



# Primeline Energy Holdings Inc.

Annual Information Form  
For the Year Ended March 31, 2011

July 21, 2011

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## DEFINITIONS

In this Annual Information Form, the following terms have the following meanings:

“Audit Committee”	the audit committee of the Board from time to time
“Block”	Block 25/34, comprising 5,221 sq kms and held under the Petroleum Contract, or, as the context requires, the contract area which will replace it, being Block 33/07 comprising 5,877 sq kms and to be held under the New Petroleum Contract
“Block 25/34”	the area in the East China Sea offshore Zhejiang Province in China that is the subject of the Petroleum Contract, the current contract area being 5,221 Sq kms
“Block 33/07”	the contract area in the East China Sea offshore Zhejiang Province in China that is the subject of the New Petroleum Contract, with a contract area of 5,877 sq kms
“Board”	the board of directors of Primeline or the Directors present at a duly convened meeting of Directors at which a quorum is present, including a duly constituted committee
“C\$”	Canadian Dollars
“China” or “PRC”	the People’s Republic of China
“CNPC”	China National Petroleum Corp., a company incorporated in China
“CNOOC”	China National Offshore Oil Corporation, a company incorporated in China which is the holding company for CNOOC Ltd., COSL and Offshore Oil Engineering Co. Ltd. and listed on the Hong Kong, New York and Shanghai Stock Exchanges. References herein to CNOOC include its subsidiaries
“CNOOC China”	CNOOC (China) Limited, a subsidiary of CNOOC Ltd. which is listed on the New York and Hong Kong Stock Exchanges
“CNOOC Research”	CNOOC Research Beijing, a subsidiary of CNOOC
“COSL”	China Offshore Services Limited, a company incorporated in China and listed on the Hong Kong and Shanghai Stock Exchanges
“Companies Law”	the Companies Law 1994 (Revised), as amended, of the Cayman Islands
“Contractors”	the foreign contractors as defined in the Petroleum Contract, namely Primeline Energy and Primeline Petroleum acting jointly
“Development”	the development of the Lishui Gas Field pursuant to the ODP
“Development Agreements”	the SDA, JOA and Implementation Agreement

“Directors”	the directors of Primeline
“EIA”	means the Environmental Impact Assessment Report relating to the Development
“Exchange”	the TSX Venture Exchange
“Feasibility Study”	the feasibility study for the commercialisation of LS36-1 completed by Primeline and CNOOC in December 2007
“Framework Agreement”	the framework agreement dated July 7, 2010 entered into between Zhejiang Gas and CNOOC China in relation to the sale of gas from the LS36-1 Gas Field and which replaced the Gas Sale Agreement
“Gas Sale Agreement”	the agreement in principle dated October 27, 2008 entered into between Zhejiang Gas and CNOOC China in relation to the sale of gas from the LS36-1 Gas Field
“Implementation Agreement”	the agreement dated March 17, 2010 between CNOOC, Primeline and PPC relating to the implementation of the development of the LS36-1 Gas Field
“JOA”	the Joint Operating Agreement dated March 17, 2010 between CNOOC China, Primeline and PPC setting out the detailed terms on which LOC will act as operator for the development and production operations for the LS36-1 Gas Field
“LS35-3-1”	the gas discovery well located within the Block, approximately 14.5 miles south west of LS36-1, which was drilled in April and May 2010
“LS36-1”	the gas discovery, which was delineated by 3D seismic and two successful wells, (LS36-1-1 and LS36-1-2) located in the Block approximately 100km from the coast of China, Zhejiang Province
“LS36-1 Gas Field”	the accumulation of gas within the LS36-1 geological trap
“Lishui Basin”	the geological basin located in the western part of East China Sea where LS36-1 and LS35-3-1 are located
“Lishui Gas Play”	LS36-1, LS35-3-1 and related analogous prospects and leads in the immediate surrounding area
“LOC”	CNOOC China Limited Lishui Operating Company, a wholly owned subsidiary of CNOOC China
“McDaniel”	McDaniel & Associates Consultants Limited of Calgary
“MOA”	Memorandum of Agreement dated July 15 between PECL, PPC and CNOOC relating to the amendment of the Petroleum Contract and the

	grant of the New Petroleum Contract
“New Petroleum Contract”	the Petroleum Contract to be entered into between CNOOC, PECL and PPC in respect of Block 33/07 pursuant to the MOA
“NI 51-101”	National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities adopted by the Canadian Securities Administrators
“ODP”	the Overall Development Program relating to the development of production facilities for the LS36-1 Gas Field
“Petroleum Contract”	the Petroleum Contract dated March 24, 2005 entered into between CNOOC, PECL and PPC in respect of Block 25/34, as amended
“Primeline” or “PEHI”	Primeline Energy Holdings Inc., a company incorporated under the Companies Law
“Primeline Energy” or “PECL”	Primeline Energy China Limited, a company incorporated under the Companies Law and a wholly owned subsidiary of Primeline
“Primeline International”	Primeline International (Holdings) Inc., a company incorporated in the British Virgin Islands which is wholly owned by Victor Yiou-Hwa Hwang
“Primeline Operations” or “PEOIL”	Primeline Energy Operations International Limited, a company incorporated under the Companies Law and a wholly owned subsidiary of Primeline
“Primeline Petroleum” or “PPC”	Primeline Petroleum Corporation, a company incorporated in the British Virgin Islands which is wholly owned by Victor Yiou-Hwa Hwang and accordingly an affiliate of Primeline
“Rights Offering”	the offering by Primeline of rights to subscribe for 47,020,623 Shares at \$0.50 per Share which closed on May 6, 2010
“RMB”	Chinese Renminbi, the lawful currency of China
“SDA”	the Supplemental Development Agreement dated March 17, 2010 between CNOOC, Primeline and PPC relating to the development of the LS36-1 Gas Field
“SEDAR”	the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators
“Senior Managers”	the senior managers of Primeline
“Shareholder”	a holder of Shares
“Shares”	shares of a nominal or par value of US\$0.001 each in the capital of Primeline

“Sinopec”	China Petroleum and Chemical Corp. (NYSE:SNP, www.sinopec.com.cn/)
“Stock Option Plan”	the stock option plan of Primeline
“US\$” or “\$”	US Dollars
“USA” or “US”	United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“Zhejiang Gas”	Zhejiang Natural Gas Development Company Limited, a company incorporated in China which owns and operates the Zhejiang Provincial natural gas grid.

## ABBREVIATIONS AND TECHNICAL TERMS

“2D”	Seismic data recorded along discrete tracks
“3D”	A set of numerous closely-spaced seismic lines that provide a high spatially sampled measure of subsurface reflectivity
“AVO”	Amplitude Variation with Offset
“bbls”	Barrels of oil
“bbls/d”	Bbls per day
“bcf”	Billion( $10^9$ ) cubic feet
“bcm”	Billion ( $10^9$ ) standard cubic metres
“Contingent Resources”	Quantities of natural gas estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies.
“DHIs”	Direct hydrocarbon indicators
“DST”	Drill Stem Test
“ft”	Feet
“HSE”	Health, Safety and Environment
“Km”	Kilometre
“Sq Km”	Square kilometre
“LNG”	Liquefied Natural Gas

“MD”	Measured Depth
“m”	Metres
“Mcf”	Thousand (10 <sup>3</sup> ) standard cubic feet
“MMbbls”	Million (10 <sup>6</sup> ) Barrels
“MMcf”	Million (10 <sup>6</sup> ) standard cubic feet
“MMcf/d”	Million (10 <sup>6</sup> ) standard cubic feet per day
“Prospective Resources”	Quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development.
“Reserves”	Estimated remaining quantities of oil and natural gas and released substances anticipated to be recoverable from known accumulations, as of a given date, based on analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions which are generally accepted as being acceptable
“TCF”	Trillion (10 <sup>12</sup> ) standard cubic feet
“TD”	Total Depth

## CONVERSION FACTORS

1 km	Equals	0.621 miles
1 cubic metre	Equals	35.31 standard cubic feet
1 cubic metre	Equals	6.29 barrels
1 sq km	Equals	247.1 acres
1 RMB	Equals	US\$0.14733 and C\$ 0.15206 as of July 28 <sup>th</sup> , 2010.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Information Form is dated July 21, 2011. Unless otherwise stated, information is presented as at March 31, 2011. It should be read in conjunction with Primeline’s audited consolidated financial statements and related notes for the year ended March 31, 2011.

Except for historical information, the following disclosures contain statements which may be considered to be forward-looking information. Such statements are made based on management’s judgment and expectations, and

assumptions which management believes to be reasonable. Forward-looking information is usually identified by words such as “could”, “expects”, “intends”, “estimates”, “projects”, “believes”, “may”, “likely” and “potential”, and is inherently subject to risks and uncertainties beyond management’s and Primeline’s control. Material factors that could cause actual results to differ from any conclusions contained in forward-looking information include the results of exploration; whether deferred exploration costs are ultimately recovered; whether Primeline’s assets, including estimated resources and reserves, can be realised; possible decreases in future oil and gas prices; possible increases in estimated costs of future production; the results of negotiations with Chinese municipal, provincial and other regulatory authorities; changes in government legislation and regulations; various operational factors; and whether new financing may be procured or new exploration partners obtained to enable Primeline to continue its exploration activities. Some of the material factors and assumptions applied in drawing such conclusions are the prospectivity for discovery of the Lishui Gas Play outside the three wells which it presently contains, and the remainder of the Block; that a ready and profitable market will exist for oil and gas which may be discovered in such areas, and that infrastructure for bringing such oil and gas to market may be constructed on economic terms; that if construction of a natural gas grid in Zhejiang Province is completed, gas demand in that region will continue to expand; that a final gas sale contract can be concluded with Zhejiang Gas on acceptable terms; that pipelines presently planned for will in fact be constructed; that China will continue to adopt more market-based pricing systems; and that environmental surveys and other studies necessary for production of oil and gas will be completed according to present timelines. Actual results may differ materially from those anticipated in the forward-looking statements. .

