

12 September 2011

Insurance settlement for Pike River Coal Limited

NZOG (New Zealand Oil & Gas Limited) has been advised by the Receivers for Pike River Coal Ltd (In Receivership) (PRCL) ¹ that a conditional agreement has been reached with PRCL's insurers in respect of material damage and business interruption insurance claims associated with the tragic events of 19 November 2010. While all of the parties have reached an in principle agreement to the terms of the settlement, the settlement remains subject to execution of formal documentation by NZOG, BNZ and the owners of the leased mining equipment who have priority rights.

The Receivers and NZOG have agreed that some of the insurance settlement should be directed to PRCL's unsecured creditors, including contractors and former employees, through an early payment plan.

At the time of the events in November 2010, PRCL held extensive insurance with a cap of \$100m. PRCL's Receivers have advised today that they have agreed with the insurers to a payment of NZ\$80m in full and final settlement of claims under those insurance policies. The Receivers expect to receive the settlement proceeds around the end of September this year.

Approximately \$6.3m will be paid to the owners of leased mining equipment arising from their priority rights, leaving approximately \$73.7m to put towards PRCL's debts.

The Bank of New Zealand is a first ranking secured creditor owed approximately \$23.2m and will be paid in full.

As the other first ranking secured creditor, NZOG has legal priority to all of the remaining monies. However, Chief Executive David Salisbury says NZOG recognises the huge and ongoing impact the tragic events have had on the West Coast community.

"Hopefully all of PRCL's creditors can receive full payment when the sale of the mine occurs. However, for the mine workers, contractors and suppliers this has been a very stressful time, emotionally and financially. We therefore support the Receivers using some of the insurance payout to make a voluntary early payment now to all unsecured creditors."

The details of the early payment arrangements have been determined by the Receivers and are supported by NZOG.

Under the proposal, unsecured creditors will receive a payment of the first \$10,000 of their claim (or their full claim if less than \$10,000) and up to 20c in the dollar for any balance above that amount, up to a capped aggregate amount of \$10.5m. Unsecured creditors are

¹ As a secured creditor, and at the request of PRCL's directors, NZOG appointed John Fisk, Malcolm Hollis and David Bridgman from PricewaterhouseCoopers as the Receivers on 13 December 2010. The Receivers act independently of NZOG but provide regular reports to NZOG.

not being asked to reduce their total claim and will still be entitled to claim for the full remaining balance, once the Receivers complete the sales process. Unsecured creditors will be asked to agree to a moratorium on certain actions they could otherwise contemplate, including seeking the appointment of a liquidator. This will support the Receivers' sales process in the interests of all PRCL's creditors and investors. As the total amount available for early payment to unsecured creditors under the proposal is limited, the amount to be paid to each creditor may need to be reduced if actual claims accepted are greater than the amounts of claims known to date.

Under Section 229 of the Companies Act 1993, a Notice of Meeting is being sent to all creditors and they will be asked to submit postal votes on the early payment plan, which if accepted by a majority in number representing at least 75% in value of each class of creditors, will be binding on all creditors. NZOG understands that details of the early payment plan will be mailed to creditors within the next week.

If the early payment plan is approved, the unsecured creditors (including NZOG and the owners of leased mining equipment) will receive payments. On the basis of known creditor claims to date, around 243 creditors will be paid in full and 222 creditors will receive a part-payment.

NZOG will receive \$3.0m as part-payment of its total unsecured debt of \$15.1m. The remaining sum from the insurance settlement will pay off approximately \$38.3m of the \$53.0m in secured debt held by NZOG. This will reduce NZOG's remaining debt to \$14.7m secured and \$12.1m unsecured. NZOG also has a 29.4% shareholding in PRCL.

David Salisbury says as a secured creditor, NZOG has sought to have a constructive influence since the tragedy occurred.

"Following the mine explosion on 19 November last year, NZOG loaned PRCL \$12m. After the Receivers were appointed it was this funding that allowed the Receivers to carry out their duties - to support the mine stabilisation efforts, pay employees their statutory entitlements, co-operate with the various inquiries, begin a sales process and pursue the insurance claims."

"Now, by supporting the early payment plan for unsecured creditors, NZOG is again acknowledging the widespread impact this tragedy has had, and that the support of the local community is crucial if the sales process is to realise the full value of the assets and the mine is to be safely reopened."

David Salisbury says the agreement reached in settlement of the principal insurance claims is a good outcome.

"The insurance settlement ticks off one of the primary tasks of the Receivers. The sales process is also well advanced, with the Receivers having advised us that a number of interested parties are conducting due diligence ahead of making final offers."

"The mine stabilisation efforts have always been given priority and NZOG understands that the Receivers are working with an Expert Panel to advance a plan to allow a safe reclamation of the access tunnel, which is a necessary precursor to any move to re-enter the mine or to attempt a body recovery exercise."

"A very complex set of tasks are having to be managed and while we all would hope for quick resolutions we believe the Receivers are doing their job with great empathy and skill."

For further information please contact:

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**NZOG stock
symbols:**

NZX shares – NZO
ASX shares – NZO

Key Points:

- *An \$80m conditional settlement has been agreed between PRCL's insurers and the Receivers.*
- *Approximately \$6.3m will be paid to the owners of leased mining equipment on a first priority basis.*
- *The BNZ, as a secured creditor, will receive approximately \$23.2m in full settlement.*
- *NZOG, as the other secured creditor, has agreed that the Receivers should offer an early payment to PRCL's unsecured creditors.*
- *Under the proposal, unsecured creditors will receive a total of approximately \$10.1m in early part-payment.*
- *NZOG will receive approximately \$38.3m as a secured creditor and \$3.0m as an unsecured creditor.*
- *NZOG will still be owed approximately \$14.7m in secured debt and \$12.1m in unsecured debt.*
- *The mine sales process is ongoing and NZOG expects to recover its remaining secured debt and possibly some or all of its remaining unsecured debt through that sales process.*
- *The Receivers are continuing with the mine stabilisation and tunnel reclamation activities.*

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