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TSXV: PEH

NEWS RELEASE

**PRIMELINE AND CNOOC SIGN DEVELOPMENT AGREEMENTS  
FOR LISHUI 36-1 GAS FIELD**

**Primeline Energy Holdings Inc.** ("Primeline" or the "Company") (TSXV: PEH) today announced that Primeline, China National Offshore Oil Corporation ("CNOOC") and Primeline Petroleum Corporation ("PPC") have signed various agreements ("Development Agreements") setting out the basis on which CNOOC and Primeline will proceed with the development of the Lishui 36-1 gas field.

As previously announced, the overall development program for the Lishui 36-1 gas field ("ODP") was approved in principle by Primeline and CNOOC in late August 2009 and was finalised in December 2009. Since September, Primeline and CNOOC have been preparing the supporting documents required for submission of the ODP to the Government for approval, including an environmental impact study report and a safety assessment report. CNOOC and Primeline are in the process of submitting these studies and the ODP as required by the relevant regulations.

At the same time, Primeline and CNOOC have been negotiating the terms of the Development Agreements and have now entered into a Supplemental Development Agreement ("SDA"), a Joint Operating Agreement ("JOA"), an agreement relating to the implementation of the development and procurement and cost control principles ("Implementation Agreement") and a letter agreement amending a previous agreement relating to the terms of the Petroleum Contract ("Amendment Agreement"), all of which are dated 17<sup>th</sup> March 2010. The main terms of the Development Agreements are summarised below.

**Transfer of Operatorship for the Development**

One of the principal purposes of the Development Agreements is to transfer the operatorship for the development and production operations for the Lishui 36-1 gas field from Primeline Energy Operations International Limited ("PEOIL"), a subsidiary of Primeline, to CNOOC China Ltd



Lishui Operating Company (“CCLOC”), to be established as a wholly owned subsidiary of CNOOC China Limited, a subsidiary of CNOOC Ltd. (the listed subsidiary of CNOOC). There are expected to be various benefits from this transfer of operatorship. Firstly, CNOOC Ltd. has an established project management team which has considerable relevant experience and can be mobilised with minimum delay. Secondly, as a subsidiary of CNOOC Ltd., CCLOC is able to procure the services and equipment required for the development of the gas field on the basis of existing CNOOC long term procurement contracts with various contractors which, together with other operational efficiencies, should result in cost savings for the Development. CCLOC will act only as operator in respect of the development and production operations for the Lishui 36-1 gas field; PEOIL will continue to act as operator under the Petroleum Contract in respect of all continuing exploration operations.

### **Development Agreements**

Under the SDA, CNOOC has formally confirmed it will exercise its right under the Petroleum Contract to take its full participating interest of 51% in the Lishui 36-1 gas field, such that the respective participating interests in the development of and production from the gas field will be 51% CNOOC, 36.7% Primeline and 12.25% PPC (which is wholly owned by Primeline’s Chairman and substantial shareholder, Victor Hwang). The development and operating costs will be borne by the parties in their respective participating interests.

The SDA also confirms that:

- a development area of circa 85 km<sup>2</sup> surrounding the LS 36-1 gas field will be carved out of Block 25/34;
- the production period for the Lishui 36-1 gas field will be for a minimum of 15 years from the commencement of commercial production and will be extended in the event that additional gas resources are discovered within Block 25/34 which can be tied into the production facilities established for Lishui 36-1; and
- the production facilities will be owned by the parties jointly in the proportions of their participating interests until full cost recovery and the parties shall have the continuing right, until the end of the production period, to use the production facility assets in respect of any additional resources which may be discovered within Block 25/34 and which can be tied into the production facility assets.

The SDA is subject to the ratification of the Ministry of Commerce of the People’s Republic of China and will become effective on the date of such ratification.

The JOA, which has been entered into by CNOOC China Ltd., sets out the basis on which CCLOC shall establish a project management team in Shanghai and carry out the development and production operations. In particular, it provides that Primeline may appoint certain key members to



the project management team who will be involved in all procurement and operational decisions and grants Primeline a significant degree of control over how those operations are carried out with all major decisions being by unanimous decisions of the Parties. The JOA is supplemental to the SDA and accordingly will become effective on the date that the SDA becomes effective.