## **PRIMELINE**

Primeline was incorporated and registered with limited liability as an Exempt Company under the Companies Law of the Cayman Islands on March 31, 1995. Its registered office is located at PO Box 309, Uglan House, South Church Street, George Town, Cayman Islands. Primeline has offices in Hong Kong, London and Shanghai. Its Hong Kong office (the head office) is located at Hong Kong Parkview, 88, Tai Tam Reservoir Road, Hong Kong, PRC. Its London office is located at Parkview House, Fourteen South Audley Street, London W1K 1HN, UK and its Shanghai office is located at 22N, Cross Region Plaza, 899 Ling Ling Road, Shanghai, 200030, PRC.

Primeline Energy is a wholly owned subsidiary of Primeline and was also incorporated under the Companies Law. It is a party to the Petroleum Contract and holds a 75% share of the Contractors' interest in the Petroleum Contract.

Primeline Operations is a wholly owned subsidiary of Primeline and was also incorporated under the Companies Law. It has been appointed Operator under the Petroleum Contract. Primeline has no other subsidiaries.

Primeline International, a company controlled by Mr. Victor Hwang, the Chairman and President of Primeline, holds Shares representing 49.42% of Primeline's issued and outstanding Shares. Mr. Hwang also holds directly Shares representing 5.59% of Primeline's issued and outstanding Shares and owns and controls Primeline Petroleum, the company which holds the remaining 25% Contractors' interest in the Petroleum Contract.

Primeline's authorized share capital is US\$500,000.00 divided into 500,000,000 Shares and the current issued capital is 94,041,246 Shares. The Shares are listed on the Exchange.

### ***Business of Primeline***

Primeline is an independent oil and gas exploration and production company focusing exclusively on oil and gas opportunities in China. It holds rights to and operates in Block 25/34 in the East China Sea under the Petroleum Contract and is in the process of developing the LS36-1 Gas Field with CNOOC. Pursuant to the recently signed MOA, it has been agreed that the Petroleum Contract will be replaced by the New Petroleum Contract for Block 33/07 which area includes, and is slightly larger than, Block 25/34. The New Petroleum Contract is effectively a continuation of Primeline's activities in the Lishui Basin in the East China Sea under the Petroleum Contract which, in turn, was a continuation of its activities under the previous petroleum contract for Block 32/32 which was also essentially the same area covering the Lishui Basin.

Primeline Energy and Primeline Petroleum are jointly designated as the "Contractors" under the Petroleum Contract and respectively hold 75% and 25% interests in the Contractors' rights under that Petroleum Contract. Those rights entitle the Contractors to participate in the exploration, development and production of oil and gas in Block 25/34. Primeline Operations is designated as "Operator" under the Petroleum Contract. Pursuant to the Petroleum Contract, the Contractors are required to fund all the exploration costs whilst 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. In the event that CNOOC takes up such participation right, the Contractors hold the remaining 49% in their respective proportions. Primeline has the right to recover exploration costs from the future production. See "Petroleum Contract".

As at the date of the MOA, which amended the Petroleum Contract, Block 25/34 comprised a total area of approximately 5,221 sq kms (1.29 million acres) within the Lishui Basin which is situated approximately 100km from the coast of Zhejiang Province in China.

Primeline has an existing gas discovery within Block 25/34, known as LS36-1, and Primeline and CNOOC are currently developing the LS36-1 Gas Field. Primeline has completed the ODP for the LS36-1 Gas Field and has entered into the Development Agreements with CNOOC in order to commence the Development.

Pursuant to the Development Agreements, CNOOC exercised its right to take a 51% participating interest in the development and production of the Lishui Gas Field and accordingly the respective interests of the Parties in the Development are CNOOC 51%, Primeline 36.75% and PPC 12.25% which interests are held pursuant to the Petroleum Contract and the Development Agreements.

Primeline and CNOOC are pursuing a dual strategy of developing the LS36-1 Gas Field and, at the same time, continuing to explore the prospects and leads identified in Block.

There are several related prospects in the vicinity of the discovery, generally referred to as the “Lishui Gas Play”. During April/May 2010 Primeline drilled an exploration well, LS35-3-1, in one of those prospects and hydrocarbons were discovered and tested. Details of the test results are set out below under the heading “LS35-31”. Primeline will commit to drill two additional exploration wells prior to the end of the first exploration phase of the New Petroleum Contract which is expected to be entered into shortly (see below).

In addition to LS36-1, LS35-3-1 and the Lishui Gas play, there are a total of seven previously drilled wells in the Lishui Basin that have encountered various hydrocarbon occurrences (shows or flows). The Directors believe that these wells, together with LS36-1 and LS35-3-1, prove the existence of very extensive oil and gas plays in the Basin.

CNOOC, PECL and PPC have recently entered into the MOA pursuant to which the Petroleum Contract was amended such that no further exploration activities will be carried out under such contract and Primeline and PPC relinquished all of the contract area of 5,221 sq kms save for the development area for the LS36-1 Gas Field comprising 84.7 sq kms. The effect of such amendments is that the Petroleum Contract remains in effect only in relation to the continuing development and production operations for the LS36-1 Gas Field. The MOA further provides that CNOOC, Primeline and PPC will enter into the New Petroleum Contract for Block 33/07, further details of which are set out below.

Primeline presently has 20 employees.

## ***History of Primeline***

In March 2005, Primeline entered into the Petroleum Contract for Block 25/34. A gas discovery, LS36-1-1, was made by Primeline in 1997 in this area under a predecessor to the Petroleum Contract relating to Block 32/32. Two appraisal wells (LS36-1-2 and LS36-1-3) were drilled in 2000 and 2001. LS36-1-1 and LS36-1-2 together with a 3D seismic programme delineate the LS36-1 discovery which is 140km from the city of Wenzhou in Zhejiang Province.

On April 4, 2006, Primeline completed a private placement of 16,666,666 units at C\$1.50 per unit for gross proceeds of C\$25 million. Each unit consisted of one Share and one half of one common share purchase warrant. Each whole warrant entitled the holder to acquire one additional Share at a price of \$2.00 per Share for the two years following the closing of the private placement. All of the warrants subsequently lapsed unexercised. In connection with the private placement, Primeline International converted C\$7.9 million of debt owed to it by Primeline into 5,266,667 units, at a conversion price of C\$1.50 per unit.

Prior to completion of the private placement, Primeline and its operations were funded entirely by shareholder loans from Primeline International. After conversion of those loans, Primeline’s operations have been funded from the net

proceeds of the private placement and the subsequent Rights Offering and, more recently, by a loan facility from Mr. Victor Hwang, the chairman and controlling shareholder of Primeline, details of which are set out below.

In October 2008, following the completion of the Feasibility Study, CNOOC China and Zhejiang Gas entered into the Gas Sale Agreement. The Gas Sale Agreement was an agreement in principle which defined the general terms on which Zhejiang Gas will purchase the future production of natural gas from the LS36-1 Gas Field. Subsequently, on July 7, 2010, CNOOC China and Zhejiang Gas entered into the Framework Agreement which set out the terms of the gas sale arrangements in more detail and which replaced the Gas Sale Agreement. See “Gas Sale Agreement and Framework Agreement”.

Following execution of the Gas Sale Agreement, Primeline and CNOOC commenced preparation of the ODP for the stand alone development of the LS36-1 discovery. Following completion of the ODP in December 2009, the Contractors and CNOOC confirmed the commerciality of the LS36-1 Gas Field and agreed to proceed with the Development. Subsequently, on March 17, 2010, Primeline, PPC and CNOOC entered into the SDA and the other Development Agreements which confirmed the agreement of CNOOC to take a 51% interest in the Development and set out the basis on which the parties have agreed to proceed with the Development. See “Development Agreements”.

Under the ODP it is intended that CO<sub>2</sub> should be extracted from the produced gases and liquefied to create liquid CO<sub>2</sub> which can be sold into the market and CNOOC China has entered into framework distribution agreements with the three largest CO<sub>2</sub> distribution companies in Zhejiang and Fujian provinces for the sale of the liquid CO<sub>2</sub> to be produced from the LS36-1 Gas Field.

In March 2010, having made good progress on the Development, Primeline and COSL entered into a turnkey drilling contract for the LS35-3-1 exploration well. The well was spudded on April 12, and drilled to total depth of 2,908m on May 4, 2010 and, subsequently, Primeline conducted logging and two DSTs. The well flowed natural gas and confirmed a hydrocarbon discovery. Details of the test results are set out below under the heading “LS35-3-1”. The rig was released on June 7, 2010.

In order to fund the cost of the turnkey drilling contract for LS35-3-1 Primeline effected an offering to shareholders of rights to subscribe for 47,020,623 Shares at \$0.50 per Share. The Rights Offering closed on May 6, 2010.

The rights were issued to holders of Shares of record on April 15, 2010. Each such shareholder was entitled to one right for each Share held. One right entitled a holder to purchase one Share at a price of \$0.50 per Share. Under the Rights Offering, shareholders subscribed for and purchased 39,640,833 Shares resulting in gross proceeds of \$19,820,416.50. Under a Standby Guarantee Agreement with Primeline, Primeline International purchased the balance of 7,379,790 Shares available under the Rights Offering, for gross proceeds of \$3,689,895. Aggregate gross proceeds of \$23,510,311.50 were received by Primeline. The net proceeds of the Rights Offering were used to pay for Primeline’s share of the costs of drilling and testing the LS35-3-1 exploration well, amounting to US\$28m (Primeline’s share US\$21m), plus associated supervision and evaluation costs, with the balance remaining being retained for working capital purposes.

On May 26, 2011, Primeline entered into an agreement with Mr. Hwang under which Mr. Hwang granted Primeline a loan facility of up to US\$4,000,000 which may be drawdown in multiple tranches at any time before November 30, 2011. Such loan, which will be used for working capital purposes, is interest free and is repayable on written demand at any time after November 30, 2011.

On July 15, 2011, Primeline, PPC and CNOOC entered into the MOA pursuant to which it was agreed that CNOOC would grant a new petroleum contract to Primeline and PPC, in the same proportions in which they hold the

Petroleum Contract. Pursuant to the MOA, the Petroleum Contract was amended such that no further exploration activities will be carried out under such contract and Primeline and PPC relinquished the remaining area of Block 25/34 save for the development area of 84.7 sq kms relating to the LS36-1 Gas Field. The Petroleum Contract continues in force only in relation to the development and production operations for the LS36-1 Gas Field. The New Petroleum Contract is expected to be entered into shortly and details of its terms are summarised below. See “Petroleum Contract for Blocks 25/34 and 33/07” below.

