

**Primeline Energy Holdings Inc. (TSX Venture-PEH)
Management Discussion and Analysis for the Year Ended March 31, 2009
(Prepared by Management)**

Introduction

This management discussion and analysis is dated July 17, 2009 and takes into account information available up to that date. It should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended March 31, 2009, which have been prepared in accordance with Generally Accepted Accounting Principles in Canada. All amounts in this discussion and analysis are expressed in Canadian dollars unless otherwise noted.

Cautionary Note Regarding Forward-Looking Statements

Some of the following disclosures contain forward-looking information, which involves inherent risk and uncertainty affecting the business of Primeline. These statements relate to the time anticipated to complete the Overall Development Plan (referred to herein as the ODP), the costs of the ODP, the Company's expectation it will enter into a Framework Agreement (as defined below in the section headed Gas Sale Agreement) and a final contract for the sale of gas from the Lishui 36-1 gas discovery, and the results of exploration of the Company's other resources and exploration prospects. They are based on assumptions that survey and other work will be completed in a timely fashion, that cost estimates for the ODP are accurate, that funding will be sufficient to pay the costs of the ODP, that a Framework Agreement and a final gas sale contract can be concluded on acceptable terms and that the results of further exploration will be favourable. Actual results may vary from those anticipated in such statements. Work may be delayed for technical and other reasons, and if it is, completion of the ODP will also be delayed. Funding may not be sufficient, and if it is not the Company may be unable to complete some or all of the ODP. Costs of the ODP may be greater than anticipated. The Company may not be able to conclude a Framework Agreement or a final contract for gas sale on acceptable terms. Exploration for oil and gas is subject to the inherent risk that it will not result in a commercial discovery.

COMPANY AND PROJECT OVERVIEW

Primeline Energy Holdings Inc. ("the "Company") is focused exclusively on upstream oil and gas opportunities in China. The Company owns rights in and operates an exploration concession of 7,006 sq km in the East China Sea ("Block 25/34") pursuant to a Petroleum Contract dated March 24, 2005 ("Petroleum Contract") entered into amongst China National Offshore Oil Corporation ("CNOOC"), Primeline Energy China Ltd. ("PECL"), a wholly owned subsidiary of the Company, and Primeline Petroleum Corporation ("PPC"), an affiliated company wholly owned by Victor Hwang, the Company's chairman and main shareholder. PECL and PPC act jointly as the "Contractor" under the Petroleum Contract and PECL and PPC own 75% and 25% respectively of the Contractor's interests in the Petroleum

Contract. Primeline Energy Operations International Ltd. ("PEOIL"), another wholly owned subsidiary of the Company, is designated as "Operator" under the Petroleum Contract. References in this MD&A to 'Primeline' refer generally to the Company, PECL, PEOIL and PPC and references to the Company include its subsidiaries PECL and PEOIL. References to the "Contractor" are to PECL and PPC acting jointly.

Pursuant to the Petroleum Contract, the Contractor is required to fund all the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development by paying its pro rata share of the development and operating costs required for production of any oil or gas. The Contractor has the right to recover exploration costs from future production.

There is an existing gas discovery, Lishui 36-1, within Block 25/34 through two wells with DST tested flow rates of 9.9 and 12.6 MMcfd of natural gas. Primeline is working with CNOOC on the development of the Lishui 36-1 discovery on a stand-alone basis. There are several related prospects in the vicinity of the discovery with reasonable geological chances of discovering further gas or oil (generally referred to as the "Lishui Gas Play") which have been evaluated and which Primeline is planning to drill and which, in a success case, will expand the current resource base. Furthermore, the Company believes that there is significant hydrocarbon potential, in addition to the Lishui Gas Play, in the remainder of Block 25/34.

ANNUAL PROGRESS REVIEW

DUAL DEVELOPMENT AND EXPLORATION STRATEGY

During the year under review, Primeline has continued to pursue its dual strategy of working towards a stand-alone development for the Lishui 36-1 discovery, based on the currently confirmed resources, whilst at the same time continuing its efforts to prepare for step out exploration of the nearby prospects to expand the current resource base. The development of Lishui 36-1 may not by itself yield significant income in the near term but it would confirm the market for gas to be produced from Block 25/34 and establish a production facility for the Lishui Gas Play. The confirmation of the market and the creation of the production facility would significantly enhance the potential value of any additional resources which may be discovered, not only in the Lishui 36-1 discovery itself (the probable and possible category resources) but, more importantly, in the Lishui Gas Play and elsewhere within Block 25/34.

