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TSXV: PEH

NEWS RELEASE

**PRIMELINE DISCOVERS HYDROCARBONS AT LS 35-3-1 WELL AND OPENS NEW  
EXPLORATION PLAY IN EAST CHINA SEA**

**Primeline Energy Holdings Inc.** ("Primeline" or the "Company") (TSXV: PEH) today announces that it has completed the drill stem test (DST) programme for the LS 35-3-1 exploration well in Block 25/34 East China Sea and has confirmed a hydrocarbon discovery. This discovery opens up a new exploration play in the East China Sea for Primeline. The discovery also has significant implications for the development of the LS 36-1 gas field which Primeline and CNOOC are jointly developing.

As previously reported, electric logging at the level of Target Zone 3 had indicated over 20 metres aggregate of potential hydrocarbon pay in two zones. These zones were further investigated by the Reservoir Characterisation Instrument (RCI – MDT) and side wall coring and results suggested the presence of hydrocarbons in low permeability sandstones.

On 16<sup>th</sup> May 2010, Primeline commenced a DST programme to test these zones under a turnkey arrangement with contractor China Oilfield Services Ltd. (COSL).

DST1 was conducted over the depth range 2836-2852m measured depth (MD). This was conducted conventionally using diesel in the wellbore. There was no flow of hydrocarbons to surface.

DST2 was conducted over the depth range 2794-2802m MD. In contrast to DST1, nitrogen was used in the wellbore to optimise the pressure drawdown and gas flowed naturally to the surface and was flared continuously and steadily for over 7 hours. A second flow period was attempted after an 18 hour shut-in but was unsuccessful because the test valve was blocked by formation sand. There was then a second shut-in period of 15 hours. Data from the downhole pressure gauges showed that the two pressure build-ups during the shut-in periods were consistent. The surface gas flow during the first flow period was at a low pressure which steadily rose over the 7 hour flow period but did not reach the pressure necessary to operate the separator or the flow meters. The flow potential of the well was thus not measured. Gas samples were collected at the wellhead and fluid samples were



collected from the wellbore which will be analysed in laboratory conditions. It was therefore decided that sufficient data has been collected to enable the estimation of the production pressure and flow rates and the composition of the hydrocarbons in due course. The test programme ended on 29th May and the COSL rig will be released in the next few days after the completion of current end-of-well operations.

This discovery is significant in that it confirms hydrocarbons have migrated to and are trapped in the channel systems in the west flank of the West Lishui Basin, the majority of which is inside Block 25/34. Three channel systems have been mapped and delineated in Primeline's 3D area, with others recognised to the north of that area which is covered by 2D seismic data. Primeline will now carry out a careful post well evaluation over the next 4 to 6 months to assess the volume and nature of the resources discovered in LS 35-3, refine the petroleum system model and high-grade and further define prospects for further exploration drilling.

This discovery is also the first surface flow of natural gas from a low permeability reservoir in the southern East China Sea. This is significant, not only for further exploration in Block 25/34, but also for upside in the LS 36-1 development. The LS 36-1 gas field has over 200 metres of gas-bearing low-permeability reservoirs which are directly below the gas zone being developed. With the new data from LS 35-3-1, Primeline will assess the potential for modern fracing, horizontal and multi-lateral drilling technology to make the low permeability reservoirs achieve commercial production rates.

The LS 35-3-1 well is part of the rolling development exploration programme Primeline and CNOOC are implementing. As this discovery well is only 14.5 km from the proposed production facility to be built at LS 36-1, it could be tied in to the development at a relatively low cost.

#### **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 LS 36-1 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 LS 36-1 development have been mapped and where the new LS 35-3-1 discovery is located. The new LS 35-3-1 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.

Ming Wang  
Chief Executive Officer

**CONTACT:**

**PRIMELINE ENERGY HOLDINGS INC.**

Dr. Ming Wang  
CEO  
Phone: +44 207.499.8888  
Fax: +44 207.499.2288  
Toll Free: 1.877.818.0688  
Email: [IR@pehi.com](mailto:IR@pehi.com)

**CHF INVESTOR RELATIONS**

Robin Cook  
Senior Account Manager  
Phone: +1 416.868.1079  
Fax: +1 416.868.6198  
Email: [robin@chfir.com](mailto:robin@chfir.com)

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 [chelsea@chfir.com](mailto:chelsea@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 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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