

Quarterly Report

to 30 June 2012

18 July 2012

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Highlights

Coal: Annual production was up 3% to 4.1 Million tonnes (Mt) compared with 4.0 Mt in 2011 due mainly to strong performance at Stockton Mine. At 936,000 tonnes, production in the June 2012 quarter was down 8% on the corresponding quarter in 2011 as Spring Creek Mine is currently in a development phase.

Coal sales for the year were 4.6 Mt, up 13% with international sales up by 20% to 2.4Mt. New Zealand sales of 2.2 Mt tonnes were up 6%.

Coal sales for the June 2012 quarter were 1.1 Mt, up 10%. International sales increased by 23%.

Operations

Coal

PRODUCTION: Coal production for the year was 4.1 Mt, up 3% on 2011.

Production at **Stockton Mine** was up 12% in the quarter and 16% in the year.

The **Stockton Coal Handling and Processing Plant** contributed 288,000 tonnes to the mine's quarterly production of 481,000 tonnes.

Production at **Spring Creek Mine** for the year was down 40% at 240,000 tonnes with the last coal being extracted in January 2012. The mine is now developing the next five-year extraction block. During this period production has significantly reduced as we install infrastructure and develop the roadways and mining panels. The mine is scheduled to restart extraction in early 2013.



Stockton Coal Handling and Processing Plant.

Production at **Huntly East Mine** was down 4% in the quarter to 86,000 tonnes and down 10% for the year to 336,000 tonnes, due to harder mining conditions and ventilation constraints until we complete the Huntly North ventilation shaft development. At **Rotowaro Mine** production was in line with last year at 1.2 Mt. Production was down 11% to 255,000 tonnes for the quarter driven by reduced demand from Genesis. At 318,000 tonnes, production at **New Vale Mine** was up 6% for the year.

Small-scale mining at **Ohai** added 35,000 tonnes for the year following the quantification of saleable coal during rehabilitation of the site. The **Maramarua** pit in the Waikato contributed 68,000 tonnes during the year to complete trials with our North Island customers.

First coal from **Reddale Mine** was produced on 12 March and 23,000 tonnes were produced in the year. 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.

SALES: Coal sales were up 13% for the year to 4.6 Mt. Export sales for the year were 2.4 Mt, up 20%. New Zealand sales were up 6% to 2.2 Mt.

	QUARTER ENDED				Jun 2012	% CHANGE Jun 2012 Qtr VS Jun 2011 Qtr	YEAR ENDED		% CHANGE Jun 2012 FY VS Jun 2011 FY
	Jun 2011	Sep 2011	Dec 2011	Mar 2012			Jun 2011 FY	Jun 2012 FY	
Coal Production Volume (kt)									
Stockton	428	409	461	516	481	12%	1,609	1,867	16%
Rotowaro	285	313	265	413	255	-11%	1,259	1,246	-1%
Spring Creek	120	111	89	30	10	-92%	403	240	-40%
Huntly East	90	96	74	80	86	-4%	373	336	-10%
New Vale	70	58	98	90	72	3%	301	318	6%
Reddale	-	-	-	6	17	100%	-	23	100%
Other	27	10	74	20	15	-44%	76	119	57%
Total	1,020	997	1,061	1,155	936	-8%	4,021	4,149	3%
Coal Sales Volume (kt)									
Export	493	593	630	605	605	23%	2,023	2,433	20%
New Zealand	521	541	585	516	515	-1%	2,030	2,157	6%
Total	1,014	1,134	1,215	1,121	1,120	10%	4,053	4,590	13%

Renewable Energy

Wood Pellet sales volumes decreased by 12% to 43,000 tonnes for the year as we scaled back exports to Europe due to lower NZD margins, offset by continued domestic commercial growth. Sales for the quarter of 6,000 tonnes were down 70% on the prior year, primarily due to a 13,000 tonne bulk export shipment in the April 2011 quarter and a scaling back of bagged exports this quarter. Exports have been reduced as a result of unfavourable exchange rates, weaker European markets, and growth in domestic markets.

Production for the year decreased 9% to 42,000 tonnes. Nature's Flame ceased wood pellet production at its Rolleston plant during the year (March 2012), focusing production at its Taupo and Rotorua plants. Production for the June 2012 quarter was 8,000 tonnes, down 20% due to closure of the Rolleston plant and a brought forward scheduled maintenance shut down at Taupo.

Biodiesel production for the year was 2.0 million litres, up 15%, with sales volumes of B100 down 11% to 1.8 million litres, as we continued to focus on achieving growth by producing and selling blended products.

