Primeline Energy Holdings Inc.
(an exploration stage company)

Consolidated Financial Statements
March 31, 2009 and 2008

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Auditors' Report

To the Shareholders of
Primeline Energy Holdings Inc.

We have audited the consolidated balance sheets of **Primeline Energy Holdings Inc.** as at March 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
July 24, 2009

Primeline Energy Holdings Inc.

(an exploration stage company)
Consolidated Balance Sheets
As at March 31, 2009 and 2008

	2009 $	2008 $
Assets		
Current assets		
Cash and cash equivalents	8,697,919	11,359,080
Prepaid expenses and deposit	27,577	46,868
	8,725,496	11,405,948
Petroleum exploration costs (note 3)	34,412,127	31,747,134
	43,137,623	43,153,082
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	413,223	896,284
Advances (to) from a related company (note 6)	27,479	266,406
	440,702	1,162,690
Future income tax liability (note 7)	425,117	404,428
	865,819	1,567,118
Shareholders' Equity		
Capital stock (note 4)	64,309	64,309
Contributed surplus (note 4)	51,567,679	51,299,441
Deficit	(9,360,184)	(9,777,786)
	42,271,804	41,585,964
	43,137,623	43,153,082

Nature of operations (note 1)

Commitments (notes 3 and 5)

Subsequent Events (note 11)

Approved by the Board of Directors

(signed) Guang Ming Wang Director *(signed_) Brian Chan* Director

Primeline Energy Holdings Inc.

(an exploration stage company)

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

For the years ended March 31, 2009 and 2008

	2009 $	2008 $
Revenue		
Interest income	177,762	504,265
Expenses		
Bank charges and interest	6,446	4,165
Business promotion	89,142	86,521
Foreign exchange (gain) loss	(1,044,532)	1,005,765
Office	221,286	256,429
Professional fees	250,832	387,877
Stock-based compensation (note 4(b))	206,504	700,580
Travel	30,482	119,273
	(239,840)	2,560,610
Income (Loss) before income taxes	417,602	(2,056,345)
Future income tax recovery (note 7)	-	100,046
Income (Loss) for the year and comprehensive income (loss)	417,602	(1,956,299)
Deficit - Beginning of year	(9,777,786)	(7,821,487)
Deficit - End of year	(9,360,184)	(9,777,786)
Basic and diluted earnings (loss) per common share	0.01	(0.04)
Weighted average number of common shares outstanding	47,020,623	47,020,623

Accompanying notes are integral part of the financial statements

Primeline Energy Holdings Inc.
(an exploration stage company)
Consolidated Statements of Cash Flows
For the years ended March 31, 2009 and 2008

	2009 $	2008 $
Cash flows from operating activities		
Income (Loss) for the year	417,602	(1,956,299)
Items not affecting cash		
Stock-based compensation	206,504	700,580
Future income tax recovery	-	(100,046)
	206,504	600,534
Changes in non-cash working capital items		
Prepaid expenses and deposit	19,291	51,254
Accounts payable and accrued liabilities	(7,386)	2,354
	11,905	53,608
	636,011	(1,302,157)
Cash flows from investing activities		
Expenditures on deferred petroleum exploration costs	(3,058,245)	(2,533,627)
Cash flows from financing activities		
Advances from a related party	(238,927)	134,199
Decrease in cash and cash equivalents	(2,661,161)	(3,701,585)
Cash and cash equivalents - Beginning of year	11,359,080	15,060,665
Cash and cash equivalents - End of year	8,697,919	11,359,080
Supplemental cash flow information		
Non-cash investing activities		
Accrued expenses capitalized to deferred petroleum exploration costs	(475,675)	43,106
Stock-based compensation and related future income taxes capitalized as deferred petroleum exploration costs	82,423	230,195

1 Nature of operations

Primeline Energy Holdings Inc. (PEHI) was incorporated under the Companies Law of the Cayman Islands on March 31, 1995 and is in the business of exploration and development of off-shore oil and gas properties. To date, PEHI has not realized any revenues from its oil and gas properties and is considered to be an exploration stage company.

Primeline Energy China Ltd. (PECL), a wholly owned subsidiary, owns a 75% interest in a petroleum sharing contract (the Petroleum Contract) which entitles PECL to participate in the exploration, development and production of oil and gas in Block 25/34 in the East China Sea. The participation interests are detailed in note 3. Primeline Energy Operations International Limited (PEOIL), another wholly owned subsidiary, holds the operator rights under the Petroleum Contract.

