



18 November 2011

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

**Third Quarter 2011 Interim Management Statement**

Fortune Oil announces its Interim Management Statement for the period 30 June 2011 to date. Unless stated otherwise financial disclosures relate to the third quarter ended 30 September 2011.

**Highlights**

- New natural gas supply connections increased by 52% to 11,427 in the third quarter. (Q3 2010: 7,537).
- Natural Gas Sales volumes decreased 24% to 108 million cubic meters in the third quarter (Q3 2010: 142.6 million cubic meters) due to divestments made in October 2010.
- Underlying gas sales volumes for the year to date, excluding the impact of the divestments, increased 10% year on year to 344 million cubic meters.
- Drilling of three vertical wells completed at the CBM Liulin Block with test production beginning in Q4 2011. Gas gathering network and processing design completed and construction contractor selected. On track for first gas sales in 2012.
- Bluesky jet fuel sales revenue up 57% (vs. Q3 2010). Sales volumes in Q3 2011 increased 17% to 671,700 tonnes with total jet fuel sales of 1.89 million tonnes for the year to date, an increase of 13% compared to the same period in 2010.
- Maoming SPM volume up 3% and West Zhuhai throughput volume down 15%, respectively for the year to date (vs. 2010).
- Armenia Iron Ore project progressing as planned, with JORC resource certification expected in early 2012.

**OPERATIONAL OVERVIEW**

**Natural Gas Operations**

Following the disposal of subsidiaries in Q4 2010, gas sales volumes for the year to date were 345 million cubic meters, representing a decrease of 22% compared to the same period in 2010 (440 million cubic meters). The underlying growth of the gas business is still strong as gas sales volumes, excluding the impact of the divestments, increased 10% year on year (the disposed subsidiaries accounted for gas sales

volumes of 126 million cubic meters for the period January to September 2010) and for the year to date 22,237 new customers have been connected which is an increase of 44% compared to the same period in 2010 (15,413).

The Company has made significant progress on the new natural gas projects which it has announced over the past 18 months and is on track to deliver its growth strategy:

- Construction of the Liaoning Zhengrun pipeline at Dashiqiao is complete and gas supply will commence in November 2011. Gas sales agreements have been signed with several industrial customers in the local economic zone.
- LNG supply facility installed at Jianping and a gas sales agreement entered into with a major ceramics industrial customer.
- Shenyang LNG bus refuelling joint venture company established. Two temporary refuelling stations are being installed to refuel LNG buses on the Fushun to Shenyang route where a fleet of 20 buses will start operating towards the end of 2011. Negotiations are underway to supply LNG to buses on additional routes between Shenyang, Liaoyang and Chaoyang.
- Joint venture with CNPC Kunlun and Xinao Gas (ENN) established to supply gas to the Shijiazhuang regional gas project. Agreement has been reached on the first regional area to be supplied with gas and negotiations are in progress for the gas supply to five other county level cities. A gas supply allocation of up to 1 billion cubic meters of natural gas per annum has been agreed with CNPC for the project.
- China United Shanxi CBM Company Limited (“Shanxi CBM”) has opened a new compressed natural gas (“CNG”) refuelling station in Changzhi. Shanxi CBM has also started construction of the wholesale CNG station at the Liulin CBM block which will collect, compress and dispatch gas from the Liulin gas gathering system.

### **Yangtze River Vessel - LNG Ship refuelling**

Following the successful completion of the river shipping trials the documentation has been submitted to the Maritime Safety Administration for the final approval of the operating license for the dual fuel ships on the Yangtze River and this approval is expected in Q4 2011. Fortune Oil is in discussions with several shipping companies on the Yangtze River seeking to operate dual fuel ships to benefit from significant potential fuel costs savings. Agreements are being finalised with one of the major shipping companies to convert the initial fleet of ships to dual fuel technology. Sites for the first two permanent LNG refuelling stations have been identified and Chinese design institutes are being selected to progress the design, approvals and construction of the refuelling facilities. Two local joint venture companies have been established to progress the development and operation of these refuelling stations.

### **Liulin CBM Operations**

Fortune Oil continues to make significant progress at its Liulin CBM operations and the project remains on track for first gas sales in 2012.

- Contractors have been selected to progress the construction of the gas gathering system which will take up to 6 months to construct. A Chinese

design institute has also been appointed to prepare all of the necessary documentation for submission of the Overall Development Plan (“ODP”).

- Fortune Liulin Gas (“FLG”) has completed three more horizontal wells and dewatering will commence in November 2011. The initial vertical sections have been drilled for two more horizontal wells and the inseam drilling for these wells will be completed in Q1 2012.
- FLG and its Chinese government partner China United Coal Bed Methane Corporation (“CUCBM”) have met their drilling targets for the CBM Liulin Block. The production sharing contract is up for renewal in March 2012 and FLG has met and exceeded its obligations under the contract.
- Natural gas flows from FLG production wells (EP5) and several other lateral wells drilled by CUCBM will be used to enable certification of seams 8 and 9 over the CBM Luilin block.

