

Quarterly Report

to 31 December 2011

Contents

Summary
Operations
 Coal
 Renewable Energy
Coal Projects
New Developments
Health, Safety and Environment Performance

Highlights

Coal: At 1.06 Million tonnes (Mt), production in the December 2011 quarter was up 9% on the corresponding quarter of 2010, with all mines increasing their December quarterly production apart from Rotowaro and Huntly East. Production at our New Vale Mine was a record for the quarter.

Coal sales for the December 2011 quarter were 1.22 Mt, up 15%, with stronger production performances from our West Coast mines increasing international sales by 13%. Sales of coal stockpiled earlier in the year increased New Zealand sales by 16%.

At 2.06 Mt, coal production for the December 2011 half year was in line with last year.

At 2.36 Mt coal sales for the half year were up 9%, a record level for the first half of a financial year.

Wood pellets: Production for the December 2011 half year was up 14% to 25,000 tonnes. Sales for the half year were up 5% to 23,000 tonnes.

Biodiesel: Production for the December 2011 half year was up 27% to 989,000 litres. Sales for the half year were down 2% to 934,000 litres.

Operations

Coal

PRODUCTION: Coal production for the quarter was 1.06 Mt, up 9% on the December 2010 quarter.

Production at **Stockton Mine** was up 15% in the quarter. The **Stockton Coal Processing Plant** has continued its strong performance contributing 240,000 tonnes to the mine's production for the quarter of 461,000 tonnes.

Production at **Spring Creek Mine** for the quarter was up 19% to 89,000 tonnes, although the previous corresponding quarter had been interrupted by two heatings in November 2010. The mine is now developing the next five-year extraction block in the Rapahoe sector. During this period production will be reduced to about 8,000 tonnes per month as we develop the roadways and mining panels.

Production at **Huntly East Mine** has been reducing over the last year, down 19% for the quarter to 74,000 tonnes due to harder mining conditions in some of the extraction blocks. At **Rotowaro Mine** production was down 13% to 265,000 tonnes in the quarter with sales made from stock during the transition from HWE Mining to Stevenson Mining Ltd as operator of the mine.

At 98,000 tonnes, production at **New Vale Mine** in Southland was a quarterly record. Small-scale mining continues at **Ohai** following the quantification of saleable coal during rehabilitation of the site, adding 10,000 tonnes during the quarter. The site was closed for most of December due to safety concerns about the contractor's mobile plant following a vehicle accident on site. The **Maramarua** pit in the Waikato contributed 59,000 tonnes during the December 2011 half quarter.

SALES: Coal sales for the quarter were up 15% to 1.22 Mt. Export sales for the quarter were 639,000 tonnes up 13%. New Zealand sales were up 16% to 585,000 tonnes.

	QUARTER ENDED				% CHANGE		HALF ENDED		% CHANGE
	Dec 2010	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Dec 2011 Qtr VS Dec 2010 Qtr	Dec 2010 HY	Dec 2011 HY	Dec 2011 HY VS Dec 2010 HY
Coal Production Volume (kt)									
Stockton	401	371	428	409	461	15%	809	871	8%
Rotowaro	305	360	285	313	265	-13%	614	577	-6%
Spring Creek	75	4	120	111	89	19%	279	200	-28%
Huntly East	91	86	90	96	74	-19%	197	169	-14%
New Vale	89	89	70	58	98	10%	142	156	10%
Other	14	19	27	10	74	429%	27	85	215%
Total	975	929	1,020	997	1,061	9%	2,068	2,058	0%
Coal Sales Volume (kt)									
Export	563	365	493	593	639	13%	1,164	1,232	6%
New Zealand	505	507	521	541	585	16%	1,002	1,126	12%
Total	1,068	872	1,014	1,134	1,224	15%	2,166	2,358	9%

Renewable Energy

Wood pellet production in the December 2011 half year increased by 14% to 25,000 tonnes. Sales volumes increased by 5% to 23,000 tonnes in the half year with continued strong sales growth due to new commercial customers and exports of premium bagged fuel to the European winter residential market.

Biodiesel production for the half year was 989,000 litres, up 27% with sales volumes down 2% to 934,000 litres.

	QUARTER ENDED				Dec 2011	% CHANGE Dec 2011 Qtr VS Dec 2010 Qtr	HALF ENDED		% CHANGE Dec 2011 HY VS Dec 2010 HY
	Dec 2010	Mar 2011	Jun 2011	Sep 2011			Dec 2010 HY	Dec 2011 HY	
Production Volume									
Nature's Flame Pellets (kt)	13	13	10	12	13	0%	22	25	14%
Biodiesel (kL as B100)	424	408	579	496	493	16%	779	989	27%
Sales Volume									
Nature's Flame Pellets (kt)	15	7	20	17	6	-60%	22	23	5%
Biodiesel (kL as B100)	483	552	565	533	401	-17%	957	934	-2%

Coal Projects and Resource Assessment

Huntly North 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 was successfully installed through the first 40 metres of ground. Construction on the main sink will commence in January 2012.

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 5 Mt resource to Indicated. 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 have now almost completed drilling in the Sullivan area ahead of schedule and under budget. Some infill drilling will be undertaken early in the March 2012 quarter. 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.



Huntly North Ventilation Shaft

Reddale Mine

Development works are progressing well with the eastern stream diversion nearing completion. The mining contractor is establishing on site and coal production is scheduled to start in January 2012. The mine will produce about 140,000 tonnes of product coal for the upper South Island industrial market over three years.

Results of drilling in the Burkes Creek have confirmed 10 Mt of Inferred resources. Further resource definition and conceptual mine planning work is underway on this deposit as a potential replacement for Reddale production.

Liverpool Mine

We have applied for resource consents for an exploration drive and associated access road construction to test ground conditions for the proposed Liverpool 4 Underground mine. This is the first step in consenting what we expect to be a combined opencast and underground operation. Outcomes of the prefeasibility study for opencast mining of the Kimbell seam show potential for 1.5 Mt of semi-hard coking coal. This coupled with the Liverpool 4 Underground Mine are expected to produce 4.1Mt of run of mine coal, starting mid-2015. The coal would be blended with high sulphur West Coast coals, increasing sales volumes. An intense drilling

programme has been underway since June to lift coal resource status to measured and to progress mine planning to feasibility level.

We have recently started exploration drilling in the adjacent Rajah block. Rajah coal is high value hard coking coal and would integrate into the Liverpool operation as either an underground mine or combined opencast/underground.

New Developments

Underground Coal Gasification: The \$22 million pilot plant at Huntly is progressing well with construction of the surface plant complete. Plant commissioning has begun with first syngas expected in the March 2012 quarter.

Coal Seam Gas: Construction and commissioning of the Huntly coal seam gas demonstration plant is complete. We have started gas production and installed an on-site gas generator for production and sale of electricity on the spot market.

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.

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.



Coal Seam Gas Site

Health, Safety and Environment

Performance as at 31 December:

	Dec 2010	Dec 2011
All Injury Frequency Rate ¹	21	18
Lost Time Injury Frequency Rate ²	6.2	4.9
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.

For further information please contact:

SOLID ENERGY NEW ZEALAND LTD
 15 Show Place, PO Box 1303, Christchurch 8140, New Zealand
 Tel : +64 (0) 3 345 6000, Fax: +64 (0) 3 345 6016, www.coalnz.com

¹ Number of injuries per 1,000,000 hours requiring first aid or greater treatment.

² Number of injuries per 1,000,000 hours resulting in more than one lost work day or shift.