Accordingly, Primeline's recent activities consist of:

Development

- the confirmation of an available market for the gas from the Block with the conclusion of an Agreement in Principle for the sale of gas from the Lishui 36-1 discovery ("Gas Sale Agreement");

- the compilation of an Overall Development Plan (ODP) for the development of the Lishui 36-1 discovery, which is a prerequisite of any such development;
- negotiation of the further detailed terms on which the gas will be sold to Zhejiang Natural Gas for incorporation in a Framework Agreement;
- market research for sale of CO₂ within Zhejiang Province and negotiation of sale arrangements;
- identification of the site required for the onshore natural gas processing terminal and negotiation of the terms of its acquisition;
- negotiation of a Supplemental Development Agreement with CNOOC governing the development and production operations relating to Lishui 36-1;
- discussions with financing institutions relating to the development project funding

Exploration

- continual monitoring of the rig market to secure a rig for the exploration drilling in the Lishui Gas Play. The step out drilling will now be part of the overall rolling development strategy and will be coordinated with the development of Lishui 36-1
- geological and geophysical evaluation of the available 2D seismic data for the remainder of the 7,006 sq km Block 25/34 in order to identify further exploration prospects.

DEVELOPMENT ACTIVITY

Primeline's existing gas discovery, Lishui 36-1, has only a relatively small resource base from the two successful wells drilled to date and was previously regarded as sub-commercial. In 2007, Primeline and CNOOC obtained reserve approval from the Chinese State Reserve Commission and completed a feasibility study of the stand-alone development of Lishui 36-1. Based on the results of the formal feasibility study, Primeline and CNOOC then commenced negotiations with the Zhejiang Provincial Government and Wenzhou Municipal Authority to agree in principle terms for a gas sale contract. These negotiations resulted in the Gas Sale Agreement being entered into in October 2008. Subsequently, the Company and CNOOC commenced the preparation of the ODP for Lishui 36-1.

Lishui 36-1 Resources Registration and Auditing

In early 2007 Primeline commissioned CNOOC to prepare a reserve report for the Lishui 36-1 discovery in accordance with the Chinese government regulations in order to obtain "Development Reserves" status. The report, which is an essential component of any official development plan submission as well as the fundamental basis for any discussions relating to a gas sale contract, was completed and reviewed by CNOOC Reserve Office in June 2007. The reserve report was then submitted, through CNOOC, to the State Reserves Commission and approval was granted on July 5, 2007. It should be noted that the existence of a reserve report approved under Chinese government regulations does not mean the Company has "reserves" within the meaning of NI 51-101 as these are two different regulatory regimes.

At the same time, in order to comply with the TSX reporting requirements, Primeline retained McDaniel & Associates (<http://www.mcdan.com/>) of Calgary to carry out an independent resource audit. In July 2007, McDaniel submitted to the Company its independent resource estimate for Block 25/34 for filing with the TSX Venture Exchange in accordance with NI 51-101. McDaniel's report concluded that Lishui 36-1 has a best estimate Contingent Resource (recoverable pure hydrocarbon gas) of 122 Bcf (45 Bcf Company gross share) of gas and 2.6 MMbbls of condensate (0.9 MMbbls Company gross share). The Contingent Resource estimate is based on a best estimate Discovered Original Resources (Gas Initially In Place ("GIIP")) for the property of 292 bcf. The report stated that the term "contingent resources" is used rather than "reserves" since "commerciality of the existing discovery, Lishui 36-1, had not been confirmed". The full text of the McDaniel's report is available on the Company's website (www.pehi.com).

Feasibility Study

In July 2007, Primeline commissioned CNOOC China Ltd., Shanghai ("CNOOC Shanghai), and CNOOC Research Centre Beijing ("CNOOC Research"), both subsidiaries of CNOOC, to prepare a full feasibility study for the development of Lishui 36-1 on a stand-alone basis ("Feasibility Study"). The Feasibility Study covers reservoir engineering, development drilling and completion engineering, production engineering, design of the development facilities including platform, pipeline and onshore terminal, HSE and the detailed costing of all aspects of the development and future production operations. There are standard requirements for an offshore feasibility study, and CNOOC Research is the most authoritative body for offshore development feasibility studies and development plans in China.

Numerous development options were evaluated during the Feasibility Study, various review meetings were held between Primeline and CNOOC and the whole process was monitored by Primeline's technical team. The engineering elements of the Feasibility Study, including the cost and economics evaluation, were initially reviewed in September 2007 and then completed in December 2007. Primeline received the formal Feasibility Study in early 2008.

