zealand Exchange Limited. The bond is required to be maintained as part of Pike River's continued listing on the New Zealand Stock Exchange.

(ii) *Deposits*
A cash-backed third party guarantee has been provided to Westpower Limited ('Westpower') in relation to an agreement for supply and installation of high voltage electricity supply infrastructure to the mine. At balance date Pike River has $Nil (30 June 2009: $1,150,000) cash lodged with ANZ National Bank Limited ('ANZ') (the provider of the guarantee). Cash lodged with ANZ to secure the guarantee is refunded by ANZ to Pike River on a monthly basis in line with Pike River's fulfilment of its monthly obligations under the Westpower infrastructure supply agreement. Westpower remitted a final payment of $50,000 in June 2010.

Notes to the financial statements

13. Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Recognised deferred tax assets and liabilities	Group 2010	Group 2009	Parent 2010	Parent 2009
	(Audited)	*(Audited)*	*(Audited)*	*(Audited)*
In thousands of dollars				
Deferred tax assets				
Opening balance	11,092	2,131	8,842	2,131
Current period tax losses	22,398	7,301	22,398	5,051
Value of previously unrecognised tax losses	1,020	2,546	1,020	2,546
Prior year adjustment	1,360	-	1,360	-
Derecognition of previously recognised tax losses	-	(1,020)	-	(1,020)
Effect of change to 28% tax rate from 1 July 2011	(2,380)		(2,230)	
Provisions	111	134	111	134
Total Deferred tax assets	**33,601**	**11,092**	**31,501**	**8,842**
Deferred tax liabilities				
Opening balance	(5,150)	-	(5,150)	-
Mine development assets	(9,512)	(5,150)	(9,512)	(5,150)
Loss of tax depreciation on building from 1 July 2011	(826)	-	(826)	-
Effect of change to 28% tax rate from 1 July 2011	1,046	-	1,046	-
Other	(202)	-	(202)	-
Total deferred tax liabilities	**(14,644)**	**(5,150)**	**(14,644)**	**(5,150)**
Net deferred tax asset	**18,957**	**5,942**	**16,857**	**3,692**

As at 30 June 2010, with coal production underway and following assessment of the coming financial year's likely results, a deferred tax asset in relation to carry-forward tax losses has been recognised given the probability that sufficient future taxable profits will be generated to offset these tax losses. In May 2010 legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28% and to remove the ability to claim tax depreciation on buildings with an estimated useful life greater than fifty years, effective for the 2011-2012 income tax year. The tax effect shown is the estimated impact on the value of deferred tax as a result of the changes from 1 July 2011.

14. Cash and cash equivalents

Cash and cash equivalents	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*
Bank balances	2,917	3,810
Deposits	17,680	17,936
	20,597	**21,746**

15. Trade and other receivables

	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*
Prepayments	871	717
GST receivable	714	651
Customs GST receivable	-	185
Other receivables	123	114
	1,708	**1,667**

Notes to the financial statements

16. Inventories

In thousands of dollars	Group and Parent ended 30 June 2010 *(Audited)*	Group and Parent ended 30 June 2009 *(Audited)*
Coal stock	4,202	734
Mine consumables and spare parts	4,115	1,651
	8,317	**2,385**

17. Trade and other payables

In thousands of dollars	Group and Parent ended 30 June 2010 *(Audited)*	Group and Parent ended 30 June 2009 *(Audited)*
Trade payables	4,691	5,261
Accruals	6,015	4,101
Other creditors	135	394
	10,841	**9,756**

Trade and other payables denominated in currencies other than the functional currency for the current period comprise AUD $1,124,000 (30 June 2009: AUD $1,364,000, EUR $337,000 and USD $108,000).

18. Rehabilitation provision

In thousands of dollars	Group and Parent ended 30 June 2010 *(Audited)*	Group and Parent ended 30 June 2009 *(Audited)*
Opening balance	916	676
Provision made during the period	-	321
Unwind of discount	61	50
Impact of change in discount rate	230	(131)
Closing balance	**1,207**	**916**

Under an agreement with DOC, Pike River is obliged to rehabilitate any affected land area to an approved condition once coal production from the Pike River mine has ceased. This provision represents the costs expected to be incurred to rehabilitate areas where mine development work has occurred as at balance date.

Because of the long term nature of this liability, the biggest uncertainty in estimating the provision is the quantum of costs that will be incurred to rehabilitate the affected areas. In particular, Pike River has assumed that the site will be restored using technology and materials that are available currently.

No additional provision was made in the year to 30 June 2010. In 2009 an additional provision of $321,000 was made reflecting the increased area of mine development and a reassessment of the likely costs to be incurred.

The provision has been calculated using a discount rate of 5.35% as at 30 June 2010 (30 June 2009: 6.67%) The expected remaining life of mine used in the determination of the provision is estimated at 17 years as at 30 June 2010 (30 June 2009: 18 years).

