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## **MIE HOLDINGS CORPORATION**

### **MI 能源控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1555)**

## **ANNOUNCEMENT FIRST NINE MONTH 2014 BUSINESS UPDATE**

This announcement is made by MIE Holdings Corporation (the “Company”, together with the subsidiaries, the “Group”) on a voluntary basis. The Company hereby provides its 2014 first nine months (“Current Period” or “9M2014”) operations update to its shareholders and potential investors.

### **SUMMARY**

As compared to the same period in 2013, the Group’s 9M2014 average daily operated and net oil and gas production grow by 1.9% and 9.0% respectively. The following table provides an overview of the Group’s key operational metrics for the Current Period. Additional details about the Group’s operating results by segment are provided in the table at the end of this announcement.

	9M2014	9M2013	% Change	2014 Guidance
Average Daily Operated Production (barrels of oil equivalent/day)	27,892	27,359	1.9%	
Average Daily Net Production (barrels of oil equivalent/day)	16,884	15,495	9.0%	
Average Daily Net Oil Production (barrels/day)	15,888	14,678	8.2%	15,300~16,300
Average Daily Net Gas production (Mcf/day)	5,977	4,902	21.9%	5,500~5,900
Average realized oil price (USD/barrel)	94.34	97.35	(3.1%)	
Average realized gas price (USD/Mcf)	1.47	1.64	(9.9%)	
Total Wells Drilled	186	133	39.8%	205

*Notes:*

- (1) For reference purpose only, barrels of oil equivalent is calculated using the conversion factor of 6 Mscf of natural gas being equivalent to one barrel of oil
- (2) Operated Production means production from all assets operated by the Group
- (3) Net Production means entitlement production from all assets operated by the Group

## CHINA OPERATIONS

### Oil Projects (Jilin Province: Daan, Moliqing, Miao 3; Hebei Province: Kongnan)

As part of the Group's strategy of continuous upgrading of our core assets portfolio, two definitive agreements were signed during 3Q2014 to divest Pan-China Resources Limited ("PCR") and Miao Three Energy Limited ("Miao Three") for estimated total gross cash proceeds of US\$115 million. Our current plan is to apply such proceeds to the 2015 work program and certain short term cash investment products while we continue to solicit and evaluate other new growth/acquisition opportunities. As both transactions are expected to complete before year end 2014, the Group will continue to consolidate the financial statements of both PCR and Miao Three until closing. In addition to the estimated net gain on the two disposals of approximately US\$47 million (to be realized in the Group's financial statements in 2H2014), the Company believes that the two transactions will underscore and unlock the tremendous intrinsic value of the Group's remaining assets.

In terms of average daily operated oil production, the three projects (i.e. Daan, Moliqing and Miao 3) in Jilin Province in total recorded a slight decrease of 4.7% to 19,731 BOPD, whilst net production was about flattish at 9,546 BOPD comparing 9M2014 to 9M2013. Meanwhile, average daily operated and net oil production for Kongnan project increased respectively by 15.9% and 15.2% to 1,883 BOPD and 1,113 BOPD during the same period. Average realized Daqing oil price (in respect of our Jilin oilfields) was approximately

US\$103.30/bbl during 9M2014, compared to US\$103.86/bbl for 9M2013; average realized CINTA oil price (in respect of Kongnan oilfield) was US\$104.70/bbl during the Current Period versus US\$103.79/bbl during 9M2013.

During 9M2014 a total of 150 gross wells were drilled in our China oil fields. Based on our Revised Capex Guidance (provided in August) of drilling a total of 156 wells in our China oil fields for FY2014, only 6 wells remain to be drilled for rest of the year. Accordingly, the drilling activities/Capex for this segment to be incurred during 4Q2014 will be minimal.

### **Gas Projects (Shanxi Province: Linxing and Sanjiaobei)**

Since the official filing registration with Ministry of Land and Resources (“MOLAR”) in respect of the Chinese Reserve Report (“CRR”) of Linxing East (“LXE”) in June 2014, the preparation and compilation work of its Overall Development Plan (“ODP”) has been underway, with completion and filing with the relevant Chinese authorities currently scheduled around 2Q2015. Meanwhile, the CRRs for Sino Gas & Energy Limited (“SGE”)’s other two blocks Linxing West and Sanjiaobei are being compiled and expected to be submitted by 2014 year end.