China Energy Market Overview

Historically, natural gas has not been a major fuel in China but its share in the country's energy mix is now rapidly increasing. In 2007 natural gas represented about 3% of China's entire energy mix, followed by 3.55% in 2008, compared to the world average of 25%. In 2007, the Chinese Government announced plans to raise this percentage to 5.3% by 2010. Total consumption in 2007 was circa 74 bcm (80.7bcm in 2008) so the proposed target represents a total of circa 135 bcm in 2010. Rapid development of the natural gas industry is now one of China's strategic policies in order to help resolve its acute energy shortage and to achieve its target for pollution reduction. Part of this strategy is to encourage the transportation of gas from west China and other countries around China, including Russia and

Central Asian countries, where there are significant resources, to east China where demand is highest and the energy shortage is most acute.

China's first major West to East Gas Pipeline, built by CNPC, parent company of Petrochina Ltd. (NYSE:PTR, www.petrochina.com.cn), was completed in 2004 and now carries approximately 14 bcm of gas per annum from the Tarim Basin along a 4,000 km pipeline which terminates at Shanghai. There were initial concerns that there would be insufficient demand for the gas, but now demand exceeds supply and prices have been increasing.

In order to respond to the increasing demand, there are now three new long distance gas pipelines from west China to east China under construction, two of which will be able to supply gas to Zhejiang Province. One is being developed by CNPC and the other by Sinopec.

In August 2007, CNPC announced proposals for a Second West to East pipeline with a capacity of 30 bcm per annum. The pipeline, which will be over 6,000 km, is planned to run from Turkmenistan through Xinjiang to Guangzhou in southern China, branching at Nanchang to run east to Shanghai and passing through western and northern Zhejiang Province. Approval from Central Government was granted in October 2007 and construction commenced in February 2008, with gas supply due to start in 2012. CNPC signed agreements in July 2007 to import 30 bcm of natural gas per year the next 30 years from Turkmenistan to supply this pipeline.

In addition, Sinopec is laying a natural gas pipeline that will run from south west Sichuan Province to Shanghai. This new pipeline, with a total pipeline capacity of 17 bcm, is expected to supply 12 bcm per annum by 2010 to cities along the pipeline, including northern Zhejiang Province.

In the past, the Chinese Government has fixed gas prices based on local costs and thus below international liquified natural gas (“LNG”) market levels. However, strong demand for gas, coupled with pollution targets, has meant that China has been forced to obtain supplies from foreign sources at market prices. As a result, there has been significant upward pressure on prices and, the eastern China gas price is now getting closer to international LNG prices. China has two operational LNG terminals on the coast and is currently buying LNG on the spot market to supplement the long term contracts.

These recent developments are clearly indicative of a maturing gas market with a more market-driven pricing system which should benefit the development of Block 25/34 in the long term. In addition, it is apparent that a nation-wide gas grid is in the process of being established in China. The east China region, as the most industrialised region, will be the frontrunner for this improved gas infrastructure.

Natural Gas Market in Wenzhou and Zhejiang Province

Zhejiang Province, situated on the east coast of China, is the fourth largest economy amongst Chinese provinces with a population of 50 million and a land area of 101,800 sq km. It has enjoyed double digit annual growth during the last 30 years. The 2008 total GDP is RMB 2,149 billion (US\$316 billion) or approximately US\$ 6,078 per capita (in 2007 US\$ 5,261 per capita). Its export size and growth is impressive, reaching US\$152 billion in 2008 (US\$ 128 billion in 2007). Zhejiang Province has almost no primary energy supply except for its hydro-energy resources and about 91% of its energy needs have to be imported from outside, including, in 2007 and 2008 respectively, 130 and 149 million tons of coal and 22.4 and 23.7 million tons (circa 158 and 167 MMbbls) of crude oil. Its energy consumption relied heavily on coal (64.1% in 2007 and 66% in 2008), then oil (22% in 2007 and 20% in 2008), with hydro and nuclear energy at 7% and natural gas at only 1.9%, way below the national level of 3.55% and miniscule compared with the average international level of 25% in the total energy mix. Wenzhou, in Zhejiang Province, is the closest major city to Lishui 36-1 discovery and is situated on the coast only 140 km away from the discovery. Wenzhou is not currently connected to any gas grid and current gas usage in the city is restricted to LPG and small scale locally sourced LNG.