Notes to the financial statements

19. Convertible bonds and secured bank facilities

This note provides information about the contractual terms of Pike River's interest-bearing loans and borrowings. For more information about Pike River's exposure to interest rate and foreign exchange risk, see note 24.

		Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*Note*	*(Audited)*	*(Audited)*
Non-current liabilities			
Convertible bonds	*(a)*	41,667	42,096
		41,667	**42,096**
Current liabilities			
CreditPlus bank term debt facility	*(b)*	12,917	-
Multi-option bank facility	*(b)*	10,000	-
		22,917	-

Terms and conditions of outstanding loans and borrowings are as follows:

Interest bearing loans and borrowings	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
In thousands of dollars				*Group and Parent ended 30 June 2010*	*Group and Parent ended 30 June 2010*	*Group and Parent ended 30 June 2009*	*Group and Parent ended 30 June 2009*
Convertible bonds (i)	USD	10.75%	2011	-	-	42,236	42,096
Convertible bonds (NZOG) (i)	USD	10.00%	2012	41,667	41,667	-	-
Secured debt facilities	NZD	BKBM+1.20%	2013	12,917	12,917	-	-
	NZD	BKBM+1.70%	2010	10,000	10,000	-	-
				64,584	**64,584**	**42,236**	**42,096**

(a) Convertible bonds

Convertible bonds	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*
Liberty Harbor Convertible bonds		
Opening balance	42,096	37,826
Conversions during the period	-	(3,307)
Issue of new convertible bonds during the period	1,902	-
Amortisation of discount	427	844
Convertible bonds accrued interest	-	475
Repayment of principal & interest	(43,199)	-
Realised foreign exchange (gain)/ loss on translation	(1,226)	6,258
Closing balance	-	**42,096**
NZOG Convertible bonds		
Opening balance	-	
Issue of new convertible bonds during the period	42,974	-
Unrealised foreign exchange gain on translation	(1,307)	-
Closing balance	**41,667**	-

(i) The Liberty Harbor convertible bonds were fully repaid on 21 May 2010. On this date, Pike River issued US$28,900,000 convertible bonds to NZOG 38483 Limited (a wholly owned subsidiary of New Zealand Oil & Gas Limited ("NZOG")) which bear an effective interest rate of 10.00% (payable quarterly).

The bonds are convertible into ordinary shares of Pike River at any time prior to maturity (12 March 2012) at the bond holders election at a conversion price of US$0.84760709.

Pike River has granted a first ranking charge over the company's assets by way of security for the convertible bonds (excluding certain items of mobile mining equipment which are subject to a charge granted to the Bank of New Zealand Limited ('BNZ') in relation to the CreditPlus committed bank facility (refer note 19(b)).

(b) Secured bank facilities

CreditPlus bank term debt facility
Pike River has in place a CreditPlus 5 year term debt facility with the BNZ. Similar to a revolving credit facility the facility is fully redrawable and repayable at Pike River's option over the term of the facility. The initial facility limit of $16,167,000 amortises on a monthly basis down to a maximum facility limit of $4,181,000. The facility is priced at a margin above 90 day BKBM with a quarterly rate reset.

The CreditPlus facility is secured via a first ranking charge of $16,500,000 (30 June 2009:$Nil) provided over certain items of mobile mining equipment.

As at 30 June 2010 the available CreditPlus facility limit was $12,917,000 which Pike River has fully drawn.

Multi-option bank facility
Pike River has in place a $10,000,000 (30 June 2009: $10,000,000) Multi-option debt facility with the BNZ. Structured as a series of flexible and scaleable sub-facilities, the Multi-option debt facility allows Pike River to fund some of its short term working capital and other operational requirements via a fully redrawable and repayable committed credit line for a twelve month term. The Multi-option facility is a floating rate facility with pricing at various margins dependant on the type of sub-facility being utilised.

The Multi-option facility is secured via a $10,000,000 charge over the company's assets (excluding certain items of mobile mining equipment) that ranks pari-passu with the charge granted to the convertible bond-holders.

As at 30 June 2010 Pike River has fully drawn the Multi-option debt facility (2009: Nil draw downs).

An Event of Review occurred on 30 June 2010 under the CreditPlus and Multi-option bank facilities, when the Company's net cashflow from operating activities and net cashflow from investing activities which are measured on a quarterly and year to date basis, was more than 15% less than the forecast for the quarter ended 30 June 2010. Accordingly, the Creditplus facility is classified as a current liability at 30 June 2010. Subsequent to balance date, BNZ granted a waiver of that Event of Review. This waiver is subject to completion of documentation.

20. Share capital

Pike River shares have no par value and only fully paid ordinary shares are entitled to dividends. The following note provides information about equity instruments issued during the periods presented.

