

Primeline Energy Holdings Inc.
(an exploration stage company)

Consolidated Financial Statements
March 31, 2010 and 2009

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, 2010 and 2009 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, 2010 and 2009 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 28, 2010

Primeline Energy Holdings Inc.

(an exploration stage company)

Consolidated Balance Sheets

As at March 31, 2010 and 2009

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	30,328,566	8,697,919
Prepaid expenses and deposit	87,938	27,577
	<hr/>	<hr/>
	30,416,504	8,725,496
Petroleum exploration costs (note 3)	39,312,933	34,412,127
	<hr/>	<hr/>
	69,729,437	43,137,623
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Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,552,959	413,223
Cash call payable (note 6)	2,411,470	27,479
	<hr/>	<hr/>
	4,964,429	440,702
Rights issue deposit (note 11)	23,510,311	-
Future income tax liability (note 7)	425,551	425,117
	<hr/>	<hr/>
	28,900,291	865,819
<hr/>		
Shareholders' Equity		
Capital stock (note 4)	64,309	64,309
Contributed surplus (note 4)	51,573,067	51,567,679
Deficit	(10,808,230)	(9,360,184)
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	40,829,146	42,271,804
	<hr/>	<hr/>
	69,729,437	43,137,623
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Nature of operations and going concern (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 (Loss) Income and Deficit
For the years ended March 31, 2010 and 2009

	2010 \$	2009 \$
Revenue		
Interest income	1,504	177,762
Expenses		
Bank charges and interest	13,979	6,446
Business promotion	86,759	89,142
Foreign exchange loss (gain)	625,444	(1,044,532)
Office	234,902	221,286
Professional fees	450,763	250,832
Stock-based compensation (note 4(b))	4,088	206,504
Travel	33,615	30,482
	<u>1,449,550</u>	<u>(239,840)</u>
(Loss) Income for the year and comprehensive (loss) Income	(1,448,046)	417,602
Deficit - Beginning of year	(9,360,184)	(9,777,786)
Deficit - End of year	<u>(10,808,230)</u>	<u>(9,360,184)</u>
Basic and diluted (loss) earnings per common share	<u>(0.03)</u>	<u>0.01</u>
Weighted average number of common shares outstanding	<u>47,020,623</u>	<u>47,020,623</u>

Accompanying notes are integral part of the financial statements

Primeline Energy Holdings Inc.

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Consolidated Statements of Cash Flows

For the years ended March 31, 2010 and 2009

	2010 \$	2009 \$
Cash flows from operating activities		
(Loss) Income for the year	(1,448,046)	417,602
Items not affecting cash		
Stock-based compensation	4,088	206,504
Changes in non-cash working capital items		
Prepaid expenses and deposit	(60,361)	19,291
Accounts payable and accrued liabilities	79,700	(7,386)
	19,339	11,905
	(1,424,619)	636,011
Cash flows from investing activities		
Expenditures on deferred petroleum exploration costs	(2,839,036)	(3,058,245)
Cash flows from financing activities		
Deposit received of rights issue	23,510,311	-
Cash call received from (utilized for) a related party	2,383,991	(238,927)
	25,894,302	206,504
Increase (decrease) in cash and cash equivalents	21,630,647	(2,661,161)
Cash and cash equivalents - Beginning of year	8,697,919	11,359,080
Cash and cash equivalents - End of year	30,328,566	8,697,919
Supplemental cash flow information		
Non-cash investing activities		
Accrued expenses capitalized to deferred petroleum exploration costs	2,060,036	(475,675)
Stock-based compensation and related future income taxes capitalized as deferred petroleum exploration costs	1,734	82,423

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1 Nature of operations and going concern

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) and is also working with CNOOC on the development proposal of the LS 36-1 gas field.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

Several adverse conditions cast significant doubt upon the validity of this assumption. Consistent with other entities in the exploration stage, the Company has incurred operating losses since inception, has no source of revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and continue its exploration activities. Specifically, in order to remain in good standing under its petroleum contract and to maintain the rights to its property, the Company must complete the drilling of two exploration wells on the property, at an estimated cost, including testing, of US\$45 million by April 30, 2011. One of the wells was started and completed subsequent to year end (See note 11).