Gas Sale Agreement

Zhejiang Provincial Energy Group Ltd. (“Zhejiang Energy”) is a state-owned company whose main business is power generation (18,600 MW in 2008), coal distribution (37.2 million tons in 2008) and natural gas distribution (1.8 billion cubic metres in 2008). Zhejiang Provincial Gas Development Co (“Zhejiang Gas”), a subsidiary of Zhejiang Energy, owns and operates the current 330 km provincial gas pipeline grid which has been established in the northern part of Zhejiang Province and which is fed by the first West To East Gas pipeline. Previously it had not been anticipated that a province-wide gas grid would be established in Zhejiang Province in the near future and the initial discussions with the Wenzhou authorities had centred on how the gas might be utilised in Wenzhou alone, which was effectively a green field situation. However, the announcement by CNPC in August 2007 of the proposed Second West to East Gas Pipeline meant that a gas grid connected to Wenzhou would be established in the southern part of Zhejiang Province far earlier than otherwise expected. As a result, the gas distribution strategy of Zhejiang Province was changed and it became apparent that the utilisation of gas from Block 25/34 would have to be agreed at a Provincial level. The revised Zhejiang Province gas distribution policy now provides that a provincial gas grid will be developed and expanded to connect other major cities within Zhejiang Province, including Wenzhou, to the proposed Second West to East Gas Pipeline, to the Sichuan Gas to East Pipeline (both of which are currently under construction) and to LNG imports. Construction of the Zhejiang provincial grid has now commenced and the planned annual throughput is estimated at over 6 billion cubic metres per year (circa 580 million cubic feet per day) by 2015.

The development of this provincial grid presents an exciting opportunity for Primeline in that, rather than endeavouring to create a gas utilisation market in a green-field situation in Wenzhou alone, it will now be possible to supply to a rapidly developing market via the grid which is to be established and serve all the major cities in Zhejiang Province and beyond. It is apparent from other natural gas grids in China that once supply has been established, rapid expansion of demand follows.

In October 2008, Primeline and CNOOC concluded their initial negotiations with the Zhejiang Provincial Government and Zhejiang Gas in relation to the proposed sale of gas from the Lishui 36-1 discovery, resulting in the signing of an Agreement in Principle for the sale of gas (“Gas Sale Agreement”) between Zhejiang Gas and CNOOC on October 27, 2008.

The Gas Sale Agreement defines the general terms on which Zhejiang Gas will purchase the future production of natural gas from the Lishui 36-1 gas field, including the quality of the gas, take-or-pay principles, base price, annual quantity and delivery schedule. The principles set out in the Gas Sale Agreement will govern the further negotiation of the final gas sale contract, the terms of which can only be finalised during the development of the production facility. During the period of the preparation of the ODP, Primeline, CNOOC and Zhejiang Gas are negotiating the detailed terms of the gas sale contract, including the delivery point, delivery profile, final delivery gas price and payment terms, and aim to sign a more formal agreement relating to the gas sale, referred to as the Framework Agreement, prior to the completion of the ODP.

In entering into the Gas Sale Agreement, CNOOC acted on its own behalf and on behalf of the Company and PPC in relation to their respective interests in the gas from the Lishui 36-1 discovery. CNOOC has entered into a separate agreement with the Company and PPC outlining their understanding that, subject to the ODP confirming the commerciality of the development, CNOOC will exercise its rights under the Petroleum Contract to take a 51% interest in the development and that the Company’s and PPC’s share of the gas (being 36.75% and 12.25% respectively) from the Lishui 36-1 gas field will be sold through CNOOC on the same terms articulated in the Gas Sale Agreement. According to the Petroleum Contract, Primeline will continue to be the Operator of the proposed development and production operations and CNOOC, the Company and PPC will each pay their pro rata share of the development and production costs.

Overall Development Plan

The Gas Sale Agreement is based on the current development proposal of producing gas from the Lishui 36-1 discovery via an offshore pipeline to an onshore processing terminal, to be established adjacent to Wenzhou city, and for the gas to be then delivered to the provincial grid at a delivery point at Wenzhou. The development proposal is based on the reserve approved by the State Reserve Commission which is approximately the same as the minimum

resource estimate for Lishui 36-1 as contained in the resource evaluation prepared by McDaniel in July 2007 and in 2008.

On the basis of the terms set out in the Gas Sale Agreement, Primeline commenced work on the ODP in October 2008. The ODP is the document that is required to be approved by government before development can commence. It comprises a formal development engineering plan, back up by survey results and environmental studies, together with a full economic analysis of the development.