Share capital - number		Group and Parent year ended 30 June 2010	Group and Parent year ended 30 June 2009
In thousands of shares	*Note*	*(Audited)*	*(Audited)*
Fully paid ordinary shares			
Opening balance		347,103	267,027
Conversion of convertible bonds and/or notes		-	14,985
Institutional placement		11,365	5,714
Renounceable rights issue	*(ii)*	45,455	58,571
Re-issue of forfeited partly-paid shares as fully paid ordinary shares		1,045	803
2009 options exercised		-	3
2011 options exercised		3	-
Closing balance		**404,971**	**347,103**
Partly paid ordinary shares			
Opening balance		5,914	3,577
Issue of partly paid ordinary shares pursuant to the Employee Share Ownership Plan ('ESOP')	*21(a)*	2,120	3,140
Forfeiture of partly paid shares		(1,045)	(803)
Closing balance		**6,989**	**5,914**
Total share capital		**411,960**	**353,017**

Share capital – value		Group and Parent year ended 30 June 2010	Group and Parent year ended 30 June 2009
In thousands of dollars	*Note*	*(Audited)*	*(Audited)*
Fully paid ordinary shares			
Opening balance		264,631	207,793
Conversion of convertible bonds and/or notes		-	12,686
Institutional placement	*(i)*	9,650	4,000
Renounceable rights issue	*(ii)*	37,138	39,354
Re-issue of forfeited partly-paid shares as fully paid ordinary shares		985	794
2009 options exercised		-	4
2011 options exercised	*(iii)*	3	-
Closing balance		**312,407**	**264,631**
Partly paid ordinary shares			
Opening balance		155	97
Issue of partly paid ordinary shares pursuant to the ESOP	*21(a)*	22	31
Forfeiture of partly paid shares		(10)	(7)
Proceeds from sale of rights attaching to partly paid shares held in escrow		6	34
Closing balance		**173**	**155**
Other			
Opening balance		1,304	10,142
Equity component of convertible notes		-	(9,524)
Value of employee services provided	*21(a)*	647	686
Closing balance		**1,951**	**1,304**
Total share capital		**314,531**	**266,090**

(i) *Institutional placement*
On 23 April 2010 Pike River made a placement of 11,363,636 ordinary shares at an issue price of $0.88 per share and raised $9,650,000 (net of underwriting fees). On 26 March 2009 the Group issued 5,714,285 ordinary shares to AMP Capital Investors (New Zealand) Limited (AMP) at an issue price of $0.70 per share and raised $4,000,000.

(ii) *Renounceable rights issue*
During the 12 months ended 30 June 2010, Pike River issued 45,454,545 ordinary shares by way of a fully underwritten renounceable rights issue to existing shareholder and option holders. Issued at a price of $0.88 per new share the rights issue raised $37,138,000 (net of issuance and other transaction costs). On 24 April 2009 Pike River issued 58,571,429 ordinary shares by way of a fully underwritten renounceable rights issue to existing shareholder and convertible note holders. Issued at a price of $0.70 per new share the 2009 rights issue raised $39,354,000 (net of issuance and other transaction costs).

(iii) *2011 options*
At balance date Pike River had on issue 64,282,000 (30 June 2009: 64,285,000) share options issued as a result of the 2009 rights issue. These options have an exercise price of $1.25 and a final maturity date of 24 April 2011. Options are exercisable at any point up to final maturity at the election of the option holders. The exercise of an option results in the issue of one new ordinary share in Pike River which will rank equally in all respects with all other existing ordinary shares on issue as at that time.

21. Share based payments

(a) Share based payments-– Employee Share Ownership Plan

On 4 August 2006, Pike River established an Employee Share Ownership Plan ('ESOP') that entitles management personnel and employees, upon nomination by the Remuneration Committee, to purchase partly-paid ordinary shares in the entity. Partly-paid shares issued under the ESOP are subject to an initial vesting (escrow) period of two years; an allocation price which is set at a premium above the market price at the time of issue and a final expiry date five years after the date of issue. By the final date the employee must have paid the full allocation price of the partly-paid shares or they are forfeited. Partly-paid shares are transferred to the ownership of the relevant individual any time after the initial vesting period on payment in full of the outstanding allocation price.

During the year ended to 30 June 2010, 2,120,620 partly-paid ordinary shares (2009 financial year: 3,140,306) were issued in accordance with the ESOP rules.

Where an employee leaves the employment of Pike River prior to expiry of their relevant escrow period, the ESOP provides for these shares to be forfeited by the employee to the company and sold into the market as fully paid ordinary shares at the prevailing market rate. During the year ended 30 June 2010, 1,045,314 partly-paid ordinary shares were forfeited and sold (2009 financial year: 803,320).

(b) Share based payments – Issue of fully paid shares for nil consideration

Pike River shareholders approved the issue of 100,000 fully paid shares in the entity for nil consideration to Gordon Ward in July 2006 and these shares were released from escrow upon the two year vesting period from the date of the IPO, having passed on 22 May 2009.

The terms and conditions of the partly-paid shares currently on issue follow.

