



19 May 2011

FORTUNE OIL PLC
(“Fortune Oil” or the “Company”)

First Quarter 2011 Interim Management Statement

Fortune Oil (LSE: FTO.L) is a premium listed company admitted to trading on the Main Market of the London Stock Exchange focusing on oil, natural gas and resource supply operations and investments, primarily in China.

Fortune Oil is pleased to announce its Interim Management Statement for the period 1 January 2011 to date.

Highlights

- New gas supply connections increased by 23% to 3,264 in the first quarter compared to 2,655 in Q1 2010.
- Natural Gas Sales up 7% (vs. Q1 2010) even though volume decreased by 14% (vs. Q1 2010).
- Successfully completed 3 natural gas transactions which will contribute materially to profitability.
- Successfully obtained government approval to progress the Yangtze River dual-fuel technology (LNG/Diesel Fuel) project to the deployment phase.
- Bluesky jet fuel sales revenue up 30% vs. Q1 2010.
- Maoming SPM and West Zhuhai Terminal throughput volume up 11% and 5%, respectively (vs. Q1 2010).
- Maiden dividend payment of 0.13 pence per share to be paid on 24 June 2011.
- Margins in Q1 2011 have remained broadly stable across most business segments.
- Significant funding capacity for new projects backed by Fortune Oil’s net cash position and recently signed term loan of US\$180 million.

MACRO-ECONOMIC OUTLOOK

China Economy

China’s gross domestic product (GDP) registered a year on year increase of 9.7% in 1Q 2011. China’s consumer price index (CPI), which is a main gauge of inflation rose 5.4% in March from a year ago, a 32 month high. China’s producer price index (PPI), a main gauge of inflation at the wholesale level, rose 7.3% in March from a year ago, the highest level in 30 months. First quarter retail sales rose 16.3% year on year while the foreign trade volume and urban fixed asset investment surged 29.5% and 25% respectively.

To combat inflation and meet the GDP growth target of 8%, the market expects China to increase interest rates by another 75 basis points with the bank reserve requirement ratio also increasing by another 100 basis points.

OPERATIONAL OVERVIEW

Natural Gas Operations

Volume of gas sold in Q1 2011 was 130.1 million cubic meters representing a decrease of 14% to Q1 2010 entirely attributed to the sale of Henan Fortune Green Energy Development Co Ltd. However, this decrease in volume did not negatively impact natural gas sales, which increased by 7% from Q1 2010. This was achieved through operational management redirecting natural gas sales towards more profitable end users. In Q1 2011, connection fees were received from 3,264 new customers representing an increase of 23% from Q1 2010.

In line with its growth strategy, Fortune Oil has announced completion of three major natural gas transactions in 2011.

- Liaoning Jianping Fortune Gas Co Ltd has been granted a 30 year pipeline concession to develop the spur pipeline and exclusively supply natural gas to the ceramics industrial park. The Company expects the branch pipeline to be completed in 2012 and supply up to 200 million cubic meters of natural gas per annum (expected to reach full capacity in 2013).
- Liaoning Fortune New Energy Company Limited will supply LNG to up to 6,000 public transit buses in Liaoning province exclusively using the LNG stations operated by the Company. This is the first provincial level pilot project approved by the Ministry of National Transportation and it has also received strong support from the Liaoning Provincial government.
- Shijiazhuang Kunlun Xinao Gas Company will supply natural gas to Shijiazhuang, the capital of Hebei Province, and to 17 other cities within Shijiazhuang Municipal Region. Shijiazhuang has potential connectable customers of 2.4 million using approximately 252-400 million cubic meters of natural gas per year. This does not take into account potential connectable customers and associated natural gas sales volume in the remaining 17 cities of Shijiazhuang Municipal Region.

As outlined in December 2010, Fortune Oil is in the process of restructuring and rationalizing its Natural Gas operations to drive financial performance and increase shareholder value. As part of this process Fortune Oil sold its indirect 51% equity interest in Henan Fortune Green Energy Development Co Ltd to Henan Green Energy Holding Company Ltd, which owned the remaining 49% equity interest. On 31 March 2011 a general meeting was held where the shareholders of Fortune Oil approved this disposal. The funds realized in the amount of RMB 250 million (£24.2 million) will be utilized for further developing the natural gas business.

Yangtze River Vessel - Everthriving Energy Technology

In Q1 2011 multiple tests were conducted on the Yangtze River ships converted to use LNG dual-fuel technology to assess safety, performance, fuel efficiency, and climate impact, etc. On 13 April 2011, Fortune Oil hosted an event at the Great People's Hall in Beijing, China where it received approval from industry experts and various government agencies to progress the Yangtze River ship project to the deployment phase.

Currently, Fortune Oil and Yangtze Shipping Group are in the process of negotiating a contract to refit its ships using LNG dual fuel technology.

Liulin CBM Operations

Fortune Oil saw significant progress at its Liulin CBM operations:

- Under contract from Fortune Liulin Gas (“FLG”), PetroChina Design Institute has completed the feasibility study for the gas gathering system (up to 800,000 cubic meters per day) for the northern section of the Liulin CBM block. This is a key aspect of obtaining Overall Development Plan approval which will be submitted in 2011.
- FLG, as part of the major drilling programme has so far in 2011 drilled 4 more wells in the northern area as part of its in-seam drilling programme. Our Chinese government partner, China United Coal Bed Methane Corporation Limited (CUCBM) has so far drilled 30 vertical wells in the southern area in 2011.
- China United Shanxi CBM Company Limited (“Shanxi CBM”) of which Fortune Oil has a 50% equity interest, has commenced construction of CNG stations in Shanxi province to market the Liulin CBM gas for local consumption.
- Natural gas flows measured from one of the FLG production wells (EP5) will be used to enable certification of seams 8 and 9 over the CBM Liulin block.
- Two horizontal wells have shown promising results with a continuous gas flow of over 11,000 cubic meters per day with peak gas flow rate reaching the equivalent of 16,000 cubic meters per day.