Primeline entered into a Project Co-ordination Agreement with CNOOC Shanghai on 1st December 2008, under which CNOOC Shanghai provided project management services with regard to the ODP. A project team was set up in Shanghai with personnel seconded by CNOOC Shanghai and in office space provided by CNOOC Shanghai. The project team in Shanghai was headed by Primeline's China Chief Representative and supervised by Primeline's technical team in London. Thereafter, Primeline and CNOOC undertook a study to decide on which of the various development options identified by the Feasibility Study should be adopted in order to define the scope of the technical work for the ODP. Separate technical services agreements were entered into with CNOOC Research and CNOOC Shanghai for furnishing the optimisation technical study. Based on this optimisation work, Primeline and CNOOC agreed on the development option and the scope of work required for the ODP in February 2009.

Primeline and CNOOC Research entered into a technical services agreement on 9th February 2009 for the compilation of the ODP. Pursuant to such services agreement, CNOOC Research undertook overall responsibility for the compilation and technical approval of the ODP, including technical design and analytical work and management of the various surveys and third party services. The total budget for the ODP is estimated to be RMB36 million (US\$5.5 million) which includes the agreed lump sum cost for the work to be undertaken by CNOOC Research and CNOOC Shanghai and the costs of the third party studies and surveys which make up the majority of this budget. The contracting of third party studies and surveys (all together 18 different projects) was jointly managed by CNOOC Research and Primeline through normal tendering and/or direct negotiation procedures during March- June 2009. The two environmental surveys, the costs of which are included in the overall budget, were previously commissioned and paid for by Primeline in May 2008 and October 2008, with the work being closely monitored by CNOOC Research. The most important survey work is the pipeline route survey and platform site survey, which have both been contracted to China Oilfield Services Ltd. Other survey work includes environmental surveys for the platform, pipeline, terminal and jetty, the site survey for the terminal and the fishery resources survey. Specific studies include a study of potential hazards for the terminal, pipeline and platform, an earthquake risk assessment, occupational disease studies, CO₂ utilisation market research and a number of specific studies on reservoir, drilling and engineering. The data and results from some of the subcontracted projects are required for the ODP design work and are therefore time critical, whilst others are required to provide data which must be submitted to the government with the ODP and are not so time critical. CNOOC Research is responsible

for obtaining technical approval of the ODP from all of the appropriate China State Authorities. Under the terms of the Petroleum Contract, the costs of the ODP will be borne by the Company and PPC in the proportions 75:25.

CNOOC Research has produced the overall development plans for over 40 previous offshore developments. CNOOC Research has established a team of about 40 technical personnel for this ODP project from disciplines including reservoir engineering, facilities engineering, drilling, production and economics.

It is anticipated that the ODP work will be completed in August 2009 when the ODP will be submitted to Primeline and CNOOC for approval before submission to the appropriate Chinese State Authorities.

It will not be possible to confirm commerciality of the development until the ODP has been completed. At that time it is anticipated that the Framework Agreement will have been entered into and the cost estimates for the selected development option will have been finalised on the basis of current prices. It is difficult at this stage to assess the effect of the current uncertainty in world economic conditions on the development economics. Whilst world oil prices have declined since the signing of the Gas Sale Agreement, they have since started to recover and gas prices in general are less volatile than oil. Further, commodity prices, such as steel, and the cost of drilling services, both of which have a direct effect on the total cost of the proposed development, have also declined significantly. Primeline and CNOOC will be carefully evaluating the net effect of these market conditions on the economics of the development as part of the ODP work.

Terminal Site

As part of the ODP, Primeline and CNOOC have been working with the Wenzhou Municipal Authority to secure the land for the offshore pipeline landing point and onshore gas processing terminal. Primeline and CNOOC have finalised a site selection report compiled by an independent authoritative design firm, as requested by the local government. This report, together with a formal land acquisition report from CNOOC, was submitted to the Wenzhou Government on 9th January 2009. CNOOC is leading this land acquisition effort and Primeline is working closely with CNOOC and Wenzhou to ensure that the process is completed in line with the progress of the ODP and the proposed development. Relevant planning approvals for the land are being processed, together with all the relevant local government approvals.

EXPLORATION ACTIVITIES

Lishui 36 Gas Play and 3D Seismic Data

During the term of the Petroleum Contract, Primeline has completed the acquisition and processing of 3D seismic data in an area adjacent to Lishui 36-1 referred to as the Lishui Gas

