

Not for distribution to U.S. news wires services, or dissemination in the United States.

Hong Kong
April 15, 2016
TSXV: PEH

NEWS RELEASE

**PRIMELINE COMMENCES ARBITRATION AGAINST ZHEJIANG GAS
TO RECTIFY GAS SALES CONTRACT BREACH**

Primeline Energy Holdings Inc. (“**Primeline**” or the “**Company**”, references to which include its subsidiaries) (TSXV: PEH) announced that the China International Economic and Trade Arbitration Commission (“**CIETAC**”) has served formal notice of commencement of arbitration proceedings (“the Arbitration”) by Primeline against Zhejiang Gas Natural Gas Development Company Limited (“**Zhejiang Gas**”). The Company has received a copy of such notice today.

The Arbitration relates to continuing disputes under the Gas Sales and Purchase Contract dated October 29, 2014 (the “**Gas Sales Contract**”) between CNOOC China Limited (“**CCL**”), a subsidiary of China National Offshore Oil Corp (“**CNOOC**”), and Zhejiang Gas which relates to the sale of gas from the LS36-1 Gas Field (“**LS36-1**”). LS36-1 is the subject of the Petroleum Contract for Block 25/34 in the East China Sea between Primeline and CNOOC (“**Petroleum Contract 25/34**”) under which CCL acts as operator.

Background to the dispute

LS36-1 was discovered by Primeline and was developed by CNOOC and Primeline during 2010-2014 on the basis of take or pay gas sale agreements with Zhejiang Gas originally dating back to 2008 and finalised in the Gas Sales Contract. The parties to the Gas Sales Contract are CCL (acting for itself and as agent for Primeline) and Zhejiang Gas.

Following a sharp decline in international oil and Chinese natural gas prices, Zhejiang Gas has been requesting, since February 2015, that the gas price for LS36-1 be reduced, initially from April 1, 2015, then further from November 20, 2015, to match onshore pipeline gas price guidelines issued by the Chinese Government. While the Gas Sales Contract provides that the parties should at some point agree a price adjustment mechanism, Primeline’s position is that any such price adjustment mechanism must be negotiated and is subject to the parties’ mutual agreement and Zhejiang Gas is not entitled to unilaterally reduce the gas price agreed upon by parties under the Gas Sales Contract.

London England
Fourteen South Audley Street
London | W1K 1HN
England | UK
Tel +44 20 7499 8888
Fax +44 20 7499 2288

Hong Kong China
Hong Kong Parkview
88 Tai Tam Reservoir Road
Hong Kong | China
中國香港大潭水塘道88號陽明山莊
Tel 電話 +852 2810 5511
Fax 圖文傳真 +852 2810 0667

Shanghai China
Suite 22N | Cross Region Plaza
899 Ling Ling Road
Shanghai | 200030 | China
中國上海零陵路 899 號
(飛洲國際廣場) 22N座 郵編 200030
Tel 電話 +86 21 6468 6462
Fax 傳真 +86 21 6468 6467



In addition, in Primeline's view, there is no contractual or legal basis whatsoever for Zhejiang Gas to rely upon the price guidelines issued by the Chinese Government for onshore pipeline gas.

In the meantime, the offtake and production during 2015 has been patchy, and Zhejiang Gas did not offtake the minimum quantity of natural gas in 2015 as stipulated in the Gas Sale Contract. Although Zhejiang Gas has been offtaking gas normally since October 2015 but has only made partial payment for gas delivered since June 2015 at the reduced price it has proposed in the negotiations and has failed to pay the invoice, dated February 2, 2016, for the take or pay balancing payment for 2015. The invoice and the shortfall payment amount to a total of circa RMB374 million (or approximately C\$75 million) for both CCL and Primeline's accounts.

Despite all efforts in the last fourteen months by CCL, Primeline and Zhejiang Gas to reach an amicable solution on the price and payment dispute, to date no agreement has been reached. Primeline has given several notices to CCL that it should commence arbitration proceedings against Zhejiang Gas to enforce the terms of the Gas Sales Contract. However, although CCL has continued with negotiations with Zhejiang Gas to attempt to resolve the dispute, it has failed to institute arbitration proceedings. As a result, Primeline has now taken direct action against Zhejiang Gas to enforce its rights under the Gas Sales Contract as provided by Chinese contract law and accordingly submitted the Request for Arbitration to CIETAC to recover the outstanding payments due.