## **PETROLEUM CONTRACTS FOR BLOCKS 25/34 AND 33/07**

Primeline and its affiliate company, PPC, are parties to and are jointly designated as Contractors under the Petroleum Contract.

The Petroleum Contract provided for an initial exploration period with a development period and a production period for each commercial development. The exploration period was originally for seven years commencing on May 1, 2005, split into three phases lasting three, two and two years respectively. However, as a result of subsequent amendment agreements, the first phase was extended to four years with the second and third phases remaining at two years each. The first phase ended on April 30, 2009 and Primeline elected to proceed to the second phase which was due to end on April 30, 2011. However, having regard to the operations relating to the Development and the previously announced drilling program, CNOOC agreed, in a letter to Primeline dated April 28, 2011, to a grace period of three (3) months under which the expiration date of the second phase of the exploration period was extended from May 1, 2011 to July 31, 2011 to allow time for discussions with regard to the coordination of the exploration program and development work and for Primeline to decide whether to elect to enter into the third phase. The third phase was due to run from May 1, 2011 to April 30, 2013. In July 2011, CNOOC, Primeline and PPC entered into the MOA which further amended the Petroleum Contract.

The Contractors are responsible for all costs incurred during the exploration phases with the option to terminate the Petroleum Contract at the end of each phase. The production period is for 15 years, extendable to 20 years, in relation to each commercial development. The Petroleum Contract is on favourable fiscal terms with no royalties being payable on production below 194MMcf/d and no government production sharing below 340 MMcf/d for each production field within the Block.

In 2007 the Company and CNOOC agreed on a rolling development strategy, which entails developing the existing gas resources in the LS36-1 Gas Field whilst at the same time continuing exploration of nearby prospects. As a result, in April 2009, in view of the work programme being undertaken in relation to the ODP and the difficulty then being experienced in locating a suitable rig, CNOOC agreed that the Contractors could carry forward the unfulfilled one well commitment from the first phase into the second phase of the exploration period.

Primeline elected to enter into the second phase of the exploration period for Block 25/34 which was for two years from May 1, 2009 with a commitment for two exploration wells with a minimum depth of 2,500m, including the one unfulfilled well commitment carried over from the first phase. Of those two commitment wells, one well, LS35-3-1, was completed in June 2010, leaving an additional well to be drilled by April 30, 2011. Pursuant to the Petroleum Contract, the Contractors were required to relinquish 25% of the exploration area when they elected to proceed to the second phase and, as a result, the total concession area for Block 25/34 was reduced to 5,221 sq kms from May 1, 2009

In March 2010, following the completion of the ODP and confirmation of the commerciality of the LS36-1 Gas Field, CNOOC and Primeline entered into the Development Agreements which were supplemental to the Petroleum Contract and which set out the terms on which the parties agreed to proceed with the Development. See “Development Agreements”.

Subsequently, as a result of the discussions intended to agree arrangements whereby the continuing exploration of the Lishui Basin could be aligned with the Development strategy, CNOOC, PPC and entered into the MOA which confirmed that the Petroleum Contract should be amended so that no further operations would be carried under such contract save only for the continuing development and production operations for the LS36-1 Gas Field, and that the New Petroleum Contract will be entered into on the following basis:

- Area: The exploration area under the New Petroleum Contract will cover the same area as that currently held under the Petroleum Contract but with an additional adjacent area to the east making a new area of 5,877 sq kms. The new area has been designated as Block 33/07.
- Term: The New Petroleum Contract will grant a seven-year exploration period divided into three exploration periods of three, two and two years each with a minimum work commitment in the first phase of two wells to 2.500m plus 600 sq kms of 3D seismic . The commitment for each of the second and third phases is one well to 2.500m.
- Future discoveries in Block 33/07 (and any CNOOC self financed discoveries nearby if there is spare capacity and subject to payment of operational costs) will enjoy the right to free use of the production facilities to be built for the LS36-1 Gas Field.
- All other terms are the same as the Petroleum Contract and the New Petroleum Contract will be held by Primeline and PPC in the same proportions in which they hold the Petroleum Contract of 75/25.

Accordingly, PPC and CNOOC will continue with the Development under the Petroleum Contract and, in addition, Primeline and PPC will be granted the New Petroleum Contract under which they will continue to have a significant exploration area around the LS36-1 Gas Field for a further seven years.

Block 25/34, its replacement, Block 33/07, and the development and production area relating to the LS36-1 Gas Field, which continues to be held under the Petroleum Contract, are Primeline's only oil and gas properties and Primeline's business is therefore entirely economically dependent on the Petroleum Contract and the New Petroleum Contract. Because the Block is within the jurisdiction of the PRC, Primeline's business is entirely dependent on foreign operations. See "Risk Factors".

## ***Block 25/34 Exploration History***

Primeline's primary asset is its 75% share of the Contractors' interests under the Petroleum Contract in relation to Block 25/34, which interest is to be replaced, pursuant to the MOA, by the New Petroleum Contract for Block 33/07. Block 25/34 currently covers a total area of 5,221 sq kms of the Lishui Basin in the East China Sea in water depth between 75 and 90 metres. Block 33/07 effectively covers the same area as Block 25/34 but is slightly larger with a total area of 5,877 sq kms. The Block is located approximately 100 km from the coast of Zhejiang Province.

The area covered by the Block was explored by different Chinese companies in the 1980s. Various sets of seismic data were shot by the Ministry of Geology ("MOG") and CNOOC and two wells were drilled by MOG, Lingfeng-1 (1985) and Shimentan-1 (1987), both encountering hydrocarbons.

Primeline carried out a detailed technical evaluation of the area of the Block between 1994 and 1997 (when it was designated Block 32/32) using different vintages of seismic data and reprocessed seismic data. Based on the interpretation of over 7,000 km of seismic data and regional evaluation, Primeline selected LS36-1 as the target for its first exploration well in the Block.

LS36-1-1 was spudded on July 25, 1997 and reached a TD of 3,300m. The well encountered 543 m of gross hydrocarbon-bearing section, of which 105.8 m was interpreted as potential pay zones. The well flowed 9.86

MMcf/d of gas and 117bbls/d of condensate through a 48/64" choke from the top reservoir section of 24m. LS36-1-1 was then plugged and abandoned as a gas discovery.

In 1998, Primeline completed a 233 sq km 3D seismic survey of the area surrounding LS36-1-1. The data was processed and interpreted in 1999.

LS36-1-2 was spudded on June 1, 2000 and reached a TD of 2,900 m. The well encountered and confirmed similar reservoir quality and characteristics to LS36-1-1. From a single test zone in the upper Palaeocene reservoir, the well flowed at a stabilised rate of 12.25 MMcf/d of natural gas and 189bbls/d of condensate through a 7/8" choke.

In late 2001, a second appraisal well (LS36-1-3) was drilled. LS36-1-3 was an aggressive step out well, 7 km away from LS36-1-1, and failed to encounter any hydrocarbons.

LS36-1-1 and LS36-1-2 have proven a hydrocarbon system in the Lishui Basin, much of which is inside the Block. Near the existing discovery (within a 20km radius) there are several analogous prospects and leads that have similar geological and geophysical characteristics, including similar seismic attributes such as Bright Spots and Amplitude Variation with Offset ("AVO"). There are also several incised channel systems which related to the distribution of the sand bodies in the basin. Primeline acquired an additional 550 sq km of 3D seismic in 2005 which, merged with the previous 3D seismic data, covers a total 3D seismic area of 737 sq km. Primeline has carefully evaluated the prospective of the 3D area and has mapped out several analogous prospects. These nearby analogous prospects and leads in the basin system near LS36-1-1 are the main focus of Primeline's current exploration and development programme.

As part of that programme, Primeline drilled an exploration well at one of the prospects, LS35-3-1, which was spudded on April 12, 2010 and reached a TD of 2,908m and which also resulted in a hydrocarbon discovery. See "Exploration" and "LS35-3-1" below.

The LS35-3-1 discovery is significant in that it confirms that hydrocarbons have migrated to and are trapped in the channel systems on the west flank of the West Lishui Basin. Three channel systems have been mapped and delineated in Primeline's 3D area, with others recognised to the north of that area which is covered by 2D seismic data. Primeline has carried out a post well evaluation to assess the volume and nature of the resources discovered in LS 35-3, refine the petroleum system model and high-grade and further define prospects for further exploration drilling and further details are set out below. See "LS35-3-1" below.

## ***Resources Audit***

As referred to in "LS36-1 Resources Registration and Auditing" below, in 2007, in order to comply with Canadian reporting requirements, Primeline retained McDaniel to carry out an independent resource audit for Block 25/34. McDaniel is one of the world's leading petroleum consulting firms specializing in geological studies, reserves evaluations, resource assessments, economic evaluations and petroleum engineering studies. McDaniel's updated resource estimate as at March 31, 2011 for LS36-1 and all the prospects and leads within the Lishui Gas Play is set out below. See "Statement of Reserves Data and Other Oil and Gas Information".

## ***Dual Development and Exploration Strategy***

Primeline and CNOOC are pursuing a dual strategy of developing the LS36-1 Gas Field, based on the currently confirmed resources, and, at the same time, continuing to explore the prospects and leads identified within the Block. Following the execution of the Development Agreements CNOOC is primarily responsible for the development and production operations relating to the LS36-1 Gas Field, having been appointed as Operator for

such operations, whilst Primeline, as Operator for exploration operations in Block 25/34 (and as operator under the New Petroleum Contract), is focusing its efforts on step out exploration of the nearby prospects to expand the current resource base.

The Directors believe the confirmation of the market for gas from the Block by the execution of the Gas Sale Agreement and Framework Agreement, and the creation of the production facility for the LS36-1 Gas Field significantly enhance the potential value of any additional resources which may be discovered in LS36-1 itself and, more importantly, greatly enhance the value of any additional resources which may be discovered in the Lishui Gas Play and beyond.

The recent hydrocarbon discovery at LS35-3-1 confirms Primeline's belief that hydrocarbons have migrated to the channel systems in the west flank of the Lishui Basin and Primeline is now refining its evaluation of the remaining potential of the Lishui Basin and the numerous prospect leads which it has already identified.