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Production Volume									
Nature's Flame Pellets (kt)	10	12	13	9	8	-20%	46	42	-9%
Biodiesel (kL as B100)	579	496	494	505	530	-8%	1,766	2,025	15%
Sales Volume									
Nature's Flame Pellets (kt)	20	21	6	10	6	-70%	49	43	-12%
Biodiesel (kL as B100)	565	533	401	382	528	-7%	2,074	1,844	-11%

Coal Projects and Resource Assessment

Liverpool Mine Planning – Grey Coalfield

The proposed Liverpool mine plan now comprises an expanded opencast that links Liverpool, Pan Handle and Rajah pits and aims to produce an estimated 5.1 Mt of coal. This coal will be an ideal hard coking coal blend partner for high sulphur West Coast coals. Resource drilling is scheduled to be completed in July. The project focus is now on preparing an Assessment of Environmental Effects and associated resource consent applications for submission in late 2012 and targeting a consent hearing in the first half of 2013. Geotechnical drilling and feasibility study work will continue in parallel with the consenting process, with an April 2014 completion target.

Denniston Resource Assessment – Buller Coalfield

During the quarter, coal resource modelling was undertaken after we had completed a 60-hole drilling programme ahead of schedule and under budget. This drilling was in and around previously mined underground workings. The Whareatea exploration has upgraded the pre-mined status from a mostly Inferred 5.1 Mt resource to a 6.5 Mt Indicated Resource. 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 coals. For Sullivan, preliminary indications are of a pre-mined resource of 4.2 Mt at Indicated status. Coal quality results confirm a hard coking coal with moderate sulphur content. Estimates of the remaining coal resources will be completed in July, with preliminary work suggesting a resource of approximately 7.0 Mt.

Burkes Creek Mine Planning – Reefton Area

Our assessment of the Inferred coal resources have been increased from 10 Mt to 18 Mt due to identification of a larger resource area and increased seam thickness in the northern part of the Burkes Creek exploration permit. This coal prospect is immediately adjacent to the Reddale opencast mine and is expected to provide continuity of thermal coal supply to the domestic market. A pit containing approximately 1.0 Mt of potentially recoverable coal is under assessment. Our concept opencast mining study will be completed by the end of July 2012. The potential for an underground mine has not been evaluated at this stage while we concentrate

on the opencast mining potential, but there is potentially a good portion of the deeper resources that may convert to underground reserves in the future.

We have drilled a further 10 holes in the up-dip opencast area in recent weeks however we are yet to incorporate the results into our resource estimate and mine plan. Once this drilling has been interpreted and the model has been updated we expect to achieve Indicated Resource status on which to base opencast mine reserves. Drilling in the 2013 financial year will be limited to two to three holes infilling some gaps in the resource model.

Huntly North Ventilation Shaft

The project remains within budget and is scheduled to be delivered in the June quarter of 2013. In the last quarter the staffing, equipment sign-off, procedures and risk assessments were completed enabling the main shaft sinking operations to commence. At mid-June the shaft excavation and concrete lining had reached 82 metres and 56 metres below ground level respectively. The main ventilation fan tenders and power supply pricing have been received. Both of these are being evaluated.

Pike River Assets

On 17 July, Solid Energy completed the purchase of the assets of Pike River Coal Limited (in receivership). We will now secure the site, commence planning for an exploration of the mine's main entry drift and planning to improve knowledge of the resource. Solid Energy has also made clear commitments regarding recovery of the bodies of the 29 Pike River mine workers and entered into an agreement with the Government that sets out the roles each will play.

New Developments

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

Coal Seam Gas: Construction, commissioning and operation of the Huntly coal seam gas demonstration plant is complete. The trial resulted in the production of high quality gas which was converted to electricity via an on-site generator and sold into the spot market. We are now moving the near-term focus of our coal seam gas activity to Taranaki where a recent independent assessment indicates that we have 858,000 million cubic feet (900 petajoules) of contingent (2C) coal seam gas resource holdings at 31 December 2011. The knowledge and experience gained from the Huntly pilot will be utilised in the significantly larger Taranaki field.



Construction of the Mataura Briquette plant

Mataura Domestic-Scale Briquette Plant: The lignite briquetting plant is progressing to schedule with construction expected to be completed late in July. Full commissioning is expected in August with first saleable product in September. At full production, the plant will produce approximately 90,000 tonnes per annum of briquettes. We have recruited seven local staff into permanent roles which will grow to 11 when the plant reaches full production.

Lignite Conversion – Coal to Fertiliser: During the period we started the 12 month feasibility study to refine and confirm the economic and environmental viability and social acceptability of a Southland-based coal to urea development. This phase of the project includes identifying project partners and selecting our preferred development partner.

Health, Safety and Environment

Performance as at 30 June:

	Jun 2011	Jun 2012
All Injury Frequency Rate ¹	23	14.1
Lost Time Injury Frequency Rate ²	7.5	3.4
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.