In 9M2014, 32 new wells were drilled, bringing the total number of new wells drilled since the Group’s acquisition of its 51% stake in SGE in July 2012 to 75, and 8 wells are yet to be drilled in 4Q2014. Meanwhile, SGE has further completed 286 km 2D seismic during the Current Period.

Overall, SGE’s well testing program in 9M2014 has been very successful, with average flow rate significantly increased in comparison to 2013 testing program. In the Linxing Block, 10 flow tests have been performed during 9M2014 (excluding the horizontal well TB-1H) resulting in an average absolute open flow (AOF, the AOF potential of a well is the calculated rate at which the well would produce against zero back pressure. It is used as a measure of gas well performance as it quantifies the ability of a reservoir to deliver gas to the wellbore. The AOF values provided thereto are for reference purposes only) potential rate of 925 thousand cubic feet per day (approximately 26,205 cubic meters per day, AOF). In the Sanjiaobei Block, where 9 flow tests were carried out, similar improvement was recorded with an average absolute open flow (AOF) potential rate of 380 thousand cubic feet per day (approximately 10,780 cubic meters per day, AOF). In addition to the encouraging testing results from well TB-1H and TB-26 we announced in the 1H2014 operational announcement, further positive results from the testing during 3Q2014 were also attained at the vertical well TB-23 where a gas flow rate of 2.0 million cubic feet per day (approximately 56,600 cubic meters per day) was achieved. Testing of SGE’s second horizontal well TB-2H has begun with encouraging preliminary flow rates, the test achieved a sustained flow rate of 3.7MMscf/day (approximately 106,000 cubic meters/day) at the relatively stable flowing tubing head pressure of 1,494 psi (or 10Mpa), this is particularly significant as it is located 25 km north of the TB-1H well, and thereby evidencing the great potential of the extensive north central part of the Linxing West Block. Finally, testing has also begun on 2 vertical development wells recently completed in the southern part of the Linxing West Block, LXW3-01 and LXW1-3, with positive initial flow rates. In short, the significantly improved test results achieved in 9M2014 underscore the tremendous potential

of both the Linxing and Sanjiaobei PSC. It also highlighted SGE's strong and rapidly expanding technological and operational know-how in gas well frac'ing and completion operations for both horizontal and vertical wells.

On the pilot gas sales front, the Qiaojiashan gas processing station within Sanjiaobei block is expected to be put into pipeline production before the year end of 2014, with 16 wells, including 14 wells in Linxing West and 2 wells in Sanjiaobei (all vertical wells) connected to the station for pilot production. The initial pilot production is expected to be above 3.5 million cubic feet per day (approximately 100,000 cubic meters per day). Our second gas processing station, located in the Linxing West block will then be put into pilot production in 2H2015. Gas sales from pilot production is currently priced at around US\$7–8/mscf (RMB1.5–1.7/cubic meters), and we expect this to be further increased to be in line with the China national price for non-residential gas price of around US\$10–11/mscf (RMB2.2–2.4/cubic meters) in near future.

### **KAZAKHSTAN OPERATIONS (EMIR-OIL)**

The average daily oil production for Emir-Oil increased by 29.5% from 3,966 BOPD in 9M2013 to 5,135 BOPD in 9M2014. The average realized oil price for Emir-Oil was US\$75.54/barrel for 9M2014, compared to US\$80.20/barrel for 9M2013. The average realized export oil price (after deducting export sales discount of US\$20.80/barrel) and domestic oil price were US\$85.82/barrel and US\$41.67/barrel respectively, compared to US\$89.25/barrel (export) and US\$41.49/barrel (domestic) realized for 9M2013. The drop in average realized oil price was mainly due to: 1) lower export oil price and 2) decrease in export: domestic sales mix from 81:19 for 9M2013 to 77:23 during the Current Period. Due to the recent oil price volatility and the different taxes and duties applicable on export and domestic sales oil in Kazakhstan, Emir-Oil's cash netback, EBITDA, and net profit per barrel may benefit from more domestic sales than export sales, periodically. We are closely monitoring the movements on the oil price and may accordingly adjust the export:domestic sales mix to the extent possible, so as to maximize the cashflow and profitability for Emir Oil.