PECL is currently exploring for oil and gas under the Petroleum Contract for Block 25/34 in the East China Sea of the People's Republic of China (PRC).

2 Significant accounting policies

Principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of PEHI and its wholly owned subsidiaries, PECL and PEOIL, also incorporated in the Cayman Islands (collectively, the company). Inter-company balances and transactions are eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid short-term interest-bearing securities with maturities at the purchase date of three months or less. Cash and cash equivalents are recorded at fair value with change in fair value recorded in Statement of operations.

Deferred petroleum exploration costs

The Company follows the full cost method of accounting for oil and gas exploration expenditures, wherein all costs related to the exploration of oil and natural gas properties are capitalized. Costs capitalized include acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, overhead directly related to exploration activities and lease of well equipment. Costs capitalized will be depleted using the unit-of-production method based on proven gross oil and natural gas reserves determined by the Company and independent engineers.

2 Significant accounting policies (continued)

The Company is in the process of exploring off-shore oil and gas properties and has not yet determined the amount of reserves available in its properties. Management's estimate of probable reserves and resources are subject to risks and uncertainties affecting the recoverability of the Company's investment in petroleum exploration costs. Although management has made its best estimate of these factors based on current conditions, it is reasonably possible that changes could occur in the near term that could materially affect management's estimate of the recoverability of deferred costs and the need for asset impairment writedowns.

All long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If it is determined that the carrying value is not recoverable and exceeds its fair value, a writedown to the fair value amount is made by a charge to earnings.

Foreign currency translation

The Company translates foreign currency transactions and accounts using the temporal method. Monetary assets and liabilities are translated at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate in effect on the transaction date. Expenses are translated at monthly average exchange rates. Foreign currency translation gains and losses are reflected in the consolidated statements of operations, comprehensive loss and deficit, except for those gains and losses that relate to the petroleum exploration costs which are deferred.

Use of estimates, risks and uncertainties

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

A significant area requiring the use of management estimates relates to the recoverability of the petroleum exploration costs. Realization of the Company's assets is subject to risks and uncertainties, including reserves estimation; future oil and gas prices; estimated costs of future production; changes in government legislation and regulations; and various operational factors.

Capitalization of interest

The Company capitalizes interest of $3,549,580 to petroleum exploration costs until commencement of commercial production.

2 Significant accounting policies (continued)

Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using enacted or substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is applied to the extent that it is not more likely than not that future income tax assets will be realized.

Stock-based compensation

The Company applies the fair value method of accounting for stock-based compensation for both employees and non-employees. The fair value method requires recognition of an expense arising from stock options granted to both employees and non-employees, at the date of grant, in an amount equal to the fair value of the options granted. The fair value of options granted is established at the date of grant using the Black-Scholes option pricing model, and the compensation expense, equal to the option’s fair value, is then recognized over the option’s vesting period. Consideration paid for shares on exercise of stock options is credited to capital stock.

Asset retirement obligations

Asset retirement obligations are recorded for statutory, contractual, or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development, or normal operation of the assets. The obligations are measured initially at fair value (using present value methodology), and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discounts and any changes in the amount or timing of the underlying future cash flows. The related asset is adjusted only as a result of changes in the amount or timing of the underlying cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset. Management has determined that, based on the exploration work carried out to date, there is no legal obligation requiring remediation of the company’s oil and gas property at this time.

Earnings (Loss) per Share

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the period. The company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized assuming the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the year.

2 Significant accounting policies (continued)

Adoption of Recent Canadian Accounting Pronouncements

1400 General Standards of Financial Statement Presentation – Going Concern

CICA Handbook Section 1400, "General Standards of Financial Statement Presentation" has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This standard is effective for interim and annual financial statements beginning on or after January 1, 2008. This standard requires that management make an assessment of the Company's ability to continue as a going concern and to use the going concern basis in the preparation of the financial statements unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, those uncertainties should be disclosed. The adoption of this new accounting policy on April 1, 2008 did not have any impact on the Company's consolidated financial statements.

Capital disclosures and financial instruments – disclosure and presentation

On December 1, 2006, the CICA issued three accounting standards: Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", and Handbook Section 3863, "Financial Instruments – Presentation". Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company adopted Section 1535 on April 1, 2008 and management has evaluated the impact of this standard and the necessary disclosures are included in Note 8 and 9.