## **CHINA ENERGY MARKET**

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 2009 natural gas represented about 3.9% of the entire energy mix (up from 3% in 2007), compared to the world average of 24%, and the Chinese Government has recently announced plans to raise this percentage to 8% by 2015. Total consumption in 2009 was circa 89 bcm so the proposed target represents a total of circa 250 bcm in 2015. 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 the 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](http://www.petrochina.com.cn)), was completed on October 1, 2004 and now carries approximately 12 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 with a total of 66 bcm of natural gas having been supplied via this pipeline by the end of 2009.

In order to respond to increasing demand, there are now three new long distance gas pipelines from west China to east China, two of which are to supply gas to Zhejiang Province. One is being developed by CNPC and one 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. 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 annum over 30 years from Turkmenistan to supply this pipeline.

On March 29, 2010, Sinopec announced that the construction of a natural gas pipeline running from south west Sichuan Province to Shanghai had been completed. This new pipeline, with a total pipeline capacity of 17 bcm, is expected to supply 12 bcm per annum to cities along the pipeline, including northern Zhejiang Province.

In the past, the Chinese Government has held state-set gas prices based on local costs and thus below international 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, on May 31, 2010, China National Development and Reform Commission announced increases in prices for onshore natural gas products and LNG prices in China are converging on international LNG prices. China is currently buying LNG on the spot market and CNPC and CNOOC have recently reported signing long term LNG supply contracts at prices well above current North American gas prices. In August 2009, CNPC signed a 20-year LNG contract with Exxon Mobil Corporation at a price of circa 910 US\$/ton.

These 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. It is also apparent that a nation-wide gas grid is in the process of being established in China and the east China region, as the most industrialised region, will be the frontrunner for this improved gas infrastructure.

## ***Natural Gas Market in Zhejiang Province***

CNOOC China and Zhejiang Gas have entered into the Gas Sale Agreement and, subsequently, the Framework Agreement, under which Zhejiang Gas will purchase gas from the LS36-1 Gas Field for distribution through the gas grid which it is currently constructing in Zhejiang Province.

Zhejiang Province has a total population of approximately 50 million and a land area of 101,800 sq km. It rates as the 4<sup>th</sup> largest provincial economy within China and has enjoyed double digit annual growth during the last 25 years. The 2009 total GDP was RMB 2,283 billion (US\$ 334 billion) or approximately US\$ 6,511 per capita. Its import and export size and growth are impressive, reaching US\$ 188 billion in 2009. Zhejiang Province has almost no primary energy supply except for its hydro-energy potential 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. Energy consumption in Zhejiang Province relies 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% in 2008 and miniscule compared with the average international level of 24.1% in the total energy mix.

Zhejiang Province currently has a natural gas grid of 330km in the northern part of the Province serving the major cities in the area, including Hangzhou, Huzhou, Jiaxin and Shaoxin, and which is fed by the first West to East Gas pipeline. This gas grid is owned and operated by Zhejiang Gas. Previously it had not been anticipated that a provincial wide gas grid would be established in Zhejiang Province in the near future. However, the announcement by CNPC in August 2007 of the proposed Second West to East Gas Pipeline prompted a review of the Zhejiang Province gas distribution policy, which review resulted in a decision by the Provincial government that a gas grid should be established in the southern part of Zhejiang Province in order to utilise gas from the proposed pipeline. As a result, the gas distribution strategy of Zhejiang Province was changed and Zhejiang Gas is now constructing a gas grid which will extend throughout the Province linking the existing grid to other major cities within Zhejiang Province, including Wenzhou. This expanded grid will connect to the proposed Second West to East Gas Pipeline currently under construction by CNPC, to the Sichuan Gas to East Pipeline which Sinopec has just completed and to LNG imports. The planned annual throughput of the Zhejiang provincial grid by 2015 is estimated at over 6 bcm per annum.

Following finalisation of the plans for the construction of the provincial gas grid by Zhejiang Gas it became possible for gas from LS36-1 to be supplied to the proposed Provincial gas grid via a connection at Wenzhou. Wenzhou is the closest major city to LS36-1 and is situated on the coast only 140 km away from the discovery. Wenzhou's current gas usage is restricted to LPG and small scale locally sourced LNG.

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 greenfield situation in Wenzhou alone, it will now be possible to supply to a rapidly developing market via the grid which is to be established serving all the major cities in the Province and beyond. It is apparent from other natural gas grids in China that once supply has been established then there is rapid expansion of demand.

## **DEVELOPMENT OF THE LS36-1 GAS FIELD**

LS36-1 has a relatively small resource and was previously regarded as sub-commercial. However, having regard to the general escalation of world oil and gas prices, the continued economic growth of China and the recent rapid growth of gas infrastructure in China, in early 2007 Primeline and CNOOC decided to commence work on establishing its commerciality. In early 2007 Primeline took steps to register the reserves with the Chinese State Reserve Committee (these are not Reserves within the meaning of NI 51-101) and once such the registration had been completed, commenced preparation of the Feasibility Study in July 2007. Subsequently, following the execution of the Gas Sale Agreement, Primeline and CNOOC completed the ODP in December 2009. With the execution of the Development Agreements in March 2010, the Contractors and CNOOC commenced the Development with a target date for first gas in mid 2012. However, it became apparent that the site originally selected for the construction of the gas processing terminal would not be suitable and, in July 2010, Primeline and CNOOC secured an agreement in principle with the Wenzhou Government for a new site for the onshore terminal. Because of this change, it was necessary for CNOOC to revise the ODP and the EIA. In November 2010, CNOOC commenced the engineering design, whilst the documentation for submission of the ODP to the government was being finalised, CNOOC also commenced procurement activities. Due to the delay caused by the change of the terminal site the current target for first gas date is now early 2013.

### ***LS36-1 Reserves Registration and Auditing***

In early 2007 Primeline commissioned CNOOC to prepare a reserve report for the LS36-1 discovery in accordance with the Chinese government regulations in order to obtain “Development Reserves” status. The reserve 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 approved by the State Reserve Committee on July 5, 2007. It should be noted that the existence of a reserve report approved under Chinese government regulation does not mean Primeline 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 Canadian reporting requirements, Primeline retained McDaniel to carry out an independent resource audit. In July 2007, McDaniel submitted to Primeline its independent resource estimate for Block 25/34 for filing with the appropriate Canadian securities regulatory authorities and the Exchange in accordance with NI 51-101.

Subsequently, following finalisation of the ODP, Primeline appointed McDaniel to conduct a full independent evaluation of the LS36-1 project. McDaniel reviewed the full ODP report and the Gas Sale Agreement in the financial year 2009/2010 and updated their reserve report. Subsequently following execution of the Framework Agreement, McDaniel have further updated their evaluation of the natural gas and natural gas liquid reserves located in LS 36-1 in accordance with the standards set out in Canadian National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook (“COGEH”). McDaniel's evaluation estimates that the LS 36-1 Gas Field has a total project recoverable Probable Reserves of 119 bcf of natural gas and 4.9 MMbbl of natural gas liquid and light oil, which translates to Company net Probable Reserves of 45.7 bcf of gas and 1.9 MMbbl of natural gas liquid and light oil and project Possible Reserves of 93 bcf of gas and 3.8 MMbbl of natural gas liquid and light oil, which translates to Company net Possible Reserves of 34 bcf of gas and 1.40 MMbbl of natural gas liquid and light oil.

Under the oil industry definition, there is a 50% probability that the quantities actually recovered will equal or exceed the Probable Reserves. Possible Reserves are those additional reserves that are less certain to be recovered than Probable Reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the Possible Reserves. McDaniel stated that “proved reserves have not been assigned as the ODP has not yet been approved by CNOOC and the government.” The effective date of McDaniel's latest estimate is March 31, 2011.

Based on the Gas Sale Agreement and their view of the full product price, McDaniel estimates a net present value for the LS 36-1 project's Probable Reserves, net to Primeline, of US\$83 million at a discount rate of 5% and US\$253 million, again net to Primeline, when the Possible Reserves in LS 36-1 are included. It should be noted that these estimated values are not an estimate of fair market value. See “Statement of Reserves Data and Other Oil and Gas Information”.

## ***Feasibility Study***

In July 2007, Primeline commissioned CNOOC, Shanghai Branch, and CNOOC Research in Beijing to prepare a full Feasibility Study for the development of the LS36-1 Gas Field on a stand-alone basis. The Feasibility Study covered 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. These 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 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 and Primeline received the formal Feasibility Study in early 2008.

## ***Gas Sale Agreement and Framework Agreement***

Based on the result of the Feasibility Study, CNOOC and Primeline commenced negotiations and subsequently finalised the Gas Sale Agreement with Zhejiang Gas and, in October 2008, CNOOC China and Zhejiang Gas entered into the Gas Sale Agreement. In doing so, CNOOC China acted on its own behalf and on behalf of Primeline Energy and Primeline Petroleum.

The Gas Sale Agreement was an agreement in principle which defined the general terms on which Zhejiang Gas will purchase the future production of natural gas from the LS36-1 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 governed the further negotiation of the more formal Framework Agreement. During the ODP process Primeline, CNOOC China and Zhejiang Gas negotiated the detailed terms of the gas sale, including the delivery point, delivery profile, final delivery gas price, and payment terms, which detailed terms are incorporated in the formal Framework Agreement which is dated July 7, 2010 and which replaced the Gas Sale Agreement. The Framework Agreement will in due course be replaced by the final gas sale contract, which is expected to be finalised during the development of the production facility.

Recently, CNOOC and Zhejiang Gas entered into a further agreement, which supplements the Framework Agreement. The Framework Agreement specifies the base gas price at a delivery point at the terminal and the supplemental agreement provides for a revised delivery point and increased delivery pressure, together with an increased gas price at the delivery point to compensate for the increase in the development costs caused by such changes.

CNOOC entered into a separate agreement with Primeline and PPC confirming that Primeline's and PPC's share of the gas (being 36.75% and 12.25% respectively) from the LS36-1 Gas Field will be sold through CNOOC on the same terms as those in the Gas Sale Agreement and the Framework Agreement.

