

Operations

Successful Commissioning of Hydro-Mining Equipment



Hydro Monitor with "Guzzler" (in background)

This past quarter has seen the achievement of a significant milestone for Pike River: the successful start to our hydro-mining operations. Commissioning started on 20 September 2010 with no significant system or component failures. The hydro-mining system has synchronized together very well and all components of the hydro-mining system are now in place. The hydro monitor cut its first 1,000 tonnes of coal and delivered this product to the coal preparation plant at the end of September. A number of commissioning tasks are being addressed by the project team to bring the current system to full capability. It is important to note that our previous and current mine and production schedules have allowed for this ramp-up of hydro-mining to full capacity.

The greater constraint in the first 6 – 9 months is roadway development. Hydro-monitor extraction is therefore scheduled to keep pace with development of the mining areas. This is also consistent with current plans.

Ramp Up & Production Forecast

Commissioning of the first underground ventilation fan has now been completed which will provide greater ventilation capacity underground and allow for faster dilution of gases liberated during the mining process.

Complete installation of the water system to allow the hydro-mining system to ramp up from its current capacity (about 50%) to its full 9,000 litres per minute design capacity will take place over several months.

Based on current hydro-mining system capacity, roadway development productivity rates achieved to date, several weeks of hydro commissioning knowledge and ongoing optimisation of mine design,

Key Points

Successful start to hydro-mining operations

Positive Results From ABM20 Continuous Miner

Appointment of new CEO

AGM being held 15 November 2010

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Hydro-mining in action

the company has reviewed its current mine schedule and mine plan. The main parameters that impact on the reforecast are:

- (1) Roadway development performance to date and expectations of rates achieved by the introduction of new equipment
- (2) Hydro extraction ramp-up to full system capacity
- (3) Optimisation of mine design within the restrictions imposed by environmental consents

The outcome of this review and reforecast defers several high production months from the end of the June 2011 year into the 2012 financial year thereby reducing the current full year forecast. The previously forecast 620,000 tonnes in the 2010-2011 financial year has been revised to between 320,000 – 360,000 tonnes. Monthly production of saleable coal is forecast to ramp up to 60,000 tonnes in the June 2011 quarter and to 80,000 tonnes by the December 2011 quarter.

This is a more conservative approach than we have taken in the past, and is designed to provide shareholders with as realistic a time frame and production schedule as possible while preserving a measure of upside capacity. The revised schedule is therefore based on only two development machines (one ABM20 and the roadheader) until late January 2011 when our second ABM20 arrives and is installed underground. It does not assume operation of either of the two Waratah continuous miners. This is because one is poised for a redesign and overhaul and the other, while still underground ahead of a possible overhaul depending on the performance of its twin, remains unreliable. The revised forecast does not alter the capacity of the mine to eventually become a million tonne a year operation.

Positive Results From ABM20 Continuous Miner

Pike River is very happy with the success of our leased, reconditioned, Sandvik ABM20 continuous mining machine that began operating underground in August 2010. The machine made an immediate and positive impact on roadway development rates and, therefore, the mine's ability to more accurately forecast and schedule mine operations. The ABM20, which has been achieving average development rates of more than 13 metres per day, has the ability to cut and bolt simultaneously – a significant improvement compared to the capacity of our existing machines. On the strength of this success, the company has purchased a second similar machine that will be ready for operation early in 2011, at a cost of NZ\$5 million.

Pike River is very happy with the success of the Sandvik ABM20 continuous mining machine that began operating underground in August 2010

Meanwhile, the drives on the first of the two Waratah continuous miners are being readied for conversion from the troublesome electric system to a hydraulic system. A number of upgrades and engineering redesigns will also be undertaken on the Waratah machine at the same time. The cost of the overhaul will be between NZ\$700,000 and NZ\$1,000,000. This machine is expected to be back underground and operational before Christmas. This will give the mine a fleet of two ABM20s, one overhauled Waratah continuous miner and the roadheader which has continued to perform reliably. A decision on upgrading the second Waratah machine will be made depending on the performance of the first upgraded machine.

Shipments

Pike River's second export shipment comprising 22,000 tonnes of premium hard coking coal was dispatched to Indian customer Gujarat NRE on 6 September 2010. Worth approximately NZ\$6 million, the shipment was sold at a slight discount to premium due to higher ash levels. The departure date of the consignment coincided with the 7.1



Second shipment of coal being loaded at Ikamatua rail loadout facility



magnitude Canterbury earthquake but, despite some damage to the wharf area at the Port of Lyttelton, the sailing was only delayed by a day. While the Port of Lyttelton has advised that it suffered significant damage in some areas, this has not affected its core services which are reported to be fully operational. Coal is continuing to be loaded onto vessels as normal and that situation is not envisaged to change.