CICA Handbook Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments – Presentation" require entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Effective April 1, 2008 the Company adopted these requirements and management has evaluated the impact of these standards and the necessary disclosures are included in Note 8.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC – 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.* The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. Adoption of this section has had no impact on the consolidated financial statements

2 **Significant accounting policies** (continued)

Future accounting pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section will be applicable to the Company's consolidated financial statements for its fiscal year beginning April 1, 2009. The Company does not expect that the adoption of this section will have a material impact on its consolidated financial statements.

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, *Consolidated Financial Statements,* and 1602, *Non-Controlling Interests,* which replace the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These statements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company is currently evaluating the new sections to determine the potential impact on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises effective January 1, 2011.

The Company is currently developing its IFRS conversion plan with priority being placed on those standards likely to have a significant impact. The Company's analysis will include identifying the differences between IFRS and the Company's current accounting policies, assessing the impact of the difference, and where necessary, analyzing the various policies that it could elect to adopt. Changes in accounting policies are likely and may materially impact the Company's consolidated financial statements.

3 Petroleum exploration costs

	2009 $	2008 $
Exploration drilling related services		
Drilling services	5,634,766	5,634,766
Drilling technical supervision and evaluation	318,394	318,394
Exploration Geological & Geophysical Surveys & Works		
Geological & geophysical survey acquisition & processing	9,787,442	9,544,442
Technical evaluations & management	4,403,802	3,956,256
Pre-development study	1,610,661	690,505
Interest on funding of deferred exploration expenditure	3,549,580	3,550,713
Deferred costs acquired from Primeline Petroleum Corporation	1,394,307	1,394,307
Project administration	2,639,946	2,369,157
Salaries and benefits	3,695,522	3,182,154
Travel and accommodation	1,658,877	1,376,830
Contract signing fee	539,917	539,917
Foreign exchange (gain) loss	(821,087)	(810,307)
	34,412,127	31,747,134

The Company and Primeline Petroleum Corporation (PPC), a company with the same majority shareholder, are contractors (collectively, the Contractors) to the Petroleum Contract dated March 24, 2005 with China National Offshore Oil Corp. (CNOOC) to explore, develop and produce oil and gas reserves that may exist in an area known as Block 25/34 (the Contract Area) in Lishui and Jiaojiang Basins, East China Sea. The Contract Area includes the majority of previous Block 32/32 covered by a prior petroleum contract between the Contractors and CNOOC which was in effect during the period from December 12, 1994 to February 28, 2005. The company and PPC hold 75% and 25% of the Contractors’ interest, respectively. The Petroleum Contract became effective on May 1, 2005, and has three periods: exploration, development and production, with a maximum contract term of 30 years. The exploration period is normally seven years while the production period is normally 15 years. The exploration period is further subdivided into three exploration phases, which includes the first phase of three contract years (the first contract year through the third contract year); the second phase of two contract years (the fourth contract year through the fifth contract year); and the third phase of two contract years (the sixth contract year through the seventh contract year). The Contractors are committed to drilling one exploration well in each of the three exploration phases (with additional 200 square kilometres of 3D seismic in phase one) and expending minimum qualifying exploration costs of US$6,000,000 in the first phase and US$5,000,000 in each of the second and third phases. At the end of each of the first and second exploration phases, the Contractors must decide whether to enter into the next exploration phase and relinquish 25% of the remaining Contract Area, or terminate the Petroleum Contract. At the end of the third exploration phase, the Contract Area, except for any discovery, development, production area that may exist in the Contract Area, is relinquished.

The Petroleum Contract provides that the Contractors will fund all costs incurred during the exploration period, and CNOOC has the right to participate up to 51% in any future development and production of oil and/or gas fields in the Contract Area by paying its pro rata share of the development and production costs. The Contractors will remain as operators for the development and production period until at least full cost recovery.

By an Amendment Agreement dated February 28, 2008 between CNOOC, the company and PPC, the parties have agreed that the Petroleum Contract be amended to provide that the first exploration period shall be for a period of four years from the date of commencement on May 1, 2005, provided that one of the two subsequent two-year exploration periods will be reduced by a corresponding period of one year unless otherwise agreed. The Company is in compliance with all explorations requirements for phase 1 except for the commitment to drill one exploration well which has been transferred into phase 2 (see note 11). The minimum exploration requirement for phase 2 is now two wells and for phase 3 is the drilling of one well each to a minimum depth of 2,500m. Each phase must also incur US$5,000,000 in expenditures.