Play. Interpretation of this data has confirmed the likely existence of channel and canyon systems and several sizeable prospects. Geophysical features associated with the Lishui 36-1 gas discovery, including potential direct hydrocarbon indicators (DHIs) such as AVO (Amplitude Versus Offset) anomalies and bright spots, are also found on these prospects. These nearby prospects and other leads could provide significant resource additions for Primeline. McDaniel's estimate of Prospective Resources is derived from the best estimate (P₅₀) of the Undiscovered Original Resources (or Gas Initially In Place – GIIP) for each of the six prospects which ranges between 14 and 971 Bcf, and results in the sum of the Property Gross Unrisked Mean Prospective Resources (recoverable pure hydrocarbon gas) being 792 Bcf gas and 21.8 MMbbls Condensate. "Prospective Resources" are defined as "quantities of oil and gas which are estimated on a given date to be potentially recoverable from undiscovered accumulations and calculated on a probabilistic basis. If discovered, they would be technically and economically viable to recover". McDaniel estimates that the geological chances of success for each of the six prospects ranges from 26% to 46%, McDaniel thus arrived at a Property Gross Risked Mean Prospective Resources for the six prospects close to Lishui 36-1 discovery (within 15 kms) of 279 Bcf of gas (103 Bcf Company gross share) and 7.7 MMbbls of condensate (2.8 Mbbls Company gross share). However, there is no certainty that Prospective Resources will be discovered.

Primeline has agreed with CNOOC the two best locations for the next exploration drilling and has completed the well design and site surveys for both proposed well locations.

As part of the rolling development strategy, it is currently anticipated that the drilling of the nearby prospects will only commence after a decision on the LS36-1 development is made and the development of the Lishui 36-1 gas field is under way. It is believed that this timing should benefit Primeline commercially because indications are that drilling rig rates are now reducing as a result of current market conditions.

Remainder of Block 25/34 and Regional Prospectivity

Primeline's 3D seismic area covers only 10% of the total contract area, which in turn the majority of the Lishui West Basin. In and around this basin there are a total of seven previously drilled wells (in addition to Primeline's discovery wells) that had various forms of hydrocarbon shows and flows.

During 2008-9 Primeline undertook a geological and geophysical evaluation of this area including re-processing part of the existing 23,000 km of 2D seismic data and reviewing all the seismic data and all the information from 12 wells previously drilled in the region by other companies. The reprocessed data was delivered to RPS Energy for interpretation in November 2008 and interpretation work was completed in May 2009. This work has identified 10 new prospect leads which provide an inventory that can be investigated further in 2010 and future years by additional 3D seismic surveys and exploration drilling.

PETROLEUM CONTRACT EXTENSION

The Petroleum Contract for Block 25/34 originally provided for an exploration period of seven years from the date of commencement of 1st May 2005, divided into three separate phases of three, two and two years respectively. By an Amendment Agreement dated 18th February 2008, the first exploration phase was extended from three to four years, to end on 30th April 2009. Primeline is required to complete a minimum of exploration work in each exploration phase, the requirement for the first exploration phase being to acquire 200 sq km of 3D seismic data and drill one well of not less than 2,500 m depth with a minimum exploration expenditure of US\$6 million. In the first exploration phase, Primeline acquired a total of 550 sq km of 3D seismic and spent in excess of US\$20 million but, due to the poor availability of drilling rigs, has so far been unable to drill the required well despite all reasonable best efforts.

In 2007, Primeline and CNOOC agreed on a rolling development strategy, which entails developing the existing gas resources in the Lishui 36-1 gas field whilst at the same time continuing exploration of nearby prospects. In view of the current ODP work programme, the rolling development strategy and the approaching end of the first exploration phase, CNOOC agreed, in April 2009, that Primeline may carry forward the unfulfilled one well commitment from the first phase into the second phase. As a result, the work obligation in the second phase is now to drill two exploration wells.

Furthermore, CNOOC agreed that Primeline may delay the decision to enter into the second exploration phase until 31st October 2009, provided that if Primeline elects to proceed by that date then the second exploration phase shall be deemed to have commenced on 1st May 2009 and will run to 30th April 2011. It is currently intended to proceed to the second phase but this flexibility will allow Primeline to decide and plan on a better basis when the ODP is completed. When a development decision is made, the agreed development area will be carved out of the exploration area and will be the subject of the Supplemental Development Agreement (SDA) with CNOOC as referred to below.

When Primeline elects to proceed with the second exploration phase by October 2009, it will be necessary to relinquish 25% of the area of Block 25/34. Based on the results of the evaluation of the 2D seismic data referred to above, Primeline has identified the area to be relinquished and all 10 new prospect leads referred to above will be in the retained area.

Whilst work has been proceeding with the ODP, Primeline has been negotiating with CNOOC with regard to the terms of the SDA which will govern the development operations for Lishui 36-1 under the general terms of the Petroleum Contract. This SDA is expected to be entered into before the completion of the ODP and be approved by the government in conjunction with the ODP submission.