Partly Paid Shares					
Vesting during financial year:	Number	Weighted average outstanding calls	Range of issue price	Market share price when issued	Fair value at measurement date
30/06/2008	1,000,500	$1.16	$1.15 to $1.20	$1.00	$0.15 to $0.26
30/06/2009	239,000	$1.09	$1.15	$1.00	$0.18
30/06/2010	2,106,450	$1.49	$1.15 to $2.52	$0.98 to $2.10	$0.21 to $0.89
30/06/2011	1,821,056	$1.48	$0.91 to $2.46	$0.76 to $2.05	$0.30 to $0.66
30/06/2012	1,821,856	$1.22	$0.93 to $2.20	$0.78 to $1.83	$0.26 to $0.62
TOTAL	6,988,862	$1.35	$0.91 to $2.52	$0.76 to $2.10	$0.15 to $0.89

Note: The vesting period before shares can be fully paid is two years after date of issue. From that date ESOP participants have three years in which to pay the amount outstanding on their partly paid shares.

The fair value of services recognised for the purposes of NZIFRS2– *Share-based Payments* in return for partly-paid shares issued to management and employees is measured by reference to the fair value of partly-paid shares granted. The estimate of the fair value of services received is measured based on a Black-Scholes option valuation model due to the potential optionality around take-up and payment of outstanding allocation price in relation to the partly-paid shares issued under the ESOP. The contractual lives of the partly-paid shares are used as an input into this model, as are the risk-free interest rate, and the Pike River share price volatility. The risk-free interest rate uses the Reserve Bank secondary market 10 year Government Bond Yield as a proxy, and the share price volatility is the annualised volatility calculated by the company on a monthly basis until 31 December 2009, and then in the six months to 30 June 2010 the 90 day volatility measure available from Bloomberg.

The number and weighted average outstanding calls for the partly paid ESOP shares are set out in the following table:

	Weighted average outstanding call 30 June 2010	Number of partly paid shares 30 June 2010 *(In thousands)*	Weighted average outstanding call 30 June 2009	Number of partly paid shares 30 June 2009 *(In thousands)*	Weighted average outstanding call 30 June 2008	Number of partly paid shares 30 June 2008 *(In thousands)*
Outstanding at 1 July 2009	$1.43	5,913	$1.23	3,576	-	-
Issued during the period	$1.23	2,121	$1.59	3,140	$1.22	3,736
Forfeited during the period	$1.31	(1,045)	$1.15	(803)	$1.14	(160)
Outstanding at 30 June 2010	$1.35	6,989	$1.43	5,913	$1.23	3,576
Exercisable at 30 June 2010	$1.36	3,346	$1.15	1,240	$1.16	1,000

22. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 is based on the loss attributable to ordinary shareholders of $39,028,000 (2009: $13,018,000) and a weighted average number of ordinary shares outstanding of 354,687,000 (2009: 294,622,000), calculated as follows:

Loss attributable to ordinary shareholders for the 12 months ended 30 June	Group 2010	Group 2009	Parent 2010	Parent 2009
In thousands of dollars				
Net loss attributable to ordinary shareholders	(39,028)	(13,018)	(38,878)	(7,768)

Issued ordinary shares	347,103	267,027	347,103	267,027
Effect of shares issuable upon conversion of mandatorily convertible notes	-	12,289	-	12,289
Effect of shares issuable upon conversion of convertible bonds	-	2,633	-	2,633
Effect of partly-paid shares issued pursuant to the ESOP	55	36	55	36
Effect of shares issued following renounceable rights issue & institutional placement	7,098	12,192	7,098	12,192
Effect of re-issue of forfeited partly-paid shares as fully paid ordinary shares	428	343	428	343
Effect of completion of escrow for contingently issuable management shares	-	99	-	99
Effect of exercise of share options	3	3	3	3
Weighted average number of ordinary shares	354,687	294,622	354,687	294,622

(b) Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 is based on the loss attributable to ordinary shareholders of $39,028,000 (2009: $13,018,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 354,687,000 (2009: 294,622,000), calculated as follows:

Loss attributable to ordinary shareholders for the twelve months ended 30 June		**Group 2010**	**Group 2009**	**Parent 2010**	**Parent 2009**
In thousands of dollars	*Note*				
Net loss attributable to ordinary shareholders (basic)	*(i)*	(39,028)	(13,018)	(38,878)	(7,768)
Net loss attributable to ordinary shareholders (diluted)		**(39,028)**	**(13,018)**	**(39,028)**	**(7,768)**

Loss attributable to ordinary shareholders for the twelve months ended 30 June		**Group 2010**	**Group 2009**	**Parent 2010**	**Parent 2009**
In thousands of dollars	*Note*				
Weighted average number of ordinary shares (basic)	*(i)*	354,687	294,622	354,687	294,622
Weighted average number of ordinary shares (diluted)		**354,687**	**294,622**	**354,687**	**294,622**

The average market value of Pike River's shares for the purposes of calculating the dilutive effect of share options and convertible bonds is based on an average quoted market price for the year ended 30 June 2010 of $1.03 (2009: $1.40).

