

# Quarterly Report

*to 30 September 2011*

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## Summary

**Coal:** At 998,000 tonnes, production in the first quarter of the year was 9% lower than for the same period last year (2011: 1.10 Million tonnes). This was due mainly to more difficult mining conditions at Spring Creek Underground Mine.

Coal sales for the quarter were 1.13 Million tonnes (Mt), up 3% on the first quarter of 2011 (2011: 1.10 Mt) due to stronger New Zealand sales.

**Wood pellets:** Production for the quarter was up 20% to 12,000 tonnes, compared to the same quarter last year (2011: 10,000) with sales up 168% to 17,000 tonnes based on continued growth in both domestic and export volumes.

**Biodiesel:** Production of 496,000 litres was up 40% on the first quarter of last year (2011: 355,000 litres), with sales up 12% to 533,000 litres as the business continues to expand its customer base.

# Operations

## Coal

**PRODUCTION:** Coal production for the quarter was down 9% to 998,000 tonnes compared to the same period last year (2011: 1.10 Mt). Production at **Stockton Mine** was in line with last year despite heavy snow in the first two months of the quarter which constrained mining.

The **Stockton Coal Processing Plant**, commissioned in April 2010, is delivering significant value, converting previously unsaleable by-product coal into export quality product. Since commissioning, the plant has produced 1.07 Mt of saleable coal. The previous monthly production record of 77,000 tonnes of saleable product was substantially eclipsed in September 2011 with 93,000 tonnes produced. In the first quarter of this year the plant produced 228,000 tonnes of product.

At 111,000 tonnes, production at **Spring Creek Mine** was down 46% in the first quarter (2011: 205,000 tonnes) due to the timing of panels extracted. In 2011, production came from uninterrupted mining, whereas extraction in the current quarter needed to be carefully managed around areas which had been sealed following two heatings in November 2010. The current extraction area will be mined out by the end of December 2011. From January 2012 to August 2012 the mine will be developing the next five-year extraction block in the Rapahoe sector of the mine. During this period monthly production will be up to 8,000 tonnes as we develop the roadways and mining panels through stone and coal.

Production at **Huntly East Mine** was down 10% to 96,000 tonnes in the first quarter (2011: 107,000 tonnes) as the mine focused on development work to set up extraction places for the next 12 months. At **Rotowaro Mine** production was up slightly to 313,000 tonnes in the first quarter. Stevenson Mining Ltd will take over operation of the mine from HWE Mining from 1 December 2011.

Production at **New Vale Mine** in Southland was up 7% to 58,000 tonnes from 54,000 in the same period last year. Small-scale mining continues at **Ohai Mine** following the discovery of saleable coal during rehabilitation of the site.

**SALES:** Coal sales for the first quarter were 1.13 Mt, up 3% on the same period last year (2011: 1.10 Mt). Export sales for the quarter were 593,000 tonnes, in line with the previous corresponding quarter. At 541,000 tonnes, New Zealand sales were up 9% (2011: 497,000 tonnes) as the previous period was impacted by a major customer using stocks built up from a prior period.

	QUARTER ENDED					% CHANGE	
	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q1-2012 vs Q1-2011	Q1-2012 vs Q4-2011
<b>Coal Production Volume (kt)</b>							
Stockton	407	401	371	428	409	0%	-4%
Rotowaro	310	305	360	285	313	1%	10%
Spring Creek	205	75	4	120	111	-46%	-8%
Huntly East	107	91	86	90	96	-10%	7%
New Vale	54	89	89	70	58	7%	-17%
Other mines	14	14	21	27	11	-21%	-59%
<b>Total</b>	<b>1,097</b>	<b>975</b>	<b>931</b>	<b>1,020</b>	<b>998</b>	<b>-9%</b>	<b>-2%</b>
<b>Coal Sales Volume (kt)</b>							
Export	601	563	365	493	593	-1%	20%
New Zealand	497	505	507	521	541	9%	4%
<b>Total</b>	<b>1,098</b>	<b>1068</b>	<b>872</b>	<b>1,014</b>	<b>1,134</b>	<b>3%</b>	<b>12%</b>

## Renewable Energy

**Wood pellet** production increased 20% to 12,000 tonnes (2011: 10,000 tonnes) with production up year on year at all sites. Sales volumes increased by 168% to 17,000 tonnes (2011: 6,000 tonnes) with strong sales growth continuing due to new commercial customers and exports of premium bagged fuel to the European winter residential market.

