

24 February 2010

Funding Support for Pike River Coal

New Zealand Oil & Gas Ltd (NZOG) has moved to enhance its investment in Pike River Coal Ltd (Pike) through a funding package announced today.

NZOG is already the largest shareholder in Pike with 29.5% of the shares on issue.

Unforeseen production delays at its West Coast coking coal mine have required Pike to seek further working capital. Pike is also seeking to redeem its existing US\$28.9 million convertible bond facility provided by Liberty Harbor, LLC.

NZOG has agreed to support Pike with the following funding package:

- a. Pike will undertake an equity issue to raise NZ\$50 million. NZOG will subscribe for its 29.5% interest in a fully underwritten rights issue of NZ\$50 million (subject to any regulatory restraints).
- b. NZOG will provide a new convertible bond facility for US\$28.9 million with an interest rate of 10%, to fund the potential redemption of the Liberty Harbor convertible bonds. NZOG's new bonds will mature in March 2012. They will be convertible into Pike shares at the same conversion price as the Liberty Harbor bonds (NZ\$1.24 per share converted at an exchange rate of US\$0.70), subject to adjustment under anti-dilution provisions.
- c. Pike will grant an option to NZOG, exercisable at any time over the next two years, to enter into an offtake agreement to purchase Pike coking coal at market prices to be negotiated annually. The maximum volumes which may be purchased under the offtake agreement would be the currently uncontracted coal quantities for the first three years and up to 30% of annual coal production for the remaining life of mine.

The bond facility and coal contract option are conditional on, amongst other things, both being approved by Pike shareholders. In the event that the bond facility and coal contract option do not proceed, then a break fee of NZ\$1.2 million is payable to NZOG.

Further details of the funding package are set out in the attached schedule.

NZOG has also agreed to provide interim funding to Pike, on commercial terms, of up to NZ\$15 million. This may be drawn upon, as necessary, to cover funding requirements until the rights issue proceeds are received.

For further information please contact:

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**NZOG stock
symbols:**

NZX shares – NZO
ASX shares – NZO

NZOG Chief Executive David Salisbury says the overall package has benefits for both companies.

“Subject to approval from its shareholders, Pike will have in NZOG a supportive investor providing the funding it needs, allowing Pike to focus on ramping up to full production during this period of very buoyant prices for metallurgical (coking) coal.

“NZOG will receive an attractive return on its secured convertible bond. The potential for NZOG to hold a coal contract will enhance NZOG’s overall investment in Pike.

“As we have consistently stated, in due course Pike is likely to be less relevant to NZOG’s future as we build our core oil and gas exploration and production business.

“However, this package is value creating for NZOG and is a continuation of our current strategy of managing this investment in the interests of our shareholders.

“At this stage it is appropriate that NZOG continue to provide tangible backing to Pike as it moves to steady-state production from its coking coal mine, while we focus on our extensive programme of petroleum exploration and production activities,” David Salisbury said.

Attachment: Schedule of key terms

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Schedule of key terms

Equity Issue

- Pike to undertake an equity issue of ordinary shares to raise \$50 million
- Pike is considering a rights issue of ordinary shares and a share placement
- NZOG will subscribe for its 29.5% interest in a rights issue of \$NZ50 million
- NZOG's participation in a rights issue is conditional on the rights issue being fully underwritten

Coal Contract Option

- Pike to grant NZOG an option to purchase Pike River coal for life of mine
- Pricing to be negotiated annually on the same basis as the existing Pike contract with Gujarat
- Option exercisable within 2 years
- Coal quantity under option to be up to 30% of Pike River annual production (except for the period to 31 March 2013 when the quantity is limited to the quantity of coal not already contractually committed)

Convertible Bond

- NZOG to provide Pike with a new convertible bond facility allowing Pike to repay existing Liberty Harbor convertible bond facility
- Facility amount is US\$28.9 million
- Term is 2 years to 12 March 2012
- Interest rate is 10% pa
- The facility is to be first ranking secured debt ranked equally with other Pike debt of up to NZ\$20 million
- The bonds can convert at the option of NZOG into such number of ordinary shares of Pike as is determined under the conversion formulae which at an exchange rate of US\$0.70 is NZ\$1.24 per share
- Standard anti-dilution applies so that the conversion price reduces if further securities are issued at a reduced price

Conditions of Coal Contract Option and Convertible Bonds

Each of the Coal Contract Option and Convertible Bond are conditional on each other as well as:

- all necessary Pike shareholder approvals under applicable listing rules and the takeovers code being obtained
- successful completion of the rights issue
- any necessary consents and approvals from existing secured creditors of Pike
- in the case of the Convertible Bond, Pike not being in breach of any existing financing arrangements except as permitted by agreement of NZOG
- A break fee of NZ\$1.2 million is payable to NZOG if the bond facility and coal contract option do not proceed.

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