Pike River is continuing to build its stockpiles for future shipments. The company has contracts in place for our premium coal specification product for the life of mine. However, during hydro-mining commissioning and ramp-up of production, a better overall yield and, therefore, more saleable product is achieved through the coal preparation plant by running at a slightly higher ash content than the 1% premium target. Pike River is therefore looking to place the next shipment at this higher ash level and is finalising details for the next shipment later in 2010.



Coal stock pile at Ikamatua ready for export shipment

Pike River Welcomes New CEO

On 10 September 2010 the company announced the resignation of Chief Executive Gordon Ward. Gordon led the Pike River project for 14 years from its inception through to the commissioning of hydro-mining and made a significant contribution to the company's development. Pike River is very pleased to welcome his replacement, Peter Whittall, who was Pike River's General Manager Mines for five years prior to taking up his latest position. Peter brings to the role essential hands-on experience and practical understanding of the business and a 30-year background as a coal miner and coal-mining executive. He has been responsible for all operational aspects of the business including mine design and development and the essential areas of safety and environment. In addition, Peter has been closely involved in the company's capital raisings. He is well-placed to lead the company through this next important phase into steady-state production.



New CEO Peter Whittall

Financing

The company's Annual Report released at the end of August 2010 advised that additional working capital was expected to be required to fund the interim period between the completion of mine construction and the ramp up to steady revenue. While the company noted good progress during the September 2010 quarter with the installation of hydro-mining equipment and improving roadway development rates, some increase to capital costs have occurred in relation to the hire of additional equipment and increased installation costs and the commitment to the purchase of a second ABM20 continuous mining machine. A significant factor in the need for additional funds is the impact on continuity of hydro production as a result of previous, lower than forecast, roadway development rates. This will delay some production and therefore associated revenue.

On 19 October 2010 the company announced the downgraded production forecast for the remainder of the year to June 2011 (see above) and that it was evaluating its ongoing funding requirements. A working capital solution is required while a steady state revenue stream is built. This is principally to allow for the funding of stockpile development between major shipments of coal and to provide for the repayment in mid-December 2010 of a NZ\$25m short-term working capital facility provided by cornerstone shareholder New Zealand Oil & Gas on 30 September 2010.

In providing this short-term funding and in recognition of the slower than anticipated ramp-up to production and access to available saleable coal, NZOG has requested a one-year extension to the coal option agreement it concluded with Pike River in May 2010. Pike River shareholders will be asked to vote on the extension to this coal option agreement immediately following the company's Annual Meeting on 15 November 2010.

Peter has a practical understanding of the business and a 30-year background as a coal miner and coal-mining executive



Recruitment & Training

Staffing levels have increased to coincide with the start-up of the commissioning of hydro-mining. The company now has a complement of around 180 employees, many of whom have been recruited from overseas. In the last quarter, Pike River welcomed three more personnel to its management team which now numbers 12. The additions are: Underground Mine Manager (Stephen Ellis); Engineering Manager (Robb Ridl) and Supply Chain Manager (Scott McKay). All three bring vast experience in their fields of expertise and contribute to a very strong management line-up.

In addition to the 13 new employees that have joined the company this quarter, nine trainee miners have been taken on. Pike River's trainee miner programme consists of a 12-week course which incorporates theoretical and practical training. After five weeks, trainees go onto shift and work under close supervision on crew while continuing their practical and theoretical training. At the conclusion of their course, trainee graduates will have completed the Extractive Industries level 2 Underground Extraction Certificate of Competency, and move on to shift on a permanent basis where they receive ongoing training and mentoring.

Safety & Environment

Pike River's recently introduced hazard identification and management system continues to work well. The company recorded one medical treatment injury (MTI) in the last quarter.

Pike River's pest and predator eradication programme continues to be effective. The following were eradicated in the August 2009 – September 2010 trapping season: 83 stoats, 412 rats, 2 weasels, over 400 possums and 25 goats. At the start of the 2009-2010 season (September 2010-October 2010), 30 rats and 7 stoats were trapped and killed. The programme aims to provide a safe environment for native birds including the blue duck. Pike contributes \$85,000 per year to a blue duck enhancement programme.