In the Implementation Agreement, Primeline and CNOOC have agreed that the necessary development preparation work needs to be implemented immediately in order that the development can be completed in time to deliver first gas to Zhejiang Gas in accordance with the agreed target date of mid 2012 and it has been agreed that CNOOC will be responsible for such initial preparation work in order to maintain the target.. The Implementation Agreement sets out the agreed principle that as much of the procurement of the development as possible should be contracted using long term procurement contracts established by CNOOC in order to achieve cost savings so that the development can be delivered as economically and efficiently as possible.

Pursuant to a previous amendment agreement in February 2008, CNOOC and Primeline agreed that the first exploration period under the Petroleum Contract would be extended by one year and that one of the two subsequent two-year exploration periods would be reduced by a corresponding period of one year, unless otherwise agreed. It has now been agreed, pursuant to the Amendment Agreement, that the two remaining exploration periods under the Petroleum Contract will be for two years each. Thus, the second exploration period, which commenced on 1<sup>st</sup> May 2009, will end on 30<sup>th</sup> April 2011, and the third exploration period will commence on 1<sup>st</sup> May 2011 and end on 30<sup>th</sup> April 2013.

Mr. Victor Hwang, Chairman and President of Primeline, commented: “The signing of the Development Agreements marks the commencement of the development project with Primeline and CNOOC working in close co-operation, playing to their respective strengths for the common goal of a successful rolling development. The agreed principles will lead to cost saving and streamlined management and scheduling which are both vitally important to the development of the Lishui gas field. In addition, the clear division of responsibilities enables Primeline to focus on the step out exploration programme for which we continue to be the operator.”

### **Development Financing**

Primeline has made significant progress in its discussions with financial institutions on the project finance for the Lishui 36-1 development and one of the main Chinese banks is currently conducting due diligence on the project based on agreed preliminary financing terms. Primeline has secured the commitment of the financial institution that it will issue supporting documentation to allow the submission of the ODP and Primeline aims to secure a conditional loan agreement as soon as possible. A further announcement will be made when the conditional loan agreement has been



finalised. On the basis of the funding arrangements agreed to in the Implementation Agreement, Primeline's financing requirement does not start until three months after government approval of the ODP has been obtained.

### **About Primeline Energy Holdings Inc.**

Primeline is an exploration and development company focusing exclusively on China resources to become a major supplier of gas and oil to the East China market. Primeline has a 75% Contractor's interest in the Petroleum Contract with CNOOC for Block 25/34, an offshore exploration area of 5,221 km<sup>2</sup> in the East China Sea where the Lishui 36-1 discovery is located. A 3D survey was used to define a number of high potential prospects near the discovery for the Company's step out exploration programme. Previously drilled wells in and around Block 25/34 encountered oil and gas shows and flows indicating that there is significant hydrocarbon potential in the remainder of the Block. Shares of the Company are listed for trading on the TSX Venture Exchange under the symbol PEH.

ON BEHALF OF PRIMELINE ENERGY HOLDINGS INC.

Ming Wang  
Chief Executive Officer

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Please visit the Company's website at [www.pehi.com](http://www.pehi.com). Should you wish to receive Company news via email, please email [catarina@chfir.com](mailto:catarina@chfir.com) and specify "Primeline Energy" in the subject line.

#### ***Forward-Looking Statements***

*Some of the statements in this news release contain forward-looking information, which involves inherent risk and uncertainty affecting the business of Primeline. These statements relate to Primeline's expectation that it will be able to secure a conditional loan agreement for the project finance of the Lishui 36-1 development. They are based on an assumption that negotiations for such an agreement can be successfully concluded with a Chinese financial institution. It is possible such negotiations may not be successfully concluded, as a result of factors which include without limitation financial market instability, the international credit crisis, and unforeseen technical problems. If they are not, Primeline will have to seek alternate sources of project finance, and if they cannot be found Primeline will be unable to proceed with the development. Documentation may be delayed for technical and other reasons, and if they are, submission of the ODP will also be delayed, and required government approvals may not be obtained in a timely fashion, or at all. If funding is not sufficient or governmental approvals are not obtained, the Company may be unable to develop the gas field. Exploration for oil and gas is subject to the inherent risk that it will not result in a commercial discovery.*

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