(i) Anti-dilution effects
For the purposes of calculating diluted earnings per share as at 30 June 2010 dilutive potential ordinary share items (share options, convertible bonds) have been excluded on the basis that they would give rise to an antidilutive effect on the calculation of ordinary loss per share (i.e. reduce the ordinary loss per share). These items are only included in diluted earnings per share to the extent that they result in an increased loss per share or reduced earnings per share.

23. Related parties

(a) Related party balances

The parent entity within the Group is Pike River Coal Limited.

The following balances are associated with related parties as at the relevant balance date.

Related parties		Parent year ended 30 June 2010	Parent year ended 30 June 2009
In thousands of dollars	*Note*		
Pike Energy Limited (wholly owned subsidiary)			
Intercompany loan	*(i)*	7,500	7,500

(i) Pike Energy Limited
On 23 April 2009, Pike River sold Petroleum Exploration Permit 38517 to its wholly owned subsidiary Pike Energy Limited for consideration of $7,500,000. The consideration paid was based on an independent valuation at date of sale. Sale is subject to formal Ministry of Economic Development approval. The Exploration Permit was held at nil value by Pike River and accordingly a gain of $7,500,000 was recognised in the parent company. Pike River has advanced Pike Energy the full amount of the consideration by way of an interest free loan which is payable on demand.

In addition to transactions disclosed elsewhere within these financial statements, Pike River undertook the following transactions with related parties during the year.

Related parties	Group and Parent year ended 30 June 2010	Group and Parent year ended 30 June 2009
In thousands of dollars		
Coal sales		
Gujarat NRE Coal (NSW) Pty Limited	3,345	-
Underwriting fees		
New Zealand Oil & Gas Limited (NZOG)	505	308
Gujarat NRE Limited	66	-
	571	**308**
Short-term employee benefits		
Key management personnel compensation	984	1,155
	984	**1,155**

Underwriting fees
Underwriting fees were paid in relation to underwriting commitments made by major shareholders in relation to the renounceable rights issue undertaken by Pike River during the 12 months ended 30 June 2010. Fees paid were based on the respective number of shares underwritten and were market based fees commensurate with the level of commitment and risk associated with a capital raising transaction of this type.

2010 Equity raising
Both NZOG and Gujarat NRE Limited participated in the $10,000,000 share placement and $40,000,000 rights issue both with an issue price of $0.88 per share. NZOG and Gujarat NRE Limited increased their shareholdings by 16,394,070 and 3,725,322 shares respectively.

Coal sales
On 19 February 2010 the first shipment of 19,042 tonnes of coal was made to Gujarat NRE Limited for $3,345,000.

Convertible bond
On 21 May 2010 the Group issued a US$28,900,000 convertible bond to NZOG 38483 Limited which bears an effective interest rate of 10% payable quarterly (for further details please refer to note 19a)

Coal sales agreements
Under a coal option agreement dated 21 May 2010 the Company has granted NZOG 38494 Limited (a wholly owned NZOG subsidiary) the option to purchase:

a. for the period from 23 February 2010 until 31 March 2013, up to the part of the annual coal production from the Pike River mine that is not (as at 23 February 2010) contractually committed to any other party; and
b. for the period from 1 April 2013 for the remainder of the Pike River mine life, up to 30% of the annual coal production from the Pike River mine.

Agreements for the sale of Pike River coal once production commences have previously been established with key shareholders (or parties associated with key shareholders). Details of these agreements are as follows:

- Coal sales agreement with Saurashtra Fuels Private Limited ("Saurashtra") for 150,000 tonnes per annum for the life of the Pike River mine and an option for Saurashtra to take up to a further 100,000 tonnes on an annual basis basis, with variation of +/- 10% at Saurashtra's option. The total offtake by Saurashtra is capped at 20% of mine output.
- Coal sales agreement with Gujarat NRE Coal (NSW) Pty Limited for 19,042 tonnes of hard coking coal in JFY 2010, increasing to 400,000 tonnes per annum (or 40% of mine output whichever is the lesser) from JFY 2010 for the life of the mine with an annual variation of +/- 10% at Pike River's or Gujarat NRE Coal (NSW) Pty Limited's option.

Pricing for each of these agreements is to be negotiated annually or such other period as is mutually agreed, based on market derived hard coking coal prices.

Short term loan facility
NZOG provided an interim short term loan facility of $15,000,000 for the period of 26 March 2010 to 23 May 2010. The Company made drawings of $6,000,000 that were repaid in full on 21 May 2010. An establishment fee of $450,000 and a facility monitoring fee of $150,000 was charged on this facility.