## ***CO<sub>2</sub> Sales***

The raw gas in LS36-1 contains CO<sub>2</sub> which must be extracted as part of the treatment process before sale of the natural gas into the Zhejiang provincial gas grid. China is imposing tighter environmental controls and the current regulations require that the CO<sub>2</sub> extracted from natural gas must be properly dealt with. Under the ODP it is intended that the CO<sub>2</sub> should be extracted and then liquefied to create food grade liquid CO<sub>2</sub> which can be sold into the local market. Primeline commissioned a detailed market research report to assess the market for liquid CO<sub>2</sub>, which report confirmed that there is a rapidly growing market for CO<sub>2</sub> products in the East China region with applications including metal processing, fabrication (particularly in the ship building industry) and numerous uses in the food industry.

In December 2009 Primeline and CNOOC concluded initial negotiations with the three largest CO<sub>2</sub> distribution companies in Zhejiang and Fujian Provinces which resulted in Framework Distribution Agreements ("CO<sub>2</sub> Agreements") being signed between CNOOC and each of the three distribution companies. In entering into the CO<sub>2</sub> Agreements, CNOOC acted on its own behalf and on behalf of Primeline and PPC. A separate agreement was entered into between CNOOC, Primeline and PPC outlining the terms of authorisation for CNOOC to sell the CO<sub>2</sub> on behalf of Primeline and PPC pursuant to the CO<sub>2</sub> Agreements.

Under the CO<sub>2</sub> Agreements the distribution companies agreed to purchase, on a take or pay basis, an aggregate amount of liquid CO<sub>2</sub> representing the initial proposed production from the LS36-1 Gas Field. The CO<sub>2</sub> Agreements define the general terms on which the distribution companies will buy and distribute the liquid CO<sub>2</sub> to be produced from the LS36-1 Gas Field. These three companies will sell the liquid CO<sub>2</sub> into the East China market, each being granted an exclusive distribution area. The ODP contains plans for a dock facility adjacent to the gas processing terminal which is intended to be used to facilitate the transportation of the liquid CO<sub>2</sub> by sea.

On the basis of the price agreed for the sale of the liquid CO<sub>2</sub> it is anticipated that the full cost of the creation and operation of the CO<sub>2</sub> production facilities will be covered with a small profit.

## ***Development Agreements***

On March 17, 2010, Primeline, PPC, CNOOC and CNOOC China signed the "Development Agreements" which comprise the SDA, the JOA and the Implementation Agreement and which set out the basis on which CNOOC and Primeline will proceed with the development of the LS36-1 Gas Field.

Under the SDA, which was entered into between CNOOC, Primeline and PPC, CNOOC formally confirmed that it would exercise its right under the Petroleum Contract to take its full participating interest of 51% in the LS36-1 Gas Field, so that the respective participating interests in the development of and production from the LS36-1 Gas Field are 51% CNOOC, 36.75% Primeline and 12.25% PPC. The development and operating costs will be borne by the parties in their respective participating interests.

The SDA also confirmed that:

- LOC, a wholly owned subsidiary of CNOOC China, will be appointed as the Operator for the development and production operations for the LS36-1 Gas Field;
- a development area of 84.7 sq kms surrounding the LS36-1 Gas Field will be carved out of Block 25/34;

- the production period for the LS36-1 Gas Field will be for a minimum of 15 years from the commencement of commercial production and will be extended in the event that additional gas resources are discovered within Block 25/34 which can be tied into the production facilities established for LS36-1; and
- the production facilities will be owned by the parties jointly in the proportions of their participating interests until full cost recovery and the parties shall have the continuing right, until the end of the production period, to use the production facility assets in respect of any additional resources which may be discovered within Block 25/34 and which can be tied into such production facility assets. The MOA states that this provision will be extended to include additional resources discovered in Block 33/07.

The SDA was subject to the ratification of the Ministry of Commerce of the People's Republic of China, and such ratification was granted on June 13, 2010, when the SDA became effective.

The JOA, which has been entered into between CNOOC China, Primeline and PPC, sets out the basis on which CNOOC China shall establish a project management team in Shanghai under LOC in order to carry out the development and production operations. In particular, it provides that Primeline may appoint certain key members to the project management team who will be involved in all procurement and operational decisions and grants Primeline a significant degree of control over how those operations are carried out with all major decisions being by unanimous decisions of the parties. The JOA is supplemental to the SDA.

In the Implementation Agreement, Primeline, PPC and CNOOC agreed that the development preparation work needed to be implemented immediately in order that the development can be completed in time to deliver first gas to Zhejiang Gas in accordance with the agreed target date of mid 2012 and it was agreed that CNOOC will be responsible for such initial preparation work in order to maintain the target. The Implementation Agreement sets out the agreed principle that as much of the procurement of the development as possible should be contracted using long term procurement contracts established by CNOOC in order to achieve cost savings so that the development can be delivered as economically and efficiently as possible. CNOOC also agreed to assist Primeline and PPC to secure project finance for the development.

### ***Transfer of Operatorship for the Development***

As referred to above, the Development Agreements transfer the operatorship for the development and production operations for the LS36-1 Gas Field from PEOIL to LOC, which is to be established as a wholly owned subsidiary of CNOOC China, which is, in turn, a subsidiary of CNOOC. There are expected to be various benefits from this transfer of operatorship. Firstly, CNOOC has an established project management team which has considerable relevant experience and can be mobilised with minimum delay. Secondly, as a subsidiary of CNOOC, LOC is able to procure the services and equipment required for the development of the LS36-1 Gas Field on the basis of existing CNOOC long term procurement contracts with various contractors which, together with other operational efficiencies, should result in cost savings for the development. LOC will act as operator only in respect of the development and production operations for the LS36-1 Gas Field; PEOIL will continue to act as operator under the Petroleum Contract and under the New Petroleum Contract in respect of all continuing exploration operations.

### ***ODP***

Based on the initial results of the Feasibility Study and on the basis of the terms set out in the Gas Sale Agreement, Primeline commenced work on the ODP in November 2008. The ODP is required to be approved by the PRC Government before development can commence. The ODP comprises a formal development engineering plan, backed up by survey results and environmental studies, together with a full economic analysis of the Development.

Primeline and CNOOC Research entered into a technical services agreement in February 2009, under which CNOOC Research undertook to take overall responsibility for the compilation and technical approval of the ODP, including management of the various surveys and third party services and the technical design and analytical work. The contracting of third party studies and surveys was jointly managed by CNOOC Research and Primeline through normal tendering and negotiation procedures. The most important survey work was the pipeline route survey and platform site survey. Other survey work included environmental surveys for the platform, pipeline, terminal and jetty, the site survey for the terminal and the fishery resources survey. CNOOC Research is responsible for obtaining technical approval of the ODP from all appropriate Chinese State Authorities. Under the terms of the Petroleum Contract, the costs of the ODP are borne by Primeline and PPC in the proportions 75/25.

CNOOC Research has produced the overall development programs for over 40 previous offshore developments and is the most authoritative body for such work in China. CNOOC Research established a team of about 40 technical personnel for this ODP project from 28 disciplines, including reservoir engineering, facilities engineering, drilling production and economics.

As part of the ODP, Primeline and CNOOC have been working with the Wenzhou Municipal Authority to secure the land for the landing point for the proposed offshore pipeline and the onshore gas processing terminal and following the initial delay arising out of the necessity to change the site selected for the terminal, the site for the terminal has now been agreed. CNOOC China will be leading the land acquisition effort and Primeline will be working closely with CNOOC and Wenzhou to ensure the process is completed in line with the progress on the ODP and the proposed Development.

The technical work for the ODP, supported by completed surveys and additional study results, was completed in July 2009 and Primeline and CNOOC held a joint review meeting in late July in Shanghai to review the initial results. Following that initial review, additional work was carried out and the final review by CNOOC Head Office was held in August 2009 in Wenzhou, the major city on the coast where the proposed offshore pipeline would arrive directly from the LS36-1 Gas Field.

At the final technical review, the ODP was approved and accepted in principle by CNOOC and Primeline and it was agreed that both parties would proceed to seek internal approval from CNOOC's Investment Committee and Primeline's Board before submission of the ODP for central government approval. Those internal approvals have now been obtained.

Following the review and acceptance of the ODP technical work in late August 2009, CNOOC Research finalised the ODP report and prepared the supporting documentation required for government approval. The supporting documentation included an occupational hazard assessment, a safety assessment report and an environment impact assessment (EIA).

With the resolution of the terminal issue in July 2010 and confirmation of the point of delivery to Zhejiang Gas, CNOOC moved onto revision and finalisation of the ODP which had previously been agreed in 2009, for submission to the National Development and Reform Commission (NDRC) and, in particular, to the completion of the EIA for the new terminal site and the gas pipeline route between the terminal and the delivery point, which was the main outstanding document required for that submission. The EIA was completed in early 2011 and CNOOC conducted an internal review of the revised EIA which was approved by CNOOC on March 12, 2011. The Report was then submitted to the State Oceanography Administration (SOA) and reviewed on April 26, 2011 without any major concern or challenge. However, minor amendments were required by that review and the final EIA is now expected to be approved shortly following which the ODP can be submitted to NDRC. CNOOC has confirmed that it will use reasonable endeavours to submit the ODP as soon as reasonably practicable subject only to final approval of the EIA.

Pursuant to the Implementation Agreement, CNOOC agreed to progress and be responsible for the preparation work for the development operations until such time as all government approval have been obtained so that the development schedule required under the Framework Agreement will be maintained. Accordingly, during the process relating to finalisation of the ODP, LOC, as operator for the Development, appointed CNOOC Research to commence engineering basic design for the Development in November 2010, in order to maintain the Development schedule. The engineering basic design was reviewed at a review meeting at the end of May 2011 and finalisation of the design is currently underway. Once the design is completed, LOC will be able to commence full procurement for the Development. Early procurement work for long lead items commenced in Q1 2011. Primeline is fully involved in the management of the engineering design and procurement with LOC.