GENERAL FINANCIAL OUTLOOK

The total estimated budget for the ODP, including the cost of contracts entered into and the cost of the regional study, amounts to approximately US\$6 million for which the Company needs to fund 75% and, as at the current date, the costs of the ODP remain at C\$5.2million and on budget. As at the year-end (March 2009), the Company had paid approximately C\$0.5million of the ODP cost and held cash resources of C\$8.7million. The costs of running the Company's general operations are estimated at approximately C\$1.7million per annum. Accordingly, the Company has sufficient funds in hand with which to complete the ODP (on the basis of the current budget) and continue its general operations during the coming year. However, additional financing would be required to fund the Company's obligations if the development proposals which are the subject of the ODP were to proceed or if the Company was to enter into any exploration drilling contracts. There may be various alternative financing options available to the Company in the event that the development proposals proceed but it is likely that the Company will be required to raise additional equity capital in order to finance any exploration drilling contracts. The Company is exploring all possible fund-raising possibilities for both its share of development costs and for the planned exploration drilling programme.

Financial Information

Results of Operation

The Company's results for the financial year ended March 31, 2009 were an income of \$417,602, compared to a loss of \$1,956,299 for the previous year. The turnaround in the result of \$2,373,901 was mainly due to foreign exchange gain of \$1,044,532 this year vis-à-vis an exchange loss of \$1,005,765 last year. The US\$/C\$ exchange rate rose from 1.023 to 1.263 during the year. Earnings per share was \$0.01 (2008 – Loss per share \$0.04).

Liquidity and Capital Resources

As at March 31, 2009, net current assets of the Company amounted to \$8,284,794, whereas net current assets of \$10,243,258 were recorded in the prior year. The decrease in net current assets of \$1,958,464 was mainly due to the decrease in cash of \$2,661,161, which was largely utilized for petroleum exploration costs.

During the year, exploration expenditures of \$2,664,993 (2008 - \$2,806,928) were incurred, and financed mainly from equity. As at March 31, 2009, the total amount of petroleum exploration expenses incurred and capitalized amounted to \$34,412,127 (2008 - \$31,747,134) and may be broken down as follows:

	<u>2009</u>	<u>2008</u>
	\$	\$
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 & Work		
Geological & geophysical survey acquisition & processing	9,787,442	9,544,442
Technical evaluations & management	4,403,802	3,956,256
Pre-development study	1,610,662	690,505
Interests on funding of deferred exploration expenditures	3,549,579	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)
	<u>34,412,127</u>	<u>31,747,134</u>

The increase of \$243,000 in geological and geophysical survey acquisition and processing costs from 2008 to 2009 reflected the costs of 2D seismic processing of the potential drilling sites within the Lishui Gas Play undertaken in 2009. Technical evaluation and management increased by \$447,546 from the \$3,956,256 recorded in 2008 due to consultancy work undertaken in relation to the ongoing exploration programme. Moreover, \$920,157 was spent on the pre-development feasibility study (2008 - \$690,505).

Project administration costs may be further broken down as follows:

	<u>2009</u>	<u>2008</u>
	\$	\$
Bank charges	12,977	11,572
Office rental	1,476,026	1,345,320
Office supplies	91,749	87,740
Sundries expenses	338,997	271,025
Postage	31,086	28,767
Professional fees	349,901	313,706
Telecommunications	75,444	68,904
Transportations	241,251	228,000
Utilities	22,515	14,123
	<u>2,639,946</u>	<u>2,369,157</u>

The Company had total assets of \$43,137,623 (2008 - \$43,153,082) which were financed by net shareholders' equity of \$42,271,804 (2008 - \$41,585,964), and current liabilities of \$440,702 (2008 - \$1,162,690).

The Private Placement and debt conversion on April 4, 2006 was intended to provide the Company with sufficient funds to complete its minimum commitments under Phase 1 of its exploration program and support its general and administration activities for the year. During 2009, expenditures on petroleum exploration costs of \$3,058,245 were financed from the proceeds of the Private Placement. Compared to 2008, this was \$524,618 higher.

As at March 31, 2009, the Company had net current assets of \$8,284,794 (2008 – \$10,243,258) and had a deficit of \$9,360,184 (2008 - \$9,777,786). The Company has sufficient funds to meet its minimum expenditure commitments under Phase 1 of its exploration program and support its general and administration activities for the next year. However, additional financing would be required if the development proposals which are the subject of the Overall Development Plan were to proceed or if the Company was to enter into any exploration drilling contracts in the coming year under Phase 2 of its exploration program. See “Company and Project Overview”.