As of September 30, 2014, Emir-Oil operated a total of 43 wells, of which 23 wells were producing and 18 wells were shut-in (7 wells due to high Gas-Oil-Ratio, 5 wells to be side tracked, and 6 wells are being repaired or to be repaired). Also, 2 wells were waiting to be put into production. During 9M2014, 4 new wells were drilled by Emir-Oil, including 3 development wells and 1 exploration well. To date, only 2 out of the 4 new wells have started production in 2014 due mainly to the limited capacity of our existing central processing facility ("CPF"). As more new wells come onto production and with installation of the new CPF, we anticipate production to increase starting in 4Q2014 and into 2015.

Upon Emir-Oil's completion of the public bidding process in early October, the Kazakhstan subsidiary of China Railway Construction Engineering Group has been awarded the mandate for the construction of the new CPF. Groundbreaking for construction of the CPF should take place very soon. Meanwhile, the skid-mounted equipment assembled by another independent Chinese contractor HBP is currently being transported from China to Kazakhstan. On this basis, we still aim to complete the overall construction of the CPF around the end of 1H2015.

## **USA OPERATIONS (CONDOR)**

There were no drilling activities during 9M2014 in the US. The Group's subsidiary, Condor, operates 5 horizontal wells in the Niobrara project. For 9M2014, the average daily net oil and gas production was 95 BOPD and 223Mcf/day, respectively, and average realized oil and gas price was US\$88.05/barrel and US\$6.76/Mcf, respectively.

## **RECENT DEVELOPMENTS**

The Group is fully aware of the recent oil price volatility, but we do not expect that the volatility will materially impact our near term operations and financial position. As indicated in the following table, whilst there was a mild drop of 3% for the Group's average realized oil price to US\$94.34/bbl in 9M2014 (compared to US\$97.35/bbl for 9M2013), the Group's total net oil production of 4.34 million barrels for 9M2014 represents about 75.2% of the Group's 2014 total net production, based on the midpoint of guidance range of 15,300–16,300 BOPD. Meanwhile, our liquidity remains strong, as the Group maintains approximately US\$100 million cash on hand as of September 30 2014, with another US\$77 million of gross cash proceeds balance to be received from the disposal of PCR and Miao Three in 4Q 2014. Also, unutilized credit facilities from China Construction Bank and Deutsche Bank amount to about US\$120 million. In addition, the Group holds four outstanding put-spread oil hedge contracts with three international banks for FY2014, whereby 130,000 barrels of oil per month are “hedged” at US\$85/bbl–US\$70/bbl (Brent), and 80,000 barrels of oil per month are “hedged” at US\$90/bbl–US\$79.8/bbl (Brent). Based on the above, the Group is of the view that the recent volatility in oil prices will not have a material impact on our operations and financial position. The Group will be monitoring closely the oil price outlook whilst the 2015 budget and work program is being prepared. Lastly, based on the 9M2014 unaudited management account and the assumption of both Brent and Daqing price at US\$90/bbl for 4Q2014, the Group estimates its FY2014 Group Consolidated EBITDA will decrease by about 4% as compared to its internal revised budget in August when both Brent and Daqing were assumed at US\$100/bbl. As such, the Group believes that recent oil price weakness shall not have significant impact to the its near term operations and financial position.

## GENERAL MATTERS

Shareholders and potential investors of the Company should note that the Company prepared the summary preliminary operating and production price data based on the most current information available to management. Some numbers in the above mentioned updates may be subject to final review and audit adjustments and inconsistent with the final results. Shareholders and potential investors of the Company should exercise caution when dealing in the equities of the Company.