Annual Meeting & Investor Briefings

All investors will have now received the agenda for Pike River Coal's Annual Meeting which is being held at 12.30pm on 15 November 2010 at the mine site in Greymouth. This will be followed by a Special Meeting to vote on the coal option agreement extension. Light refreshments and a brief tour of the surface mine facilities will follow the meetings. Investor briefings will also be held in Auckland, Wellington and Christchurch in the two days after the Annual Meeting.

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For Further Information

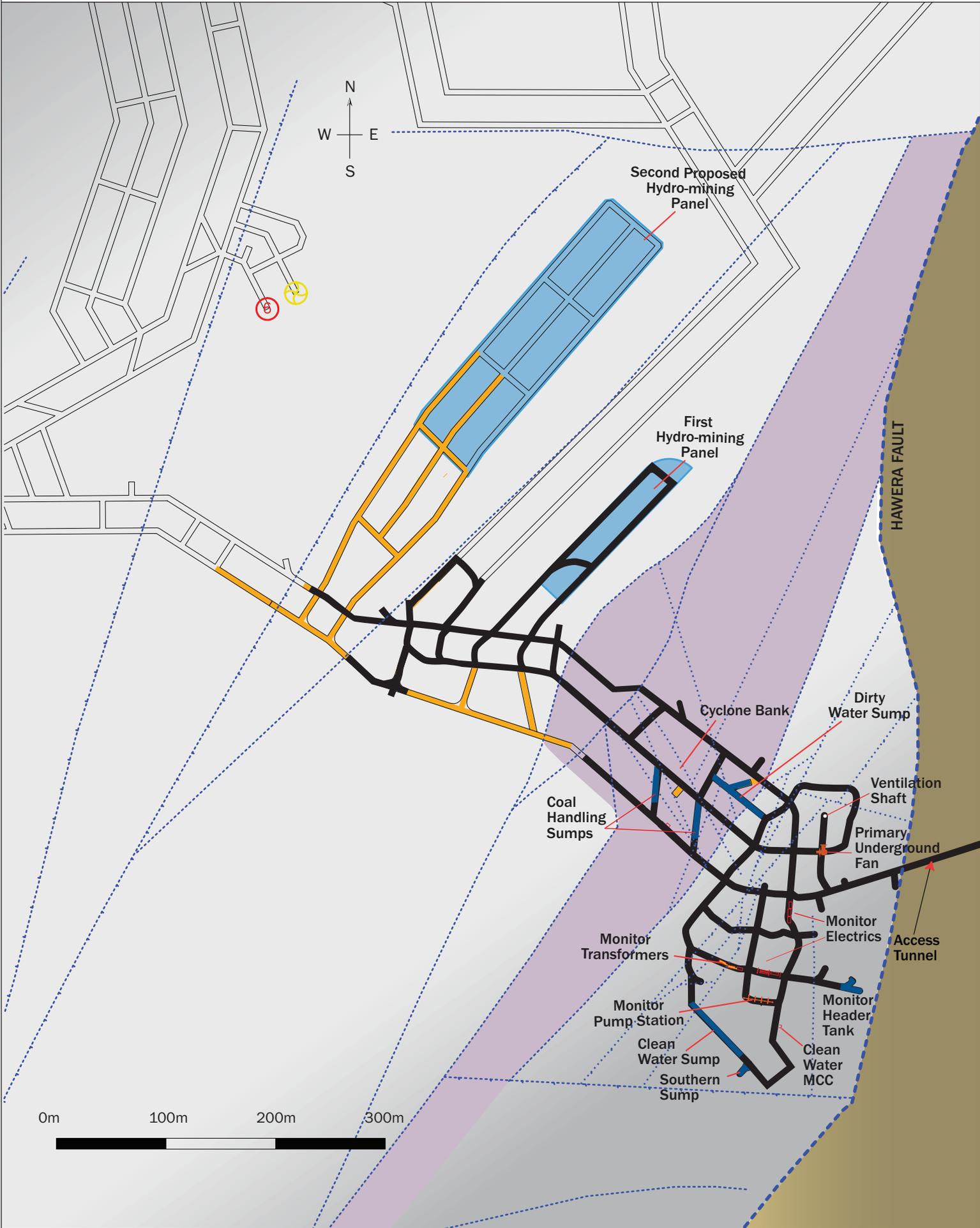
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For Electronic Reports

Investors should register at:
www.pike.co.nz/email_alerts.php
to receive reports, news releases and other company announcements via email on the day they are released.