Directors' remuneration
Directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chairman, and in respect of work carried out by individual Directors on various Board committees for the additional responsibilities of those positions. Mr Ward does not receive remuneration as a director. The total remuneration and other benefits to directors for services in all capacities during the year ended 30 June 2010 was $315,000 (30 June 2009: $315,000).

24. Financial risk management

(a) Overview

Pike River has exposure to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity risk); credit risk; and liquidity risk.

This note presents information about Pike River's exposures to each of these financial risks; objectives, policies and processes employed for measuring and managing financial risk; and the management of capital. Further quantitative disclosures are included throughout these financial statements as necessary.

The Pike River Board of Directors ('the Board') has overall responsibility for the establishment and oversight of Pike River's risk management framework.

Pike River's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are subject to regular review and are under continual development to reflect changes in market conditions and more particularly changes in Pike River's activities and exposures.

(b) Credit risk

Credit risk is the risk of financial loss to Pike River if a customer or counterparty to a financial instrument fails to meet its contractual obligations and as at 30 June 2010 arises principally from Pike River's investment activities.

Pike River limits its exposure to credit risk arising from its investment activities by only investing in liquid securities and only transacting with registered banks that have a credit rating of at least AA from Standard & Poor's (or the equivalent rating from Moody's or Fitch). Management also adhere to policy which requires appropriate spread of counterparty credit risk by minimising exposure to any single counterparty. As a result, management does not expect any counterparty to fail to meets its obligations.

The carrying amount of financial assets represents Pike River's maximum credit exposure.

(c) Liquidity risk

Liquidity risk is the risk that Pike River will not be able to meet its financial obligations as they fall due. The approach adopted to managing liquidity is to ensure, as far as possible, that Pike River maintains or has access to sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable risk positions, losses or damage to Pike River's reputation.

During the mine development phase Pike River routinely and actively monitored its capital commitments and cash flow requirements to ensure sufficient funds are available to both meet its obligations and minimise disruption to the development timeline while simultaneously seeking to optimise its return on investment of surplus funds. To date Pike River has utilised the debt and equity capital markets to fully fund its development activities based on forecast development commitments. As Pike River transitions to a fully operational coal mine and to assist in ensuring sufficient funds are available to fund its initial working capital and reasonably foreseeable operational expenditures Pike River will (if required) continue to seek access to sufficient lines of credit from major financial institutions to ensure operational liquidity risk is appropriately managed.

The following tables set out the contractual cash flows for all financial liabilities, including interest payments:

Non derivative financial liabilities	Carrying amount	Contractual cash flows					
In thousands of dollars	*Group 12 month ended 30 June 2010*	*Total*	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Convertible bonds	41,667	48,796	2,083	2,083	44,630	-	-
Secured bank facilities	22,917	25,782	11,924	1,647	3,106	9,105	-
Trade & other payables	10,841	10,841	10,841	-	-	-	-
	75,425	**85,419**	**24,848**	**3,730**	**47,736**	**9,105**	**-**

Non derivative financial liabilities	Carrying amount	Contractual cash flows					
In thousands of dollars	*Group 12 month ended 30 June 2009*	*Total*	*6 months or less*	*6-12 months*	*1-2 years*	*2-5 years*	*More than 5 years*
Convertible bonds	42,096	47,605	1,449	1,425	44,731	-	-
Secured bank facilities	-	-	-	-	-	-	-
Trade & other payables	9,756	9,756	9,756	-	-	-	-
	51,852	**57,361**	**11,205**	**1,425**	**44,731**	**-**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect Pike River's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Pike River may from time to time enter into derivative arrangements in the ordinary course of business to manage market risk. All such transactions are carried out in accordance with guidelines and policies set down by the Pike River Board. Pike River does not enter into derivative arrangements for speculative purposes.

As at balance date Pike River had no outstanding derivative arrangements in place (2009: Nil).

(i) Currency risk

In its mine development phase Pike River was primarily exposed to currency risk on purchases and borrowings that are denominated in a currency other the functional currency of Pike River (being the NZD). These exposures arise primarily in USD, AUD and EUR.

Where possible Pike River seeks to manage currency risk by transacting with suppliers in NZD, however where this is not commercially viable Pike River may use forward exchange contracts to hedge currency risk.

As Pike River transitions to a fully operational coal mine its revenues will be exposed to currency risk as the underlying currency for sales of its hard coking coal will be denominated in USD. The Pike River Board is in the process of finalising its long-term policy around management of currency risk in relation to this exposure but it is anticipated that management of this exposure will be achieved through the use of a combination of purchased FX options and forward exchange contracts based on forecast sales volumes; minimum cover ratios; and time-weighted cover bands. The USD currency exposure generated in relation to Pike River's coal sales serves as a 'natural' hedge to residual currency risk on USD borrowings and this will also be factored into Pike River's currency risk management strategies going forward.

