

26 January 2011

PRCL impairment

NZOG (New Zealand Oil & Gas Ltd) advises that it expects to impair all of its remaining investment in Pike River Coal Ltd (in Receivership) (PRCL) in its half year accounts.

NZOG's financial statements for the six months ended 31 December 2011 will be released on 22 February.

During the six month period, NZOG received a total of \$41m from the PRCL insurance settlement. NZOG also advanced \$4.6m under a short term loan agreement to the Receivers to fund both the ongoing mine stabilisation efforts and the sales process.

PRCL unsecured debt has previously been fully impaired while the secured debt has been carried in NZOG's accounts at full value. No value is assigned to NZOG's shareholding in PRCL.

As part of preparing its half year accounts, NZOG has undertaken a further review of the carrying value of its investments in PRCL. This has required an assessment of the expected future cash recovery from PRCL and the ongoing cost of the receivership, which NZOG is funding.

The Receivers for PRCL have advised that there are now three potential outcomes from the sales process they are undertaking – an outright purchase of the mine; a structured deal with a smaller upfront payment and future payments dependent on certain outcomes being achieved; and sale of the removable assets only.

The first two scenarios are both expected by NZOG to be conditional, with the structured option including milestone payments and a possible re-opening success payment. Achievement of these milestones, undertaken by a purchaser and conditional on the actions of various third parties, adds considerable uncertainty in trying to predict the timing and degree of any further return to NZOG.

Given the highly conditional nature of any further receipts and uncertainty regarding timing, the NZOG Board expects to impair all of the remaining secured PRCL debt.

The accounting impact of this will be a net increase of just under \$21m between 30 June 2011 and 31 December 2011 in NZOG's impairment provision.¹

¹ This calculation involves impairment of \$23.5m in secured debt and interest, including \$1.5m of interest accrued in the six month period, offset by \$2.6m in unsecured debt that had been impaired but was received during the period.