### ***Development Finance***

Concurrent with the progress on the Development, Primeline has been in discussions with various Chinese banks on the project financing of its share of the development costs. The intention is to arrange finance in Chinese Renminbi, since the income from sale of the gas and CO<sub>2</sub> and most of the development cost will be in that currency. Primeline has reached in principle agreement with a major Chinese Bank on the general terms of a proposed project finance facility for financing Primeline's share of the cost of the Development. The proposed facility is subject to formal documentation and to the Bank's credit committee approval. The Bank is currently finalising its evaluation of the project financing proposal and it is now expected that the submission to be Bank's credit committee will be made after the ODP submission to and approval by NDRC.

## **EXPLORATION**

### ***Lishui Gas Play***

During 2006/2007, Primeline completed the acquisition of 550 sq kms 3D seismic data. That data was then merged with the previous 3D data to make a total full fold data set of 737 sq kms, covering LS36-1 and nearby prospects. The data was then evaluated in order to define prospects and possible drilling locations in the area adjacent to LS36-1. Primeline's evaluation confirmed the existence of channel and canyon systems and several sizeable prospects were mapped in this area. Geophysical features associated with LS36-1, including AVO anomalies and bright spots, are also found on these prospects.

Following completion of 3D seismic interpretations, Primeline agreed with CNOOC that the two best locations for exploration drilling in the Block, were LS35-3 and LS30-3 and completed the well design and surveyed both well sites.

### ***LS35-3-1***

LS35-3 is approximately 14.5 km from the existing LS36-1 discovery and is one of four main channel system prospects Primeline identified in the area adjacent to the LS36-1 Gas Field.

On March 5, 2010 Primeline entered into a turnkey drilling contract for exploration well LS35-3-1 within the LS35-3 prospect. Under the turnkey drilling contract, COSL agreed to drill the well using a jack-up rig, COSL 942. The well was spudded on April 12 and reached a TD of 2,908m.

### ***LS35-3-1 Testing Results***

At TD, Primeline implemented a programme of electric logging and conducted a formation evaluation logging programme including Vertical Seismic Profiling (VSP), Reservoir Characterisation Instrument (RCI-RFT) and side wall coring. Interpretation of the log data confirmed that:

- Target Zone 1 comprised continuous sandstone with porosities ranging 13–22% but no indications of hydrocarbons;
- Target Zone 2 comprised sandstone with mudstone interbeds with porosities ranging 0–16% but with limited indications of hydrocarbons;
- Target Zone 3 comprised sandstone and mudstone interbeds with over 20m aggregate of potential hydrocarbon gas pay in two zones with porosities ranging 5–16%.

Based on these results, Primeline instructed COSL to conduct drill stem testing (DST) of the two intervals in Target 3 which commenced on May 16, 2010 under a turnkey arrangement.

DST 1 was conducted over the depth range 2,836–2,852m measured depth (MD). This was conducted conventionally using diesel in the wellbore. There was no flow of hydrocarbons to the surface.

DST 2 was conducted over the depth range 2,794–2,802m MD. Nitrogen was used in the wellbore to optimise the pressure drawdown and gas flowed naturally to the surface and was flared continuously and steadily for over 7 hours. A second flow period was attempted after an 18 hour shut-in but was unsuccessful because the test valve was blocked by formation sand. There was then a second shut-in period of 15 hours. Data from the downhole pressure gauges showed that the two pressure build-ups during the shut-in periods were consistent. The surface gas flow during the first flow period was at a low pressure which steadily rose over the 7 hour flow period but did not reach the pressure necessary to operate the separator or the flow meters. The flow potential of the well was thus not measured. Gas samples were collected at the wellhead and fluid samples were collected from the wellbore for laboratory analysis. The test programme ended on May 29 and the LS35-3-1 well was declared as a gas discovery. The COSL rig was released on June 7 after the completion of end-of-well operations.

This discovery is significant in that it confirms that hydrocarbons have migrated to and are trapped in the west flank of the West Lishui Basin, the majority of which is inside Block 25/34. Three channel systems have been mapped and delineated in Primeline's 3D area, with others recognised to the north of that area which is covered by 2D seismic data. Primeline has completed the post well evaluation of LS35-3, and is now refining the petroleum system model in order to high-grade and further define prospects for further exploration drilling.

The LS35-3-1 discovery is also the first surface flow of natural gas from a low permeability reservoir in the southern East China Sea. This is significant, not only for further exploration in the Block, but also for upside in the Development. The LS36-1 Gas Field has over 200 metres of gas-bearing low-permeability reservoirs which are directly below the gas zone being developed. With the new data from LS35-3-1, Primeline will assess the potential for modern fracing, horizontal and multi-lateral drilling technology to enhance the low permeability reservoirs' production rates.

#### ***LS35-3-1 Post Well Evaluation***

Following the drilling of the LS35-3-1 exploration well, Primeline conducted a detailed post well evaluation of the data gathered in the well and re-evaluated the remainder of the Block using the new data. LS35-3-1 confirmed a hydrocarbon accumulation on the Western Flank of the Lishui Basin which is significant for Primeline's ongoing exploration effort in the region. The well flowed gas from a low permeability reservoir which has implications for the possible development of the deeper gas zones in the LS36-1 Gas Field and the gas potential in the region in general.

The LS35-3-1 well was located to test three inferred stacked channel sand reservoirs: Targets 1, 2 and 3, over an expected depth range of 2100 – 2880 metres. Target 1 was forecast to be similar to the good reservoir sequence in

the LS36-1 Gas Field which Primeline and CNOOC are currently developing. Targets 2 and 3 were forecast to be similar to the lower gas sands in the LS36-1 Gas Field. All three predicted reservoir targets had seismic amplitude and AVO characteristics similar to those seen on the LS36-1 Gas Field.

All three sands were encountered in well LS35-3-1, however, Target 1 was water bearing whilst Target 2 had some gas, but mostly water. Target 3 had gas from top to base of the reservoir. Although on test gas flowed naturally to the surface from the upper zone of Target 3 and was flared continuously for 7 hours, no accurate measurement of gas flow was possible. Calculations on the differential pressure across the choke indicate a low flow rate without stimulation.

Analyses of the gas samples from the well show low inert gas content (N, CO<sub>2</sub>) of 1.5–3.3% and a similar hydrocarbon composition to LS36-1 Gas Field, but with more liquid hydrocarbon content.

### ***Implications of the Results***

Proving the presence of trapped hydrocarbons on the Western Flank of the Lishui Basin supports Primeline's hydrocarbon source generation and migration model. The low CO<sub>2</sub> levels also support Primeline's view that the CO<sub>2</sub> present at LS36-1 Gas Field is a result of localised and late CO<sub>2</sub> generation in isolated areas and that CO<sub>2</sub> is not regionally present throughout the basin.

Target 1 comprised good quality porous sand of over 44m, somewhat better in quality than at the LS36-1 Gas Field. The most probable reason for the lack of hydrocarbons in Target 1 is thought to be up-dip leakage from this sand level at this stratigraphic trap location as tests have subsequently shown that the reservoir had been charged with gas.

Achieving gas flow from the deeper low permeability reservoir is encouraging but the commercial potential of LS35-3-1 will depend on successful fracturing and other optimisation techniques presently used elsewhere in the industry to improve production rates from tight gas sands. Primeline and CNOOC plan to test such concepts early in the LS36-1 Development drilling program. Success in flowing gas at reasonable rates from these deeper, tighter reservoirs could convert some of the gas-in-place in the lower sands at LS36-1 Gas Field into producible reserves. The volume of gas-in-place in the lower zones in LS36-1 is of a similar amount to that in the top good reservoir but, as it was not previously regarded as commercial, it has not been included in any previous reserve calculation or development proposal. Any gas produced from these lower zones would significantly enhance the economics of the LS36-1 Development as production would be through the same infrastructure, which will be financed by the production from the upper zone. In addition, the gas encountered in the LS35-3-1 exploration well could be commercial if these fracturing techniques prove successful as the tie-in distance to the proposed LS36-1 platform is only about 14.5 km.

Trap integrity is now the biggest exploration prospect-specific risk going forward. Finding Target 1 to be water bearing at LS35-3-1 is a setback to Primeline's concept of using high seismic amplitudes coupled with AVO seismic attributes as a direct indicator of hydrocarbons. The rock physics from LS35-3-1 has confirmed that water filled porous sands will also generate an AVO response. Primeline is investigating the applicability of other indirect hydrocarbon indicators whilst continuing with traditional mapping and trap definition techniques to reduce the exploration risk.

### ***Preparation for the Next Exploration Well***

Primeline and CNOOC jointly reviewed the post well evaluation results and agreed the future exploration strategy at Technical Committee Meetings in November 2010 and January 2011. A joint working session was held in February 2011 when the parties agreed the optimal next exploration drilling location, which is LS30-3-1 in the Block and the Well design has now been completed.

The LS30-3-1 location, as agreed by CNOOC and Primeline, was selected based on the interpretation of 3D seismic data and is another channel sand stratigraphic trap prospect. The proposed well is approximately 16.5 km north west from Primeline's LS36-1 Gas Field and, if successful, can be tied into the production platform to be built for LS36-1. As part of Primeline's rolling development strategy the step out drilling of LS30-3-1 and the other prospects identified will be coordinated with the development of the LS36-1 Gas Field.

Primeline commenced discussions with COSL in late 2010 in order to secure a drilling rig for the next exploration drilling campaign and a letter of intent ("LOI") for a turnkey drilling operation was entered into in April 27, 2011 to record the rig availability and agreed turnkey drilling contract price. Pursuant to the LOI, COSL agreed, subject to contract, to enter into a turnkey drilling contract with Primeline under which COSL will drill one exploration well, LS30-3-1, sometime in the fourth quarter of 2011. In addition, Primeline will have an option to drill a further well in the nearby area, after completion of the proposed well, at the same rates. COSL will supply all necessary equipment, services and personnel for the drilling.

The turnkey price for drilling LS30-3-1 well, as defined by the LOI, is US\$15.8m including site survey and mobilisation costs. The total budget for the well is up to about US\$25m for a success case, depending on the level of testing to be carried out. Before entering into the LOI, Primeline obtained confirmation from its major shareholder and Chairman, Mr. Victor Hwang, that he would underwrite the cost of the drilling contract in order to enable Primeline to secure the rig. The cost of the exploration well will be borne by Primeline and PPC in the proportions 75/25, representing their respective interests in the Petroleum Contract.