Exposure to currency risk

Pike River's exposure to currency risk is as follows:

Currency risk exposure	Group 12 months ended 30 June 2010			Group 12 month ended 30 June 2009		
In thousands of foreign currency units	*USD*	*AUD*	*EUR*	*USD*	*AUD*	*EUR*
Deposit	-	-	-	800	-	-
Convertible bonds	28,900	-	-	27,500	-	-
Trade and other payables	-	1,124	-	108	1,364	337
Net exposure	**28,900**	**1,124**	**-**	**28,408**	**1,364**	**337**

The following significant exchange rates were applied during the year:

Exchange rates	Group 12 months ended 30 June 2010			Group 12 month ended 30 June 2009		
	USD	*AUD*	*EUR*	*USD*	*AUD*	*EUR*
Average rate for the period	0.7033	0.7970	0.5068	0.6068	0.8143	0.4409
As at 30 June	0.6936	0.8137	0.5675	0.6511	0.8056	0.4616

Sensitivity analysis
A 10% drop of the NZD against the major currencies to which Pike River is exposed as at 30 June would (assuming all other variables remain constant) have had the following impact on income statement:

Currency risk sensitivity	Group 12 months ended 30 June 2010			Group 12 month ended 30 June 2009		
In thousands of dollars	*Carrying amount*	*Impact of sensitivity*	*Sensitised carrying amount*	*Carrying amount*	*Impact of sensitivity*	*Sensitised carrying amount*
Deposit	-	-	-	1,229	137	1,366
Convertible bonds	41,667	4,630	46,297	42,096	4,677	46,773
Trade and other payables	1,381	153	1,534	9,756	288	10,044
Loss before income tax	(52,041)	(4,783)	(56,824)	(16,829)	(5,102)	(21,931)

A 10% rise in the NZD against the major currencies as at 30 June would have resulted in an equal but opposite effect on the table shown above on the basis that all other variables remain constant.

(ii) *Interest rate risk*
Pike River's approach to managing interest rate risk (particularly during the development and initial start-up production phases) has been to fix the majority of its interest rate exposures to provide certainty around cost of borrowings and future cash-flow requirements. To date this has primarily been achieved through entering into fixed rate financing.

Pike River retains some exposure to interest rate risk through its floating rate borrowings established primarily for working capital and short term liquidity funding. Where appropriate Pike River may look to utilise short duration interest rate swaps to effectively fix any exposures that may be generated through forecast medium term utilisation of these facilities.

(iii) *Commodity price risk*
Pike River is primarily exposed to commodity price risk in relation to the sales price it is able to achieve on its hard coking coal products. The market for hard coking coals is dominated by a handful of global producers who negotiate with the major users of hard coking coal. These negotiations result in 'benchmark' prices being set for contracted supplies of hard coking coal on a quarterly or annual basis. Pike River is essentially a 'price-taker' given its size relative to the global hard coking coal market. Consequently, there is limited direct management of price risk that Pike River can economically undertake. Risk management is therefore focussed on ensuring that Pike River has the appropriate mix of contracted and spot sales for its annual production thereby providing certainty over minimum revenues but enabling up-side participation to the extent that opportunities exist in the spot market. Pike River also focuses heavily on ensuring that it has long term access to key customers. At the present time Pike River does not utilise any derivative products in relation to hard coking coal price commodity risk as there is not an active or developed market for such products.

Pike River retains some exposure to commodity price risk on some key inputs to its production and transport chains (i.e. electricity, oil and steel costs), however these are not considered to be overly material to long term profitability. The Pike River Board will continue to actively monitor and manage these exposures but at the current time does not actively engage in the use of derivative products to manage these risks preferring to rely on medium term fixed price supply contracts where economically acceptable.

(e) Capital management

The Pike River Board is committed to maintaining a strong capital base so as to maintain investor, creditor and market confidence. Maintaining this confidence is essential to both sustain Pike River's current operation and also to provide access to the capital resources necessary to further develop both the existing business and also other development and exploration opportunities.

Pike River continues to monitor its capital structure and in particular the potential for higher returns to be generated via increased utilisation of appropriately priced and structured borrowings. However, at this time in the mine development phase the Pike River Board view the security afforded by a strong equity based capital structure as being appropriate for the business as its transitions into a fully operational coal mine. In line with this the Pike River Board remains cognisant of the need to provide an appropriate level of return on shareholders equity holdings.

For the purposes of capital management, capital includes share capital, retained earnings and interest bearing loans and borrowings. There have been no material changes in Pike River's management of capital during the period with new capital raisings being undertaken on a basis consistent with the Board's stated capital management framework as set out above.

Pike River is not subject to any externally imposed minimum capital requirements.