	QUARTER ENDED					% CHANGE	
	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q1-2012 vs Q1-2011	Q1-2012 vs Q4-2011
<b>Production Volume (kt)</b>							
Pellets	10	13	13	10	12	20%	20%
<b>Sales Volume (kt)</b>							
Pellets	6	15	7	20	17	168%	-15%

Production of **biodiesel** for the quarter was up 40% to 496,000 litres compared to the same period last year (2011: 355,000 litres), with sales volumes up 12% to 533,000 litres from 475,000 litres. Markets for the company's Biogold™ fuel continue to strengthen with production at our existing plant expanded to near capacity levels to keep pace.

	QUARTER ENDED					% CHANGE	
	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q1-2012 vs Q1-2011	Q1-2012 vs Q4-2011
<b>Production Volume (kL as B100)</b>							
Biodiesel	355	424	408	579	496	40%	-14%
<b>Sales Volume (kL as B100)</b>							
Biodiesel	475	483	552	565	533	12%	-6%

## Coal Projects and Resource Assessment

### Huntly East Mine Ventilation Shaft

The \$30 million ventilation shaft development is on track to be completed within budget by December 2012. This shaft will service the northern extension of Huntly East Mine as it expands over the next 10 years. During the quarter, the pre-cast concrete caisson sinking operations, through the first 40 metres of soft ground, reached the 80% completion mark.

### Denniston programme

During the quarter, we started a 40-hole drilling programme in our permit areas on the Denniston Plateau, northeast of Westport. The Whareatea part of the programme has been delivered on time and to budget and has improved the status of the resource to Indicated as intended. The initial coal quality results show the seam is low sulphur and will make an ideal blend coal for our premium West Coast hard coking coal products. We are now planning our transition to drill out the Sullivan area. This is expected to be completed by end of the year. Geological modelling and formal re-estimation of the resource will then be undertaken. Mine and infrastructure planning and environmental effects assessment work is also underway.

### Reddale Mine

Production will start as planned in January 2012 at this small opencast development near Reefton following the award of the mining contract to Doug Hood Mining Ltd. The mine is expected to produce about 140,000



Huntly North Shaft – Commencing Caisson Support Construction

tonnes for the South Island industrial market over three years and will deliver continuity of supply while Solid Energy develops a new mining area at Spring Creek Mine.

## New Developments

**Underground Coal Gasification:** The \$22 million pilot plant at Huntly is progressing well with construction of the surface plant almost complete. Plant commissioning will begin in late 2012 with first gas expected in the new year.

**Coal Seam Gas:** Construction and commissioning of the Huntly coal seam gas demonstration plant is complete with gas production ramping up over the next few months.

Our Taranaki exploration drilling programme is complete and the results are being analysed to determine the next steps.

**Mataura Domestic-Scale Briquette Plant:** Work started in September and is progressing to schedule with commissioning on track for mid-2012.



Underground coal gasification pilot plant

**Lignite Conversion – Coal to Fertiliser:** We continue to progress studies to refine and confirm the economic and environmental viability and social acceptability of a Southland based coal to urea development.

## Health, Safety and Environment

Performance compared to same period in the previous year:

All Injury Frequency Rate (12 month rolling)

*Number of injuries per 1,000,000 hours requiring medical aid or greater treatment*

Lost Time Injury Frequency Rate (12 month rolling)

*Number of injuries per 1 million hours resulting in more than one lost work day or shift*

Regulatory, abatement and enforcement notices

	Actual to 30 September 2011	Actual to 30 September 2010
All Injury Frequency Rate (12 month rolling)	21.5	20.2
Lost Time Injury Frequency Rate (12 month rolling)	6.1	5.3
Regulatory, abatement and enforcement notices	0	0

## About Solid Energy

Solid Energy is a natural resources business that produces and supplies coal, waste wood biomass, wood pellets, biodiesel, electricity from coal seam gas and solar water heating to markets in New Zealand and internationally. We are also bringing to New Zealand, and developing ourselves for use here and internationally leading edge technologies which will allow us to convert shallow low-energy lignites into high-value end products such as urea and to access deep higher energy coal to extract the energy as commercial gas. To find out more about our business go to [www.coalnz.com](http://www.coalnz.com).

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