Indicative Mine Plan - Roadway Development And Hydro-mining
OCTOBER TO DECEMBER 2010

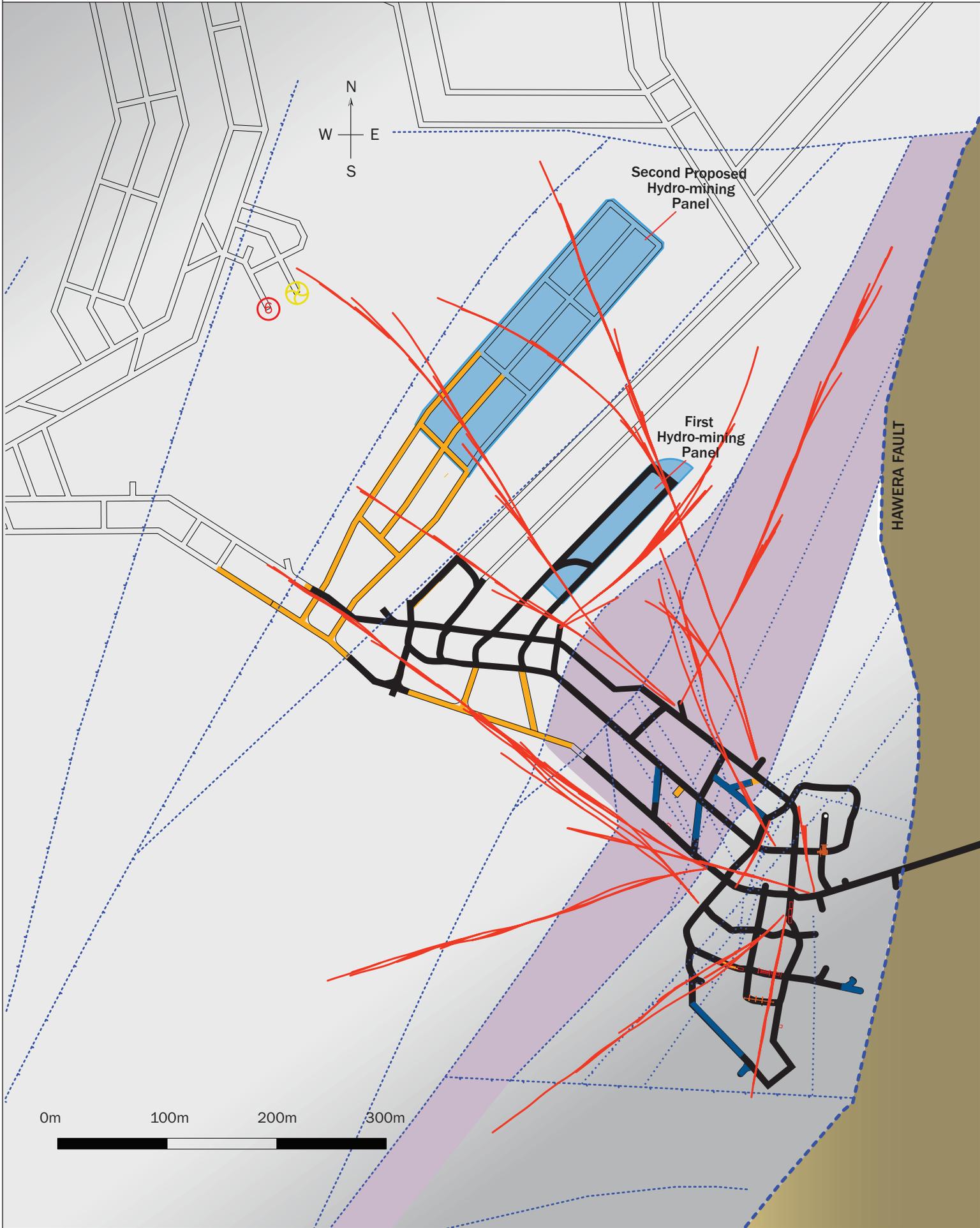


- Stone "graben" zone
- Fault lines
- Existing Roadways
- Coal
- Water/Coal Storage
- Planned Roadways
- Roadways and Hydro-mining - Oct-Dec 2010 Quarter



Indicative Mine Plan - Roadway Development And Hydro-mining
Showing in-seam exploration drill holes

OCTOBER TO DECEMBER 2010



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