The Company's ability to continue as a going concern is dependent upon management's ability to secure the additional financing required to fund the drilling of the second exploration well and also to raise additional funding of approximately US\$22.5 million required for the drilling of the third exploration well prior to April 30, 2013 should the Company decide to proceed with exploration phase 3. While management has been successful in obtaining funding in the past, there can be no assurance that it will be able to do so in the future. Management is investigating funding options, as normal course of business, to address financial shortfall.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used, and such adjustments would be material.

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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.

The Company is in the process of exploring off-shore oil and gas 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.

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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 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

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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

Financial instruments – Disclosures

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The Company adopted this amended standard for the year ended March 31, 2010 and required 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

Goodwill and Intangible Assets

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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 was applicable to the Company's consolidated financial statements for its fiscal year beginning April 1, 2009. There was no material impact of the Company's consolidated financial statements as a result of adopting this standard.

Future accounting pronouncements

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.

3 Petroleum exploration costs

	2010	2009
	\$	\$
Exploration drilling related services		
Drilling services	5,634,766	5,634,766
Drilling technical supervision and evaluation	337,001	318,394
Exploration Geological & Geophysical Surveys & Works		
Geological & geophysical survey acquisition & processing	9,787,442	9,787,442
Technical evaluations & management	4,887,397	4,403,802
Pre-development study	4,902,689	1,610,661
Interest on funding of deferred exploration expenditure	3,548,686	3,549,580
Deferred costs acquired from Primeline Petroleum Corporation	1,394,307	1,394,307
Project administration	2,969,484	2,639,946
Salaries and benefits	4,158,177	3,695,522
Travel and accommodation	1,974,154	1,658,877
Contract signing fee	539,917	539,917
Foreign exchange (gain) loss	(821,087)	(821,087)
	<hr/>	<hr/>
	39,312,933	34,412,127

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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). Under the initial contract the Contractors were committed to drilling one exploration well in each of the three exploration phases (plus an additional 200 square kilometres of 3D seismic in phase one) and the minimum cost of completing these exploration operations should be 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 18, 2008 between CNOOC, the company and PPC, the parties have agreed that the Petroleum Contract be amended to provide that the exploration period beginning on the date of the commencement of the implementation of the contract shall be divided into three phases and shall consist of 8 years. The first exploration period shall be for a period of four years from the date of commencement on May 1, 2005, and the second and the third exploration phases shall be for two years period respectively. 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 by agreement with CNOOC into phase 2. The minimum drilling requirement for phase 2, which ends April 30, 2011 is now two wells and for phase 3, which ends April 30, 2013 is one well each to minimum depth of 2,500m. The estimated cost for each well is in the order of US\$22.5 million, including the cost of testing one zone.

The Company, PPC and CNOOC have signed Supplement Development Agreement and other agreements with regard to the development of LS36-1 gas field which was discovered by the Company, following the completion of Overall Development Program (ODP). Under these agreements, CNOOC become the Operator with the development and production operations and is proceeding with the development preparation whilst preparing for the full government approval submission of the development. PEOIL continues to be Operator with Block 25/23.

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4 Capital stock and contributed surplus

a) Authorized

	Number of shares	
	2010	2009
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, 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
Fair value of options	-	-	5,388
Balance - March 31, 2010	47,020,623	64,309	51,573,067

	2010	2009
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 equally on a quarterly basis, as determined by the board of directors at the grant date.

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March 31, 2010 and 2009

The following table summarizes information about the stock options outstanding and exercisable at March 31, 2010 and 2009:

	2010		2009	
	Options outstanding	Weighted average exercise price \$	Options outstanding	Weighted average exercise price \$
Outstanding - Beginning of year	5,725,000	1.59	6,158,000	1.59
Expired	-	-	(433,000)	1.60
Outstanding - End of year	5,725,000	1.59	5,725,000	1.59
Options exercisable – End of year	5,725,000	1.59	5,579,130	1.58

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. 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 2009 are as follows:

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

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In connection with the grant of stock options to directors, officers, consultants and employees, the company recognized a stock-based compensation expense of \$4,088 for the year ended March 31, 2010 (March 31, 2009 - \$206,504) and capitalized \$1,300 to deferred exploration costs for the year ended March 31, 2010 (March 31, 2009 – \$61,734).

