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## NEWS RELEASE

### **PRIMELINE COMPLETES INITIAL POST WELL EVALUATION OF LS35-3-1 WELL**

**Primeline Energy Holdings Inc.** ("Primeline" or the "Company") (TSXV: PEH) today announces that it has now completed its initial review of the data from the recent LS35-3-1 exploration well in Block 25/34 East China Sea.

The well confirmed a hydrocarbon accumulation in the Western Flank of the Lishui Basin and has provided valuable data which will assist Primeline's ongoing exploration effort in the region. The well flowed gas from a low permeability reservoir which has significant implications for the development of the deeper gas zones in the LS36-1 gas field and the gas potential in the region in general.

#### **Results of the Well**

The LS35-3-1 well is part of the rolling development exploration programme Primeline and CNOOC are implementing. The strategy is to find additional resources which can be tied into the proposed production facility to be built at the LS 36-1 gas field, to augment future production.

The LS35-3-1 well was located to test three potential stacked channel sand reservoirs, Targets 1, 2 and 3, on the Western Flank of the West Lishui Basin over an expected range of 2100 – 2880 metres. Target 1 was forecast to be similar to the good reservoir sequence in the LS36-1 gas field, which Primeline and CNOOC are currently developing. Targets 2 and 3 were forecast to be similar to the lower gas sands in the LS36-1 gas field. All three predicted reservoir targets had good bright spot and AVO characteristics similar to those seen on the LS36-1 gas field and all three sands were encountered in well LS35-3-1. However Target 1 was water bearing and Target 2 had some gas, but mostly water.

Target 3 had gas from top to base of the reservoir. On test, gas flowed naturally to the surface from the upper zone of Target 3 and was flared continuously for 7 hours but due to the low wellhead pressure, no accurate measurement of gas flow was possible. Calculations on the differential pressure across the choke indicate a low flow rate. A second flow period was started after an 18 hour shut-in but was halted by the clogging of the main downhole valve on the test equipment by formation sand.

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Analyses of the gas samples from the well show low inert gas content (N, CO<sub>2</sub>) of 1.5-3.3% and a similar hydrocarbon composition to LS36-1 gas field but with more liquid hydrocarbon content. This is positive news as the inert gas content in wells in the LS36-1 gas field is around 35%.

### **Implications of the Results**

Proving hydrocarbons present on the Western Flank of the Lishui Basin supports Primeline's hydrocarbon source generation and migration model. The low CO<sub>2</sub> levels also support Primeline's view that CO<sub>2</sub> present at LS36-1 gas field is a result of localized and late CO<sub>2</sub> generation in isolated areas and that CO<sub>2</sub> is not regionally present throughout the basin.

Target 1 was a good quality porous sand of over 44m, somewhat better in quality than at the LS36-1 gas field. The most probable reason for the lack of hydrocarbons in Target 1 is thought to be up-dip leakage from this sand level at this stratigraphic trap location.

Achieving gas flow from the deeper low permeability reservoir is encouraging but the commercial potential of LS35-3-1 will depend on successful fracturing and other optimization techniques presently used elsewhere in the industry to improve production rates from tight gas sands. Primeline and CNOOC plan to test such concepts early in the LS36-1 development drilling program. Success in flowing gas at reasonable rates from these deeper, tighter reservoirs could convert some of the gas-in-place in the lower sands at LS36-1 gas field into producible reserves. The gas-in-place in the lower zones in LS36-1 is of a similar amount to the top good reservoir but, as it was not previously regarded as commercial, it has not been included in any previous reserve calculation or development proposal. Any gas produced from these lower zones would significantly increase the economics of the LS36-1 development as production would be through the same infrastructure, which will be financed by the production from the upper zone. In addition, the gas encountered in the LS35-3-1 exploration well could be commercial if these fracturing techniques prove successful as the tie-in distance to the proposed LS36-1 platform is only about 14.5 km.

Trap integrity appears to be the biggest exploration prospect specific risk as finding sands associated with strong amplitudes was successful. Finding Target 1 to be water bearing at LS35-3-1 is a setback to Primeline's use of bright spot and AVO seismic attributes as a direct indicator of hydrocarbons although it does correlate well with porous sands. Primeline is now investigating the use of other hydrocarbon indicators whilst continuing with traditional mapping and trap definition techniques.

Primeline will continue to complete the post well evaluation which will lead to the selection of the next exploration well location in the next few months. In the meantime, Primeline and CNOOC are continuing with the development of the LS36-1 gas field, the progress of which will be reported separately in due course.



## **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 and is the operator for exploration 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. Primeline also has a 36.75% interest in the LS36-1 gas field in Block 25/34 which is being developed by Primeline together with CNOOC (acting as Operator for the development) and Primeline Petroleum Corporation. CNOOC is proceeding with the preparation of the development and Primeline is leading the exploration effort currently focused on the prospects in the 3D seismic data area where a number of high potential prospects near the LS36-1 development have been mapped and where the new LS35-3-1 discovery is located. The new LS35-3-1 discovery and previously drilled wells in and around Block 25/34 indicate 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.

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### **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 the development of the LS36-1 gas field and to the possibility that the LS 35-3-1 discovery well may be tied into the proposed production facility to be built under the LS 36-1 development programme. They are based on assumptions that gas exists at LS 35-3-1 in quantities that may be recovered on a commercially viable basis, and that the proposed production facility will be built. Insufficient work has been done to determine whether gas exists in commercially viable quantities at LS 35-3, and the proposed production facility may not be built, whether for technical reasons, reasons related to lack of finance, or other reasons. Exploration for oil and gas is subject to the inherent risk that it will not result in a commercial discovery.

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