

Quarterly Report

to 31 March 2012

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Highlights

Coal: At 1.16 Million tonnes (Mt), production in the March 2012 quarter was up 24% on the corresponding quarter of 2011. All mines increased their year on year quarterly production apart from Huntly East.

Stockton Coal Handling and Processing Plant production for the quarter was the highest since the plant was commissioned in early 2010.

Our new Reddale Opencast Mine, north east of Reefton, came on-line during the quarter to supply coal to the upper South Island domestic coal market.

Coal sales for the March 2012 quarter were 1.12 Mt, up 29%, with stronger production performances from our West Coast mines increasing international sales by 66%. New Zealand sales at 516,000 tonnes were also higher than the prior year by 2%.

Wood pellets: Production for the March 2012 quarter was 9,000 tonnes, down 31%. Sales for the quarter of 10,000 tonnes were up 43%. We closed the Nature's Flame Rolleston wood pellet plant at the end of February 2012.

Biodiesel: Production for the March 2012 quarter was 505,000 litres, up 24%. Sales of B100 for the quarter of 382,000 litres were down 31%, as we focused on producing blended product.

Operations

Coal

PRODUCTION: Coal production for the quarter was 1.16 Mt, up 24% on the March 2011 quarter.

Production at **Stockton Mine** was up 39% in the quarter. The **Stockton Coal Handling and Processing Plant** contributed 273,000 tonnes to the mine's quarterly production of 516,000 tonnes.

Production at **Spring Creek Mine** for the quarter was 30,000 tonnes with the last coal being extracted from the current block. During the previous corresponding quarter the mine was closed while a mine safety review was carried out. 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** was down 7% for the quarter to 80,000 tonnes, due to harder mining conditions in some development and extraction blocks. At **Rotowaro Mine** production was up 15% to 413,000 tonnes in the quarter. At 90,000 tonnes, production at **New Vale Mine** was in line with prior year.

Small-scale mining at **Ohai** added 8,000 tonnes following the quantification of saleable coal during rehabilitation of the site. During the quarter the contracting arrangements at the site were terminated following potential high-risk health and safety incidents. Solid Energy will carry out the rehabilitation of the site using its own staff rather than go back to market to seek a new contractor. The **Maramarua** pit in the Waikato contributed 9,000 tonnes during the March 2012 quarter.

Reddale Mine development works and construction is now complete with contractor Doug Hood established on site. First coal was produced on 12 March and 6,000 tonnes were produced in the month. The mine will produce about 140,000 tonnes of saleable coal for the upper South Island industrial market over three years. We expect to complete all mining and remedial works within five years.



First Coal at Reddale Mine.

SALES: Coal sales for the quarter were up 29% to 1.12 Mt. Export sales for the quarter were 605,000 tonnes, up 66%. New Zealand sales were up 2% to 516,000 tonnes.

	QUARTER ENDED				% CHANGE	
	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Mar 2012 Qtr VS Mar 2011 Qtr
Coal Production Volume (kt)						
Stockton	371	428	409	461	516	39%
Rotowaro	360	285	313	265	413	15%
Spring Creek	4	120	111	89	30	650%
Huntly East	86	90	96	74	80	-7%
New Vale	89	70	58	98	90	1%
Reddale	0	0	0	0	6	100%
Other	19	27	10	74	20	5%
Total	929	1,020	997	1,061	1,155	24%
Coal Sales Volume (kt)						
Export	365	493	593	630	605	66%
New Zealand	507	521	541	585	516	2%
Total	872	1,014	1,134	1,215	1,121	29%

Renewable Energy

Wood pellet production in the March 2012 quarter decreased 31% to 9,000 tonnes. Sales volumes increased by 43% to 10,000 tonnes in the quarter with continued strong sales growth due to new commercial customers and exports of premium bagged fuel to the European winter residential market.

Nature's Flame ceased wood pellet production at its Rolleston plant during the quarter, focusing production at its Taupo and Rotorua plants. The move will not affect supply or pricing of Nature's Flame wood pellets in the South Island.

Biodiesel production for the quarter was 505,000 litres, up 24% with sales volumes of B100 down 31% to 382,000 litres.

	QUARTER ENDED				Mar 2012	% CHANGE
	Mar 2011	Jun 2011	Sep 2011	Dec 2011		Mar 2012 Qtr VS Mar 2011 Qtr
Production Volume						
Nature's Flame Pellets (kt)	13	10	12	13	9	-31%
Biodiesel (kL as B100)	408	579	496	494	505	24%
Sales Volume						
Nature's Flame Pellets (kt)	7	20	21	6	10	43%
Biodiesel (kL as B100)	552	565	533	401	382	-31%

Coal Projects and Resource Assessment

Huntly North Ventilation Shaft

The \$30 million ventilation shaft development is currently forecasted to be completed within budget but the completion date has been pushed out three months to March 2013. This is due to longer lead times for the ventilation fans and control systems and delays in resourcing the shaft sinking work. This shaft will service the northern extension of Huntly East Mine as it expands over the next 10 years. During the last quarter, work has focused on reviewing and approving the shaft sinking methodologies and hazard controls. The main civil works contractor is now in the final stages of installation, testing and commissioning the winders, headframe and Galloway. Blasting has just commenced on the development of the main shaft.



Galloway at Huntly North.

Denniston programme

During the quarter we completed a 60-hole drilling programme ahead of schedule and under budget. This was in and around previously underground mined areas of our licence on the Denniston Plateau, northeast of Westport. The Whareatea exploration has upgraded the pre-mined status of the 5.1 Mt resource from mostly Inferred to Indicated. Initial coal quality results show the coal has low sulphur content and will make an ideal blending coal for our premium West Coast hard coking coal products. Drilling in the Sullivan area has been completed in the last quarter. Preliminary indications are a pre-mine resource of about 4 Mt at Indicated-Measured status. Coal quality results confirm it is hard coking coal with moderate sulphur content. Data validation and an assessment of the old underground mine recoveries will be completed in April. Geological modelling and formal re-estimation of the mineable resource is planned for completion by mid-May. Mine and infrastructure planning and environmental effects assessment work is also underway.

Burkes Creek Mining Area

Results of initial exploration in the Burkes Creek area, near Reefton, have confirmed 10 Mt of Inferred resources. Further resource definition and conceptual mine planning work is underway on that part of the deposit with opencast potential as a possible replacement for Reddale Opencast production.

Liverpool Mine

We have been granted 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. Infill and geotechnical drilling has been underway since June 2011. The focus is now on measuring hard coking coal resources in the eastern area. This exploration is progressing well with indications of the potential to extend the opencast limits. The coal will be blended with other high sulphur West Coast coals to increase sales volumes.

New Developments

Underground Coal Gasification: Construction of the surface plant of our \$22 million pilot at Huntly was complete during the quarter. The plant was successfully started on 12 April 2012 and is now producing synthetic gas from coal.

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: During the period we started the feasibility study to refine and confirm the economic and environmental viability and social acceptability of a Southland-based coal to urea development.



Solid Energy Board visit Huntly Underground Coal Gasification Plant, March 2012

Health, Safety and Environment

Performance as at 31 March:

All Injury Frequency Rate¹

Mar 2011

21

Mar 2012

18

Lost Time Injury Frequency Rate²

6.9

5.6

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.

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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.