However, following the recent MOA it is now anticipated that the finalisation and execution of the turnkey drilling contract with COSL will be delayed until after the New Petroleum Contract has been signed and a new drilling slot confirmed.

## ***Remainder of the Block and Regional Prospectivity***

The current 3D seismic area is only 15% of the total area of the Block, which covers 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. Primeline believes that channel and canyon systems are likely to extend along the basin margin and could be developed as future drilling targets. As a result, Primeline believes there are likely to be significant additional hydrocarbon resources in the West Lishui Basin to be discovered and this has been confirmed by the hydrocarbon discovery at LS35-3-1.

During 2008, Primeline furthered its regional geological and geophysical evaluation of Block 25/34 and the Lishui Basin with a selective re-processing of 2D seismic data because the 23,000 km of 2D seismic data available to Primeline is of various vintages spanning over 20 years. A total of 3,517 km 2D seismic data were reprocessed based on parameters fixed after an extensive testing programme. The reprocessing was completed in November 2008 and interpretation was completed in 2009.

Following the new data obtained from LS35-3-1 this regional evaluation is now being revised and Primeline is re-evaluating some of the different prospect types previously recognised.

# STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

## Date of Statement

This Form 51-101 F1 submitted by Primeline Energy Holdings Inc. (the "Company") is dated July 21, 2011. The information provided in this statement is effective March 31, 2011. The preparation date of the information provided in this statement is June 21, 2011.

## Disclosure of Reserves Data

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE as at March 31, 2011  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES (1)(2)							
	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)
CHINA								
Proved								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-Producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-
Probable	671	723	-	-	43,871	45,754	1,133	1,182
Total Proved Plus Probable	671	723	-	-	43,871	45,754	1,133	1,182
Possible	496	505	-	-	34,107	33,995	881	878
Total Proved Plus Probable Plus Possible	1,167	1,228	-	-	77,978	79,749	2,014	2,060

RESERVES CATEGORY	NET PRESENT VALUES OF FUTURE NET REVENUE (1) (2)(3)									
	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
	0 (\$M US)	5 (\$M US)	10 (\$M US)	15 (\$M US)	20 (\$M US)	0 (\$M US)	5 (\$M US)	10 (\$M US)	15 (\$M US)	20 (\$M US)
CHINA										
Proved										
Developed Producing	-	-	-	-	-	-	-	-	-	-
Developed Non-Producing	-	-	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-	-	-
Probable	283,680	128,071	38,309	(15,911)	(49,858)	207,546	83,026	10,365	(33,971)	(61,952)
Total Proved Plus Probable	283,680	128,071	38,309	(15,911)	(49,858)	207,546	83,026	10,365	(33,971)	(61,952)
Possible	432,609	226,811	129,013	78,683	50,888	324,220	169,723	96,366	58,654	37,855
Total Proved Plus Probable Plus Possible	716,288	354,882	167,322	62,772	1,030	531,766	252,750	106,731	24,684	(24,097)

### Notes:

- (1) Company Gross reserves are based on a 36.75 percent working interest share of the property gross resources, assuming CNOOC exercise their right to back-in and take a 51 percent interest. See "Oil and Gas Property and License Status".
- (2) Company Net reserves are based on a Company share of total Cost and Profit oil and, due to repayment of past costs, are greater than Company Gross.
- (3) The CO2 revenue offsets the capital and operating cost of CO2 production and therefore the value of any CO2 sales is assumed to be zero.

TOTAL FUTURE NET REVENUE  
(UNDISCOUNTED) as at March 31, 2011  
FORECAST PRICES AND COSTS

Reserves Category	Revenue (\$M Us)	Royalties (\$M Us)	Operating Costs (\$M Us)	Development Costs (\$M Us)	Well Abandone ment Costs (\$M Us)	Bonus (\$M Us)	Future Revenue Before Income Tax (\$M Us)	Corporate Taxes (\$M Us)	Future Net Revenue After Income Tax (\$M Us)
<b>CHINA</b>									
Total Proved Reserves	-	-	-	-	-	-	-	-	-
Total Proved Plus Probable Reserves	812,953	-	254,414	253,926	20,184	750	283,680	76,133	207,546
Total Proved Plus Probable Plus Possible	1,432,015	-	414,915	274,970	25,091	750	716,288	184,523	531,766

FUTURE NET REVENUE  
BY PRODUCTION GROUP  
as at March 31, 2011  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES(1) (discounted at 10%/year) (\$M US)	UNIT VALUE (\$/boe)
<b>CHINA</b>			
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	-	-
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	-	-
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	-	-
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	38,909	4.02
Proved Plus Probable Plus Possible Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	-	-
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	167,322	10.09

Notes:

(1) The CO2 revenue offsets the capital and operating cost of CO2 production and therefore the value of any CO2 sales is assumed to be zero.

**Definitions and Other Notes**

In the tables set forth above in "Disclosure of Reserves Data" and elsewhere in this Report, the following definitions and other notes are applicable:

1. Definitions used for reserve categories are as follows:

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- (a) an analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions (see the discussion of "Economic Assumptions" below).

Reserves are classified as follows, according to the degree of certainty associated with the estimates:

- (a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

#### **Development and Production Status**

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves in production. The developed category may be subdivided into producing and non-producing, as follows:
  - (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been in production, and the date of resumption of production must be known with reasonable certainty.
  - (ii) Developed non-producing reserves are those reserves that either have not been in production, or have previously been in production, but are shut-in, and the date of resumption of production is unknown.
  - (iii) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

#### **Levels of Certainty for Reported Reserves**

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
  - (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.
  - (c) at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.
1. A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.
  2. "Development well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
  3. "Development costs" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
    - (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
    - (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
    - (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
    - (d) provide improved recovery systems.
  4. "Exploration well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
  5. "Exploration costs" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:
    - (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
    - (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
    - (c) dry hole contributions and bottom hole contributions;
    - (d) costs of drilling and equipping exploratory wells; and

- (e) costs of drilling exploratory type stratigraphic test wells.
6. "Service well" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.
  7. Numbers may not add due to rounding.
  8. The estimates of future net revenue presented in the tables above do not represent fair market value.

## PRICING ASSUMPTIONS

### SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS as at March 31, 2011 FORECAST PRICES AND COSTS

Year	BRENT Crude Oil Price(1) (\$US/bbl)	Sales Natural gas price(2) (\$US/Mcf)	Sales Cond. & oil price (\$US/bbl)	Sales LPG Price (\$US/bbl)	INFLATION RATE) %/Year
Forecast					
2011 (9 mo)	105.00	12.61	100.00	100.00	2.0
2012	99.50	12.61	94.50	94.50	2.0
2013	97.80	12.61	92.80	92.80	2.0
2014	97.10	12.61	92.10	92.10	2.0
2015	96.30	12.61	91.30	91.30	2.0
2016	98.30	12.61	93.30	93.30	2.0
2017	100.30	12.61	95.30	95.30	2.0
2018	102.30	12.61	97.30	97.30	2.0
2019	104.20	12.61	99.20	99.20	2.0
2020	106.40	12.61	101.40	101.40	2.0
2021	108.50	12.61	103.50	103.50	2.0
2022	110.70	12.61	105.70	105.70	2.0
2023	112.80	12.61	107.80	107.80	2.0
2024	115.10	12.61	110.10	110.10	2.0
2025	117.50	12.61	112.50	112.50	2.0
2026	119.85	12.61	114.85	114.85	2.0
2027	122.25	12.61	117.25	117.25	2.0
2028	124.69	12.61	119.69	119.69	2.0
2029	127.19	12.61	122.19	122.19	2.0
2030	129.73	12.61	124.73	124.73	2.0
Thereafter	+2.0%/yr	+ 0%/yr	+2.0%/yr	+2.0%/yr	2.0

Notes:

- (1) Based on the McDaniel & Associates Consultants Ltd. March 31, 2011 price forecast.
- (2) Natural Gas Prices excludes 5 percent VAT.

## RECONCILIATIONS OF CHANGES IN RESERVES

RECONCILIATION OF  
COMPANY GROSS RESERVES  
BY PRINCIPAL PRODUCT TYPE  
BASED ON FORECAST PRICES AND COSTS

FACTORS	LIGHT AND MEDIUM OIL			HEAVY OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross
			Proved Plus Probable (Mbbbl)			Proved Plus Probable (MMcf)			Proved Plus Probable (Mbbbl)			
March 31, 2010	-	671	671	-	-	-	-	43,871	43,871	-	1,133	1,133
Extensions	-	-	-	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
March 31, 2011	-	671	671	-	-	-	-	43,871	43,871	-	1,133	1,133

## ADDITIONAL INFORMATION RELATING TO RESERVES DATA

### Proved Undeveloped Reserves

The Company has no proved undeveloped reserves.

### Probable Undeveloped Reserves

These have been attributed based on analytical volumetric and recovery estimates and the Company's plan of development. Development is planned to commence 2011 with gas in early 2013.

Year	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	First Attributed (Mbbbl)	Booked (Mbbbl)	First Attributed (Mbbbl)	Booked (Mbbbl)	First Attributed (MMcf)	Booked (MMcf)	First Attributed (Mbbbl)	Booked (Mbbbl)
Prior thereto	-	-	-	-	-	-	-	-
2009	-	-	-	-	-	-	-	-
2010	671	671	-	-	43,871	43,871	1,133	1,133
2010	-	671	-	-	-	43,871	-	1,133

### Significant Factors of Uncertainties

Aside from the potential impact of material fluctuations in commodity prices and foreign exchange rates, other significant factors or uncertainties that may affect either the Company's reserves or the future net revenue associated with such reserves include:

- Certain newly drilled or undeveloped properties may be considered less predictable insofar as estimating reserves and future net revenue are concerned until historical production performance data is available; and
- Changes to existing taxation, fiscal terms, and regulations may occur in the future.

### Future Development Costs

The development of the Reserves will be funded by a mix of project finance and equity. The Company has reached in principle agreement with a major Chinese Bank on the general terms of a proposed project facility for financing the Company's share of the cost of the Development. The proposed facility is subject to formal documentation and the Bank's credit committee approval.