Oil Sector Operations

Bluesky jet fuel sales volume in Q1 2011 was 0.60 million tonnes, representing an increase of 9% over the same period in 2010. Bluesky jet fuel sales amounted to RMB 3.49 billion representing an increase of 30% over the same period in 2010. For Q1 2011, Bluesky has exceeded its budgeted jet fuel volume sales. This strong performance has been driven by the escalation in domestic air travel in China and made possible by improved procurement strategies for jet fuel with the local refineries.

The Maoming SPM volume throughput in Q1 2011 was 2.6 million tonnes of crude oil representing an increase of 11% from the same period in 2010. For Q1 2011, Maoming SPM has exceeded its budgeted throughput volume.

For Q1 2011, West Zhuhai Terminal’s volume throughput increased by 5% to 664 million tonnes over the same period in Q1 2010. The terminal is being expanded with the construction of five new tanks with capacity of 220,000 cubic meters, which will bring our total capacity to 457,000 cubic meters. The construction and testing to double the terminal’s storage capacity is expected to be completed sometime in Q4 2011-Q1 2012.

Resources Business

In January 2011, Fortune Oil invested a total of US\$24 million for a 35% equity interest in BRAL, a company which controls three iron ore mines in Armenia. In addition, Fortune Oil acquired the remaining 16.7% minority shareholding in CBSL for US\$2 million. Under the agreement, Fortune Oil has the option to invest a further US\$16 million for an additional 15% of BRAL, which would take the entire investment amount for the 50% stake to US\$40 million. Prior to exercising the Option, Fortune Oil's effective equity interest in the three Armenian mines is 33% which after Option exercise increases to 42%.

The three iron ore mines are located in the Armenian cities of Hrazdan, Abovyan and Svarants and have proven, probable and inferred reserves of 77 million tons (Hrazdan), 255 million tons (Abovyan) and 1,500 million tons (Svarants) which have been confirmed by Russian standards and a July 2010 Minarco-Mineconsult desktop assessment.

In February 2011, to assist in the development of this project, Fortune Oil established a strategic alliance with 7 leading Chinese and international iron ore mining and consulting companies. The alliance members include Sinosteel Equipment & Engineering Co., Ltd, MCC-20 Group, Sinosteel Engineering Design & Research Institute Co Ltd Shijiazhuang Design Institute, China Volant Industry Corporation, ProMet Engineers, Bounty Resources Armenia Ltd and SRK Consulting.

In addition, following visits by Fortune Oil's senior management to Armenia, support from both central and local governments has been obtained. As a first stage of implementation a full extraction and processing technical specification is being prepared in consultation with Sinosteel which is one of the largest Chinese engineering companies with international experience in designing and constructing iron ore processing plants including tailing storage facility.

Fortune Oil has engaged SRK Consulting to complete the reserve certification for the Hrazdan iron ore mine from Russian standards to international standards (JORC, Joint Ore Reserves Committee) which is expected to be completed in Q3 2011.

Fortune Oil is expected to commence construction of the iron ore processing plant in 2012, with the aim of commencing production in 2013.

Fortune Oil has identified a shortlist of highly qualified candidates for the role of Armenia Iron Ore Project Manager and will update the market in due course.

Trading Business

In Q1 2011, total quantity traded of base oils and petrochemicals increased by 10% from Q1 2010 to 5.45 million tonnes with sales also increasing by 4.4% from Q1 2010.

The Trading business continues to look for opportunities to extend its current product offering to specific oils and petrochemicals in China.

FINANCIAL PERFORMANCE

Strong Financial Position

On 1 April 2011 Fortune Oil PRC Holdings Limited, a wholly-owned subsidiary of Fortune Oil, signed a new loan facility agreement with various financial institutions arranged by Morgan Stanley. The facility size is US\$180 million (£112 million) with a term of three years and a margin of 2.6% over LIBOR. The facility will be used in part to prepay the US\$80 million loan facility arranged by Standard Chartered Bank in April 2010. The balance of the US\$100 million will be applied towards acquiring assets in China including natural gas, coal bed methane, resources and for general working capital requirements of the Fortune Oil Group.

On 28 April 2011, the Board of Fortune Oil Plc approved paying a dividend equal to 20% of profit after tax attributable to shareholders. For 2010, this equates to 0.13p per share. Payment of the dividend will be made on 24 June 2011 to shareholders on the register on 20 May 2011.

As at 18 May 2011, the Group cash balance exceeds the outstanding Group bank loan balances and the Board of Fortune Oil envisages no difficulties in meeting both current loan repayment obligations and investment commitments.

OUTLOOK

Overall business performance continues to be in line with expectations. In view of the economic backdrop, the Company's financial strength and the market opportunity, the Board remains optimistic with regard to Fortune Oil's prospects.

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Background on Fortune Oil

Fortune Oil is a leading independent energy company engaged in the investment and operations of oil and natural gas supply projects in China. With over 17 years of operating history in China, Fortune Oil has acquired a unique portfolio of high quality oil and natural gas projects across the country and has formed a strong partnership with domestic and international market leaders. Fortune Oil recently started an expansion outside China securing resource projects. Fortune Oil is listed on the Main Market of the London Stock Exchange with its operational headquarters in Hong Kong.