With the West East Pipeline II having commenced operation in June 2010 and expansion of LNG import terminals, gas supply in China has improved. Continued expansion of gas supply is planned to meet the 12<sup>th</sup> Five Year Plan target to increase gas usage in China to 8% of the energy mix from the current level of approximately 4% (100 billion cubic meters). Fortune Oil continues to strengthen its position in this core business segment and remains well positioned to benefit from the industry’s exciting growth prospects.

### **Oil Sector Operations**

Bluesky jet fuel sales in Q3 2011 increased 57% on jet fuel sales volumes of 0.67 million tonnes, an increase of 17% over the same period in 2010. To date for 2011, Bluesky jet fuel sales volumes are 1.89 million tonnes, representing an increase of 13% over the same period in 2010, underpinned by the continued strong demand for domestic air travel in China.

The Maoming SPM volume throughput in Q3 2011 was 2.3 million tonnes of crude oil, representing a decrease of 5% relative to the same period in 2010. To date, Maoming SPM volume throughput was 7.5 million tonnes of crude oil, representing an increase of 3% over the same period in 2010. Throughput is driven by demand from the Maoming refinery in Guangdong which is driven primarily by downstream transportation fuel consumption.

For the nine months ended 30 September 2011, West Zhuhai Terminal’s volume throughput decreased by 15% to 1.62 million tonnes over the same period in 2010 (1.90 million tonnes).

### **Resources Business**

Fortune Oil announced on 12 January 2011 that it had taken a 35% equity interest in Bounty Resource Armenia Limited (“BRAL”), a company which controls three iron ore mines in Armenia, for US\$24 million and that Fortune Oil had the option to increase this holding to 50% for an additional investment of US\$16 million. Fortune

Oil announced in June 2011 that it has successfully amended the option agreement to allow it to increase its equity interest from 35% to 65% for the same original consideration of US\$16 million. Upon option exercise, Fortune Oil would own 65% of BRAL for a total investment of US\$40 million. The proceeds would be applied towards mine preparation, mining the ore and processing it to maximise the iron ore concentrate (66% iron). Fortune Oil continues to make good progress on the development of the Hrazdan mine:

- Fortune Oil engaged SRK Consulting to complete the reserve certification for the Hrazdan iron ore mine from Russian standards to international standards (JORC, Australasia Joint Ore Reserves Committee) which is expected to be completed in early 2012. The JORC resource certification is a significant milestone to progressing the development and value of the project;
- Fortune Oil has engaged Sinosteel Engineering & Equipment Co Ltd (Sinosteel MECC) along with Sinosteel Maashan Institute of Mining Research to undertake preliminary flow sheet, pilot plant test run and establish initial process design;
- Fortune Oil has engaged ProMet Engineers as process and engineering supervision consultant overseeing the project implementation up to plant commissioning;
- Fortune Oil has engaged an Armenian drilling contractor (Vahan EHA LLC), under the supervision of SRK Consulting, to obtain samples for metallurgical testing, hydrological study and EIA (Environmental Impact Assessment);
- Mr. Jerry Gorman has been appointed as the Project Director for the Armenia iron ore investment with effect from 1st October 2011. Jerry Gorman has more than 30 years of mining and metals experience with a proven track record of successfully building, operating and delivering metallurgical and mining projects in South America, Africa and Europe.

### **Trading Business**

Year to date in 2011 the total quantity traded of base oils and petrochemicals was 118,000 tonnes compared to 153,000 tonnes for the same period in 2010, a decrease of 23%. This decline was a result of the highly competitive nature of this business in China leading to there being fewer profitable trading opportunities. Our trading business continued to extend its product offering to specific oils and petrochemicals in China.

Fortune Oil, Huaneng Group and Vitol Group established the first carbon asset investment fund in China. The fund will finance pre-development costs in the project registration process and secure carbon emission reduction certificates which can then be traded on in both Chinese and international accredited carbon trading schemes. Each of these three founding participating parties will invest RMB 10 million (approximately £1 million), with the fund capped at RMB 50 million (approximately £5 million). The fund stands to benefit from China's development of a domestic

carbon trading system with the launch of a domestic carbon market planned in 2013 aimed at incentivising continued economic growth in a carbon efficient manner.

To generate additional low-risk revenue for the trading business, Fortune Oil continues to document trade related transactions in RMB to take advantage of the market arbitrage available in Hong Kong.

## **FINANCIAL PERFORMANCE**

### **Strong Financial Position**

On 14 September 2011, Fortune Oil PRC Holdings Limited, a wholly-owned subsidiary of Fortune Oil, issued a drawdown notice for the remaining US\$100 million from the Morgan Stanley facility. The proceeds will be applied towards potential acquisitions, capital expenditure and working capital.

As at 18 November 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.

There are no other material events or transactions required for disclosure for the reporting period.

## **OUTLOOK**

Overall business performance is in line with expectations. The Board remains optimistic with regard to Fortune Oil's prospects in view of the current economic backdrop, the Company's financial strength and market potential.

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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 18 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.