4 Capital stock and contributed surplus

a) Authorized

	Number of shares	
	2009	**2008**
Common shares with a par value of US$0.001 each	500,000,000	500,000,000

Issued and outstanding

	Number of common shares	Amount $	Contributed surplus $
Balance - March 31, 2007	47,020,623	64,309	50,444,630
Fair value of options	-	-	854,811
Balance - March 31, 2008	47,020,623	64,309	51,299,441
Fair value of options	-	-	268,238
Balance - March 31, 2009	47,020,623	64,309	51,567,679

	2009	**2008**
Weighted average number of common shares outstanding	47,020,623	47,020,623

b) Stock options

The company has a stock option plan (the Plan), pursuant to which the directors are authorized to grant up to 7,053,000 common shares in options. The options enable the directors, officers, consultants and employees to acquire common shares. The exercise price of a share option will be set by the board of directors, subject to TSX Venture Exchange policy. Options granted under the Plan may have a maximum term of five years and vest in stages over at least 18 months the options vesting equally on a quarterly basis, as determined by the board of directors at the grant date.

The following table summarizes information about the stock options outstanding and exercisable at March 31, 2009 and 2008:

	2009		2008	
	Options outstanding	**Weighted average exercise price $**	**Options outstanding**	**Weighted average exercise price $**
Outstanding - Beginning of year	6,158,000	1.59	5,500,000	1.52
Granted	-	-	875,000	2.00
Cancelled	-	-	(217,000)	1.60
Expired	(433,000)	1.60	-	
Outstanding - End of year	5,725,000	1.59	6,158,000	1.59
Options exercisable – End of year	5,579,130	1.58	5,341,141	1.53

On December 1, 2006, the company awarded options to its non-executive directors, management and consultants to purchase up to 1,200,000 common shares at an exercise price of $1.60 per share. 217,000 of the 1,200,000 options have been cancelled by agreement with the option holders. 433,000 of the 1,200,000 options expired on May 31, 2008 while the balance of 550,000 options will expire on November 30, 2011.

On November 1, 2007, the company awarded options to purchase a total of 875,000 common shares at an exercise price of $2.00 per share. 250,000 of the 875,000 options were awarded to CHF Investor Relations, the company's investor relations counsel, while 625,000 options were awarded to executive directors, management and consultants. All such options will expire on October 31, 2012. The options granted to the non-employees were re-valued as at March 31, 2009.

Assumptions used in the Black-Scholes option pricing model for revaluation of the options granted to non-employees for the years ended March 31, 2009 and 2008 are as follows:

	2009	2008
Risk-free interest rate	3.59 – 4.75%	4.16%
Expected life	5 years	5 years
Expected volatility	77-91%	82%
Expected dividends	Nil	Nil

In connection with the grant of stock options to directors, officers, consultants and employees, the company recognized a stock-based compensation expense of $206,504 for the year ended March 31, 2009 (March 31, 2008 - $700,580) and capitalized $61,734 to deferred exploration costs for the year ended March 31, 2009 (March 31, 2008 – $154,231).

As at March 31, 2009 stock options outstanding and exercisable are as follows:

Exercise price	Number of outstanding options as at March 31, 2009	Weighted average remaining contractual life	Number of exercisable options as at March 31, 2009
1.5	4,300,000	2 years	4,300,000
1.6	550,000	2.7 years	550,000
2.0	875,000	3.6 years	729,130
	5,725,000	**2.2 years**	**5,579,130**

c) Warrants

	Number of warrants	Weighted average exercise price $
Outstanding - March 31, 2008	11,799,999	2.00
Expired	(11,799,999)	2.00
Outstanding - March 31, 2009	0	0

On April 4, 2006, the Company completed a Private Placement and a Debt Conversion resulted in the issuance of 11,799,999 warrants at an exercise price of $2.00 per warrant. On April 4, 2008, the 11,799,999 warrants expired unexercised.

The fair market value of the 11,799,999 warrants issued under the private placement and debt conversion using Black-Scholes warrant pricing model amounted to $9,131,529.