Under those terms of the Gas Sales Contract, which relate to the Arbitration, parties are required to continue to perform all contractual obligations, in particular the off-take and payment for gas, and the Gas Sales Contract remains in full force and effect. However, Primeline cannot guarantee Zhejiang Gas will respect these terms wholly or in part during the Arbitration.

Possible UNCITRAL arbitration against CCL

CCL has failed to take action to enforce payment by Zhejiang Gas of the take or pay invoice and the shortfall of the partially paid invoices or to implement properly and enforce the terms and conditions of the Gas Sales Contract against Zhejiang Gas in order to maintain the smooth operation of LS36-1.

Primeline's position is that CCL is therefore in breach of Petroleum Contract 25/34 and the various agreements entered into in relation to development of LS36-1 in that CCL has failed its duties as agent for Primeline in the Gas Sales Contract and as operator of LS36-1. Primeline is able only to take action under the Gas Sales Contract against Zhejiang Gas in relation to its own 49% interest in the gas sales proceeds. Due to the effect of the exploration cost recovery entitlements under Petroleum Contract 25/34, which result in Primeline being entitled to receive more than 49% of the gas sales proceeds during exploration cost recovery, Primeline is thus also prejudiced by the failure of CCL to enforce its own rights under the Gas Sales Contract against Zhejiang Gas. Accordingly, Primeline has given notice to CCL and CNOOC that it reserves its right to recover monies due to it under the cost recovery arrangements out of monies received by CCL from Zhejiang Gas.



Unless a resolution of the disputes with Zhejiang Gas is achieved in the near future, Primeline intends to commence separate arbitration proceedings outside China under United Nations Commission on International Trade Law (“UNCITRAL”) rules against CNOOC and CCL in respect of the claims referred to above. Such arbitration under Petroleum Contract 25/34 will also include claims against CCL arising out of the mismanagement of the development and production of LS36-1 leading to delay, poor performance and cost overruns. A separate announcement will be released in the event that such UNCITRAL arbitration is commenced.

Primeline faces the risk of default under its project finance loan with China Development Bank, China Export and Import Bank and Shanghai Pudong Development Bank (together the “**Syndicate**”) without full payment from Zhejiang Gas and continued operation of LS36-1 by CCL as operator. Primeline is in active discussions with the Syndicate to secure its support during the Arbitration.

About Primeline Energy Holdings Inc.

Primeline is an exploration and production company focusing exclusively on China natural resources to become a major supplier of gas and oil to the East China market. Primeline has a 100% Contractor's interest in, and is the operator of, the petroleum contract with CNOOC for Block 33/07 (5,877sq km) and a 49% interest in the producing LS36-1 gas field in Block 25/34, together with CNOOC (51% interest and acting as Operator). Both blocks are located in the East China Sea. LS36-1 has been in production since July 2014. Shares of Primeline are listed for trading on the TSX Venture Exchange under the symbol PEH.

ON BEHALF OF PRIMELINE ENERGY HOLDINGS INC.

“*Ming Wang*”
Ming Wang
Chief Executive Officer

CONTACT:

PRIMELINE ENERGY HOLDINGS INC.

Dr. Ming Wang
CEO
Phone: +44 207.499.8888
Toll Free: +1 877.818.0688
Email: IR@pehi.com

CHF INVESTOR RELATIONS

Cathy Hume
CEO
Toll Free: +1.877.838.1079
Email: cathy@chfir.com

VSA CAPITAL LIMITED

Andrew Raca
Head of Corporate Finance
Phone : +44 203.005.5000
Email: ARaca@vsacapital.com

Please visit the Company's website at www.pehi.com. Should you wish to receive Company news via email, please email john@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 the expected outcome of the Arbitration and any arbitration which Primeline may commence against CCL and Zhejiang Gas outside of China under Petroleum Contract 25/34, and to obtaining the support of the Syndicate during arbitration. Although these statements are based on assumptions management believes to be reasonable, actual results may vary from those anticipated in such statements. The arbitrations may not be successful, or if they are successful Primeline may not be able to enforce the award of the arbitrator. Zhejiang Gas may not



comply fully with its payment obligations under the Gas Sale Contract during arbitration, and if so Primeline may be unable to obtain permission of the Syndicate to make reduced payments under the project loan facility pending conclusion of arbitration. Any such event will materially and adversely affect Primeline's revenues, and if any transpire Primeline may default under the project finance loan. This may result in seizure of Primeline's assets, or Primeline's insolvency. Primeline assumes no obligation to update forward-looking information, except as required by law.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.