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 below under the heading “Capital Management”. Accounts payable relating to deferred 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 period (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.

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.

Transactions with Related Parties and Directors

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 relating to investor relations, securities and exchange matters and other administrative services.
- c) repayment of \$238,927 (2008 – advance of \$134,199) 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.

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 by the related parties.

Adoption of New 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 & 9 to the consolidated financial statements.

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 to the consolidated financial statements.

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.

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.

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.

Outstanding Share Data

On April 4, 2006, the Company completed a Private Placement and a Debt Conversion which resulted in the issue of 21,933,333 additional voting common shares and 11,799,999 warrants each exercisable to acquire one common share at a price of \$2.00 per share. Each warrant was exercisable on or before April 4, 2008. On the expiry date, April 4, 2008, none of warrants had been exercised and have all now lapsed.

On April 4, 2006, the Company granted 4,500,000 options at an exercise price of \$1.50 per share to directors, officers, employees and consultants, of which 4,300,000 options are outstanding and will expire on April 4, 2011.

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 of which 217,000 options have been cancelled by agreement with the option holders, 433,000 options expired on May 31, 2008 and 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, of which 250,000 options were awarded to CHF Investor Relations, the Company's investor relations counsel, and 625,000 options were awarded to certain of its executive directors, management and consultants. All such options will vest and are otherwise in accordance with the Company's Stock Option Plan, and will expire on October 31, 2012.

As at July 17, 2009, there are 47,020,623 common shares and 5,725,000 stock options outstanding.

Quarter ended March 31, 2009

The Company realized a loss of \$3,639 for the quarter ended March 31, 2009 compared to a profit of \$368,111 for the same period last year. The decrease of \$371,750 in the result could be mainly attributed to a decrease of \$88,576 in interest income, a \$90,592 decrease in foreign exchange gain and an increase of \$100,085 in stock-based compensation expenses. Moreover, there was \$100,046 future income tax recovery last year.

During the quarter exploration expenditure of \$1,103,421 was incurred, comprising mainly of technical evaluation and management of \$139,099, pre-development feasibility study of \$712,029 and salaries and benefits of \$120,965. These amounts were capitalized as deferred petroleum exploration expenses.

Selected Annual Information

Years Ended March 31,	2009	2008	2007
	\$	\$	\$
			(as restated)
Net income (loss)	417,602	(1,956,299)	(5,471,408)
Per basic share	0.001	(0.040)	(0.120)
Per diluted share	0.001	(0.040)	(0.120)
Total assets	43,137,623	43,153,082	44,098,993
Total long-term financial liabilities	425,117	404,428	428,510

The following information were extracted from the Company's consolidated audited financial statements:

The increase in income of \$2,373,901 between 2009 and 2008 was mainly due to foreign exchange gain of \$1,044,532 this year vis-à-vis an exchange loss of \$1,005,765 last year.

Summary of Quarterly Results (Unaudited)

Quarter Ended	2009 Mar 31 \$	2008 Dec 31 \$	2008 Sep 30 \$	2008 Jun 30 \$
Net (loss) income	(3,639)	581,285	130,847	(290,891)
Per basic share	0.000	0.012	0.003	(0.006)
Per diluted share	0.000	0.012	0.003	(0.006)

Quarter Ended	2008 Mar 31 \$	2007 Dec 31 \$	2007 Sep 30 \$	2007 Jun 30 \$
Net income (loss)	368,111	(632,317)	(742,000)	(950,093)
Per basic share	0.008	(0.013)	(0.016)	(0.020)
Per diluted share	0.008	(0.013)	(0.016)	(0.020)

The loss for the quarter ended March 31, 2009 of \$3,639 was mainly attributable to office expenses of \$29,819, professional fees of \$131,909 and business promotion of \$30,000, offset by foreign exchange gain of \$188,590.

The profit for the quarter ended December 31, 2008 of \$581,285 was mainly due to exchange gain of \$749,770, partially offset by office expenses of \$82,174 and professional fees of \$70,844.

The profit for the quarter ended March 31, 2008 of \$368,111 was mainly due to a foreign exchange gain of \$279,182 and FIT recovery due to income tax rate change of \$100,046, partially offset by professional fees of \$92,075 and office expenses of \$61,357.

PEHI has an investor relations counsel CHF Investor Relations (www.chfir.com) who handles the Company's corporate communications in Canada. Phone: +1 416.868.1079; Fax: +1 416.868.6198. PEHI has a website at www.primelineenergy.com or www.pehi.com. The site features information on PEHI, new releases, background information and technical summary of the project.