(f) Fair values

Fair values versus carrying amounts
The fair values of financial assets and liabilities, together with the carrying amounts shown on the face of the balance sheet, are as follows:

		Group 12 months ended 30 June 2010		Group 12 month ended 30 June 2009	
In thousands of dollars	*Note*	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Cash and cash equivalents		20,597	20,597	21,746	21,746
Trade and other receivables		1,708	1,708	1,667	1,667
Bonds and deposits		2,324	2,324	3,474	3,474
Trade and other payables		(10,841)	(10,841)	(9,756)	(9,756)
Convertible bonds	*(i)*	(41,667)	(43,814)	(42,096)	(42,236)
Secured bank facilities		(22,917)	(22,917)	-	-
Unrecognised gain (loss)		-	(2,147)	-	(140)

Basis for determining fair values
The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are as follows:

(i) Convertible bonds
Fair value, as determined for disclosure purposes, is calculated based on present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(g) Financial instruments by category

Group and parent *In thousands of dollars*	Loans and receivables	Other amortised cost	Total carrying value
At 30 June 2010			
Assets			
Cash and cash equivalents	20,597	-	20,597
Receivables	1,708	-	1,708
Other financial assets	2,324	-	2,324
	24,629	-	**24,629**
Liabilities			
Payables	-	4,691	4,691
Borrowings	-	22,917	22,917
Other financial liabilities	-	41,667	41,667
	-	**69,275**	**69,275**
At 30 June 2009			
Assets			
Cash and cash equivalents	21,746	-	21,746
Receivables	1,667	-	1,667
Other financial assets	3,474	-	3,474
	26,887	-	**26,887**
Liabilities			
Payables	-	5,261	5,261
Borrowings	-	-	--
Other financial liabilities	-	42,096-	42,096-
	-	**47,357**	**47,357**

25. Commitments

As at 30 June 2010, Pike River had $3,518,000 of capital commitments (2009: $7,981,000) that would be payable if the current mine development activities were terminated. These commitments relate to committed non-cancellable purchases of long lead time mining equipment and development activities required as part of the ongoing mine development.

On 27 November 2007 Pike River entered into a long term Coal Transportation Agreement ('CTA') with Solid Energy New Zealand Limited ('Solid Energy'). Under the terms of the CTA, Pike River has committed to certain minimum annual charges which are payable over the life of the CTA.

26. Operating lease commitments

Pike River leases certain mining equipment, motor vehicles, office equipment and office space under operating leases where Pike River is the lessee. Non-cancellable rentals pursuant to these operating leases are payable as follows:

	Group and Parent ended 30 June 2010	Group and Parent ended 30 June 2009
In thousands of dollars	*(Audited)*	*(Audited)*
Payable within 1 year	5,035	224
Payable between 1 and 5 years	147	73
More than 5 years	-	-
	5,182	297

In the year to 30 June 2010 operating lease expenses were $2,033,000 (2009: $74,000).

Notes to the financial statements

27. Reconciliation of the loss for the period with the net cash from operating activities

		Group ended 30 June 2010	Group ended 30 June 2009	Parent ended 30 June 2010	Parent ended 30 June 2009
In thousands of dollars	*Note*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*
Profit/(loss) for the period		**(39,028)**	**(13,018)**	**(38,878)**	**(7,768)**
Adjustments for:					
Depreciation/amortisation		8,831	2,137	8,831	2,137
Change in fair value of financial instruments		(429)	6,353	(429)	6,353
Employee benefits - share based payments		647	686	647	686
Transfer of petroleum exploration permit		-	-	-	(7,500)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities:					
Change in trade and other receivables		(41)	415	(41)	415
Change in inventories		(5,932)	(2,282)	(5,932)	(2,282)
Change in trade and other payables		845	1,710	845	1,710
Other provisions		291	240	291	240
Employee benefits		351	568	351	568
Change in deferred tax		(13,015)	(3811)	(13,165)	(1,561)
Net cash from operating activities		**(47,480)**	**(7,002)**	**(47,480)**	**(7,002)**

28. Group entities

Significant subsidiary

	Country of Incorporation	Ownership Interest (%)	
		30 June 2010	30 June 2009
Pike Energy Limited	New Zealand	100	100

On 23 April 2009, Pike River sold Petroleum Exploration Permit 38517 to its wholly owned subsidiary Pike Energy Limited. Pike Energy Limited was incorporated on 6 April 2009 and its balance date is 30 June 2010.

29. Personnel expenses

Employee benefits totalling $12,455,000 were paid by Pike River during the current period (30 June 2009: $1,224,000).

30. Contingencies

As at balance date Pike River has an insurance claim of approximately $3,000,000 lodged in respect of the ventilation shaft rockfall that occurred in February 2009.

31. Subsequent events

There were no events subsequent to balance date except as disclosed in note 19 (b).

Audit report

To the shareholders of Pike River Coal Limited

We have audited the financial statements on pages 3 to 28. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 7 to 12.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company in relation to taxation. This matter has not impaired our independence as auditors of the company. The firm has no other relationships with, or interest in, the company and group.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 3 to 28:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2010 and our unqualified opinion is expressed as at that date.

KPMG

Wellington