### Appendix: Operation data comparison between first nine months 2014 and first nine months 2013

Items	9M2014	9M2013	Increased/ (decreased)	Increased/ (decreased) %	2014 Guidance
<b>1. Crude Oil: Production &amp; Realized Price</b>					
<b>1.1. Average daily operated production (barrels)</b>	<b>26,884</b>	<b>26,514</b>	<b>369</b>	<b>1.4%</b>	
China oilfields (Daan/Molqing/ Miao 3/Kongnan)	21,614	22,333	(718)	(3.2%)	
Kazakhstan (Emir-Oil)	5,135	3,966	1,169	29.5%	
US (Condor)	134	215	(81)	(37.9%)	
<b>1.2. Average daily net production (barrels)</b>	<b>15,888</b>	<b>14,678</b>	<b>1,210</b>	<b>8.2%</b>	<b>15,300~16,300</b>
China oilfields (Daan/Molqing/ Miao 3/Kongnan)	10,657	10,569	88	0.8%	10,000~10,500
Kazakhstan (Emir-Oil)	5,135	3,966	1,169	29.5%	5,200~5,600
US (Condor)	95	143	(47)	(33.2%)	100~200
<b>1.3. Average realized price (US\$/bbl)</b>	<b>94.34</b>	<b>97.35</b>	<b>(3.01)</b>	<b>(3.1%)</b>	
China oilfields (Daan/Molqing/ Miao 3/Kongnan)	103.45	103.91	(0.46)	(0.4%)	
Kazakhstan (Emir-Oil)	75.54	80.20	(4.67)	(5.8%)	
US (Condor)	88.05	90.38	(2.33)	(2.6%)	
<b>2. Natural Gas: Production &amp; Realized Price</b>					
<b>2.1. Average daily operated production (MCF)</b>	<b>6,049</b>	<b>5,071</b>	<b>977</b>	<b>19.3%</b>	
China, Shanxi (Linxing/Sanjiaobei)	—	—	—	—	
Kazakhstan (Emir-Oil)	5,754	4,588	1,166	25.4%	
US (Condor)	295	483	(189)	(39.0%)	

Items	9M2014	9M2013	Increased/ (decreased)	Increased/ (decreased) %	2014 Guidance
<b>2.2. Average daily net production (MCF)</b>	<b>5,977</b>	<b>4,902</b>	<b>1,074</b>	<b>21.9%</b>	<b>5,500~5,900</b>
China, Shanxi (Linxing/Sanjiaobei)	—	—	—	—	300
Kazakhstan (Emir-Oil)	5,754	4,588	1,166	25.4%	5,000~5,400
US (Condor)	223	315	(92)	(29.1%)	200
<b>2.3. Average realized price (US\$/MCF)</b>	<b>1.47</b>	<b>1.64</b>	<b>(0.16)</b>	<b>(9.9%)</b>	
China, Shanxi (Linxing/Sanjiaobei)	—	—	—	—	
Kazakhstan (Emir-Oil)	1.28	1.33	(0.06)	(4.3%)	
US (Condor)	6.76	5.83	0.93	16.0%	
<b>3. Total wells drilled</b>	<b>186</b>	<b>133</b>	<b>53</b>	<b>39.8%</b>	<b>205</b>
China oilfields (Daan/Molqing/ Miao 3/Kongnan)	150	101	49	48.5%	156
China, Shanxi (Linxing/Sanjiaobei)	32	22	10	45.5%	40
Kazakhstan (Emir-Oil)	4	8	(4)	(50.0%)	9
US (Condor)	—	2	—	—	—

By Order of the Board  
**MIE Holdings Corporation**  
**Mr. Zhang Ruilin**  
*Chairman*

Hong Kong, 26 October 2014

*As at the date of this announcement, the Board comprises (1) the executive directors namely Mr. Zhang Ruilin, Mr. Zhao Jiangwei, Mr. Tak Yin Dexter Tao and Mr. Andrew Harper; (2) the non-executive director namely Mr. Wang Sing (Mr. Hung Leung is alternate to Mr. Wang Sing); and (3) the independent non-executive directors namely Mr. Mei Jianping, Mr. Jeffrey W. Miller and Mr. Cai Rucheng.*