As at March 31, 2010 stock options outstanding and exercisable are as follows:

Exercise price	Number of outstanding options as at March 31, 2010	Weighted average remaining contractual life	Number of exercisable options as at March 31, 2010
1.5	4,300,000	1 year	4,300,000
1.6	550,000	1.7 years	550,000
2.0	875,000	2.6 years	875,000
	5,725,000	1.3 years	5,725,000

5 Commitments

- Under the petroleum contract, the Company has a commitment to drill 2 wells prior to April 30, 2011 during exploration phase 1 and 2 and to drill a third exploration well by April 30, 2010, should the Company decide to proceed with phase 3 of its exploration program. Under current market condition, the cost of drilling one well is US\$ 14 million excluding any testing cost which could be in the order of US\$ 8 million.
- 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 \$5,697 (RMB 38,183).

6 Related party transactions

During the year ended March 31, 2010, the Company paid or accrued the following:

- London office rent of \$66,335 (2009 - \$72,879) to a company under common control of which the shareholder of that company is also the shareholder of the Company's ultimate holding company, Primeline International Holdings Inc, ("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.
- fees and expenses of \$26,062 (2009 - \$27,098) to a company controlled by Mr. Peter Kelty, a director for advisory services relative investor relations, securities and exchange matters and other administrative services.
- Cash call of \$2,383,991 received from (2009 – \$238,927 utilized for) a company under common control of which the shareholder of that company is also the shareholder of the company's ultimate holding company PIHI.

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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%. 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 follows:

	2010 \$	2009 \$
Resource properties	425,551	425,117
Net future income tax liability	425,551	425,117

For certain acquisitions predominately stock based compensation 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, and advances from a related party. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in transaction between knowledgeable parties. Fair value is based on available public market information or when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at the specific point in time and in the respective geographic locations and may not be reflective of future values.

Cash and cash equivalent are recorded at fair value based on available level 2 valuation information of the fair value hierarchy.. Receivables and accounts payable and accrued liabilities and advances from a related party approximate their fair value due to their short term maturity.

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\$135,031 in term deposits which mature in 7 days and cash balances of US\$226,603 and RMB1,983,820.

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Based on the above net exposures as at March 31, 2010, 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 \$36,706 and \$29,599 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.

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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 March 5, 2010, the Company entered into a turnkey drilling contract with China Oilfield Services Ltd. ("COSL") under which COSL agreed to drill LS35-3-1 well in Block 25/34 at a cost approximately US\$28 million depending on the level of testing required. The drilling started on April 12, 2010 and the COSL rig was released on June 7, 2010 after completion of end-of-well operations. The actual cost incurred by the Company, testing included is US\$ 21 million.

On March 25, 2010, the Company filed a preliminary short form prospectus in the provinces of British Columbia, Alberta, Ontario and Quebec relating to a rights offering (the "Offering") to raise gross proceeds of C\$23,510,311. According to the Offering, each holder of the Company's common shares ("Shares") would be entitled to receive one right (a "Right") for each Share held. One Right would entitle the holder to acquire one Share at a price of \$0.50 per share (the "Subscription Price"). The Company's largest shareholder, Primeline International (Holdings) Inc. ("Primeline International"), had agreed to provide a standby commitment (the Standby Guarantee") under which Primeline International would purchase from the Company at the Subscription Price any Shares (the "Standby Shares") that are not otherwise subscribed for under the Offering. Accordingly, Primeline International deposited C\$23,510,311 into the Company's bank account on March 26, 2010 as deposit for the Standby Guarantee.

The rights were issued to holders of common shares of record on April 15, 2010 and expired on May 6, 2010. Under the Offering, shareholders subscribed for and purchased 39,640,833 common shares resulting in gross proceeds of C\$19,820,416.50. Under the Standby Guarantee Agreement with the Company, Primeline International purchased the balance of 7,379,790 common shares available under Offering for gross proceeds of C\$3,689,895. Aggregate gross proceeds of C\$23,510,311 were received by the Company.

The SDA signed between CNOOC, the Company and PPC was ratified by Ministry of Commerce of PRC and became effective on June 13, 2010. All other related Development Agreements became effective at the same date. CNOOC, on behalf of itself, the Company and PPC signed a Framework Agreement for Gas Sale and Purchase from Lishui 36-1 gas field on July 7, 2010, replacing the previous binding Gas Sale Agreement in principal.