5 Commitments

a) The company has minimum qualifying exploration commitments of US$6,000,000 in phase 1 and US$5,000,000 in both phases 2 and 3 of the exploration period of the petroleum contract (see note 3). According to an agreement signed by the Company with CNOOC, the commitment to drill one exploration well in phase 1 has been transferred into phase 2 (see note 11)

b) The company entered into a lease agreement for the rental of PEHI's Shanghai office in the People's Republic of China. The lease is for a period of two years from September 1, 2008 to August 31, 2010 with a monthly rental fee of approximately $7,000 (RMB 38,183).

c) On October 27, 2008, the company entered into a contract with China Second Oceanographic Research Institute to conduct the Autumn Environmental survey for an amount of $295,520 (RMB1,600,000). As at March 31, 2009, the amount outstanding was $177,312 (RMB960,000).

d) On December 1, 2008, the Company entered into a project co-ordination services agreement in relation to the ODP project for an amount of $147,760 (RMB800,000). As at March 31, 2009, the amount outstanding was $88,656 (RMB480,000)

e) On February 9, 2009, the company entered into a technical services contract with CNOOC Research for the preparation of the Overall Development Plan ("ODP") for the Lishui 36-1 discovery, a lump sum fee equal to $1,200,550 (RMB6,500,000). As at March 31, 2009, the amount outstanding was $600,275 (RMB3,250,000).

6 Related party transactions

During the year ended March 31, 2009, the Company paid or accrued the following:

a) London office rent of $72,879 (2008 - $78,690) to a company under common control of which the shareholder of that company is also the shareholder of the Company's ultimate holding company, PIHI, a private British Virgin islands corporation, all of the issued and outstanding shares of which are beneficially owned by Mr. Victor Hwang, president and a director of the Company.

b) fees and expenses of $27,098 (2008 - $24,438) to a company controlled by Mr. Peter Kelty, a director for advisory services relative investor relations, securities and exchange matters and other administrative services.

c) repayment of $238,927 (2008 – advance of $134,199) from a company under common control of which the shareholder of that company is also the shareholder of the company's ultimate holding company PIHI.

These transactions, which occur in the normal course of operations, are measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

7 Income taxes

The Company is domiciled in an income tax-exempt jurisdiction and carries out its oil exploration activities in the PRC; these activities are subject to PRC income tax at a rate of 25% starting January 1, 2008 (2008: 25%). In accordance with PRC tax regulation, exploration costs incurred by foreign oil and gas enterprises can be deferred and amortized from commencement of oil/gas production.

Significant components of the company's future income tax liabilities are as followed:

	2009 **$**	**2008** **$**
Resource properties	425,117	404,428
Net future income tax liability	425,117	404,428

For certain acquisitions and other payments for mineral property interests, the company records a future income tax liability and a corresponding adjustment to the related asset carrying amount.

8 Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

(a) Currency risk

The Company holds US$2,858,681 in term deposits which mature in 7 days to 1 month and cash balances of US$66,214 and RMB2,058,595.

Based on the above net exposures as at March 31, 2009, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar and Renminbi, would result in an increase/decrease of approximately $369,000 and $38,000 respectively in the company's net loss.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at a large international financial institution in interest bearing accounts. Minimal cash balances are held in Chinese financial institutions. The company has no investments in asset-backed commercial paper.

(c) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in note 9 to the consolidated financial statements. Accounts payable relating to petroleum exploration costs and other accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because these investments roll over very short periods (seven days to one month).

(e) Price risk

The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

9 Capital management

The Company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to pursue the exploration and development of its petroleum interest, acquire additional petroleum property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the company includes its cash and cash equivalent balances and components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At this stage of the Company's development, in order to maximize ongoing development efforts, the company does not pay out dividends.

The company's investment policy is to invest its cash in highly liquid short-term interest-bearing R1-High investment rated (DBRS) investments with maturities 90 days or less from the original date of acquisition.

The company currently is not subject to externally imposed capital requirements.

10 Segmented reporting

The Company's principal activity is the exploration of oil and gas properties. The Company's oil and gas property is located in China as described in note 3.

11 Subsequent events

On April 3, 2009, CNOOC agreed to grant a provisional extension of the First Phase of exploration period by 6 months to October 31, 2009 to allow time for the Overall Development Plan to be finished and submitted to the government of PRC. CNOOC has also agreed that Primeline may carry forward the unfulfilled commitment to drill one exploration well from the first phase into the second phase. As a result, the work obligation in the second phase will be to drill two exploration wells.

In April and May 2009, the Company through CNOOC Research Shanghai awarded contracts to 14 sub-contractors for various studies and surveys in respect of the Overall Development Plan for a total amount $3,771,390 (RMB20,419,000). These studies and surveys are expected to complete in August 2009.