Year	Forecast Prices and Costs (\$M US)		
	Proved Reserves	Proved Plus Probable Reserves	Proved Plus Probable Plus Possible Reserves
CHINA			
2011	-	79,549	79,549
2012	-	115,241	115,241
2013	-	48,333	48,333
2014	-	-	6,123
2015	-	-	6,245
Remaining Years	-	10,803	19,480
Total	-	253,926	274,970

## PROSPECTIVE RESOURCES

The Company's prospective resources have been evaluated by McDaniel & Associates Consultants Ltd. as of March 31, 2011 and are set out below.

	Prospective Resources at March 31, 2011 (2) (3)				
	Low Estimate (6)	Best Estimate (7)	High Estimate (8)	Unrisked Mean	Risked Mean
Total Company (4)					
Natural Gas Resources, MMcf	45,091	123,104	388,864	184,182	47,763
Condensate Resources, Mbbl	563	1,691	5,832	2,683	702
BOE Resources, Mbbl	8,078	22,208	70,642	33,380	8,662

(1) Prospective resources were calculated probabilistically, but based on an arithmetic aggregation of the individual prospects.

(2) Each prospect has its own probability of geological success.

(3) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.

(4) Company Gross resources are based on a 36.75 percent working interest share of the property gross resources, assuming CNOOC exercise their right to back-in and take a 51 percent interest. See "Oil and Gas Property and License Status".

(5) Low, best and high estimates follow the COGE Handbook Section 5 resources definitions and guidelines for prospective resources. The resource range presented above is "unrisked" meaning that it is valid in the event of successfully finding hydrocarbons in each and every prospect. In this case, the possible range of recoverable resources would likely lie in the range between the low estimate and the high estimate.

(6) The low estimate reported is the arithmetic sum of the individual prospect P90 quantities derived from probabilistic analysis. This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation.

(7) The best estimate is based upon the expected value, based upon the outcome of the probabilistic analysis. This is considered to be the best estimate of the quantity that will actually be recovered from the accumulation.

(8) The high estimate is the arithmetic sum of the individual P10 quantities derived from probabilistic analysis. This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation.

(9) "Risked Mean" resources are calculated based on the probability of geological success applied to the unrisked mean shown above.

The prospective resource estimates are for 6 prospects in the vicinity of the existing discovery in an area covered by 3-D seismic. Further seismic acquisition and studies over the remainder of the block (approximately 85 percent by area) could lead to the identification of additional prospects. Therefore the prospective resources detailed above do not necessarily represent the full exploration potential of Block 25/34.



June 21, 2011

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Cayman Islands  
British West Indies

Attention: The Board of Directors of Primeline Energy Holdings Inc.

Re: **Form 51-101F2**  
**Report on Reserves Data by an Independent Qualified Reserves Evaluator**  
**of Primeline Energy Holdings Inc. (the "Company")**

To the Board of Directors of Primeline Energy Holdings Inc. (the "Company"):

1. We have evaluated the Company's reserves data as at March 31, 2011. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at March 31, 2011 estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers ("Calgary Chapter") and the Canadian Institute of Mining, Metallurgy & Petroleum ("Petroleum Society").

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us, for the year ended March 31, 2011, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue \$M (before income taxes, 10% discount rate)			
		Audited	Evaluated	Reviewed	Total
June 21, 2011	China	-	38,309	-	38,309

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

McDANIEL & ASSOCIATES CONSULTANTS LTD.

"signed by B. H. Emslie"

\_\_\_\_\_  
B. H. Emslie, P. Eng.

Calgary, Alberta

June 21, 2011

**FORM 51-101F3**

**REPORT OF MANAGEMENT AND DIRECTORS**

**ON RESERVES DATA AND OTHER INFORMATION**

Management of Primeline Energy Holdings Inc. (the “Company”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of probable reserves and related future net revenue as of March 31, 2011, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company’s reserves data. The report of the independent qualified reserves evaluator is presented below.

The board of directors has:

- (a) reviewed the Company’s procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The board of directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to their probability of their recovery.

Dated this 21st day of July, 2011.

“Ming Wang”  
Ming Wang,  
Chief Executive Officer and Director

“Andrew Biggs”  
Andrew Biggs,  
Senior Vice-President, Corporate Affairs

“Brian Chan”  
Brian Chan,  
Chief Financial Officer and Director

“Peter Kelty”  
Peter Kelty,  
Director

## DIVIDENDS

Primeline is authorized by its Articles of Association and the Companies Law to pay dividends but has not declared or paid any cash dividends or distributions to Shareholders in the past three years. Any future payment of dividends or distributions will be dependent upon the financial condition of Primeline and other factors which the board of directors of Primeline may consider appropriate in the circumstances.

## SHARE CAPITAL

The authorized share capital of Primeline is US\$500,000 divided into 500,000,000 Shares. The issued share capital of Primeline at the date hereof is 94,041,246 Shares. All of the issued Shares are credited as fully paid up in full as to their par value and any premium. Each Share is entitled to one vote at meetings of Shareholders and each Share is entitled to participate equally with respect to dividends and distributions on dissolution.

## MARKET FOR SECURITIES

The Shares are listed for trading on the Exchange under the symbol PEH.

The following table set out the price range for, and trading volume of the Shares as reported by the Exchange for the periods indicated.

<u>Price Range (in Canadian Dollars)</u>			
<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
April 2010	\$1.00	\$0.50	1,896,920
May 2010	\$0.63	\$0.40	6,651,093
June 2010	\$0.53	\$0.40	719,285
July 2010	\$0.455	\$0.35	274,061
August 2010	\$0.335	\$0.28	1,002,100
September 2010	\$0.38	\$0.28	1,648,151
October 2010	\$0.30	\$0.23	583,205
November 2010	\$0.43	\$0.26	1,179,412
December 2010	\$0.42	\$0.305	842,342
January 2011	\$0.85	\$0.73	3,823,734
February 2011	\$0.75	\$0.51	535,098
March 2011	\$0.58	\$0.36	2,077,577
April 2011	\$0.50	\$0.41	326,620
May 2011	\$0.47	\$0.35	715,900
June 2011	\$0.45	\$0.35	263,895

## DIRECTORS AND OFFICERS

Directors of the Company are elected at each annual general meeting of the Company and hold office until the next annual general meeting of the Company, unless the office is earlier vacated in accordance with the Articles of the Company or the Companies Law or he or she becomes disqualified to act as a director.

The only committees of the Board are the Audit Committee and the Compensation Committee.

As of the date of this Annual Information Form, the name and country of residence of each director and executive officer of Primeline, the number of the Shares beneficially owned, or controlled or directed, directly or indirectly by him, the offices held by him, his period of service as a director or officer and principal occupation during the last five years, is as follows.

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	Date First Appointed as Director	No. of Common Shares Held
<b>Victor Yiou Hwa Hwang</b> Hong Kong SAR, People's Republic of China <i>Chairman, President &amp; Director</i>	Director of Financial and Strategic Development of Chyau Fwu Group <sup>(2)</sup> ; Director of The Hong Kong Parkview Group Ltd. <sup>(3)</sup> and Director and President of Primeline International, Primeline Petroleum <sup>(2)</sup> and Parkview International London Plc. <sup>(2)</sup>	April 18, 1995	51,727,812 <sup>(4)</sup>
<b>Dr. Guang Ming Wang</b> People's Republic of China <i>CEO &amp; Director</i>	CEO of the Company, previously Vice-President, Exploration of the Company	July 12, 2000	1,158,500
<b>Brian Chi Fai Chan</b> <sup>(5)</sup> Hong Kong, SAR, People's Republic of China <i>CFO, Secretary &amp; Director</i>	General Manager of The Hong Kong Parkview Group Ltd. <sup>(3)</sup> and Director of Primeline International and a Professional Accountant <sup>(6)</sup>	April 18, 1995	Nil
<b>Alan P. Johnson</b> <sup>(5) (11)</sup> London, England <i>Director</i>	Manager of Oil Projects for Glencore UK Ltd. <sup>(7)</sup>	April 18, 1995	150,000
<b>Peter C. Kelty</b> <sup>(5) (11)</sup> Illinois, USA <i>Director</i>	Principal of Kelyard Corporation <sup>(8)</sup> and Attorney	June 13, 1995	150,000
<b>Graeme G. Phipps</b> <sup>(11)</sup> Jersey, Channel Islands <i>Director</i>	CEO, President and a director, CEP International Petroleum Ltd. <sup>(9)</sup> ; professional geologist and geophysicist	March 27, 2006	206,700

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	Date First Appointed as Director	No. of Common Shares Held
<b>Yunshi Cao</b> Beijing, People's Republic of China <i>Director</i>	Retired lawyer since June 2006; formerly General Counsel of China National Offshore Oil Corp. <sup>(10)</sup> and General Counsel, Company Secretary and Senior Vice President of CNOOC Limited <sup>(10)</sup>	September 21, 2006	Nil

**Notes:**

- (1) Information as to the place of residence, principal occupation and shares beneficially owned, directly or indirectly, or controlled or directed, has been furnished by the respective directors.
- (2) Chyau Fwu Group, Parkview International London Plc., and Primeline Petroleum are private corporations wholly owned by the Hwang family. The principal business of the first two corporations is investment holding and property development, and the principal business of Primeline Petroleum is investment in the Petroleum Contract. See "Petroleum Contract".
- (3) The Hong Kong Parkview Group Ltd. is a publicly listed company on the Hong Kong Stock Exchange controlled by the Hwang family. The principal business of The Hong Kong Parkview Group Ltd. and its subsidiaries are investment holding and property development.
- (4) 46,473,612 of these Shares are held through Primeline International, and 5,254,200 Shares are held by Mr. Hwang directly.
- (5) Member of the Company's Audit Committee.
- (6) Mr. Chan is qualified as a Professional Accountant under the Association of Chartered Certified Accountants of the United Kingdom and Hong Kong Institute of Certified Public Accountants.
- (7) Glencore UK Ltd. is based in London, United Kingdom and is a subsidiary of Glencore International AG which is an international commodity trading company listed on the London Stock Exchange.
- (8) Kelyard Corporation is a private financial and business advisory company based in Oak Park, Illinois, USA.
- (9) CEP International Petroleum Ltd. is a private international oil and gas exploration company based in Calgary, Alberta with operations offices in Petropavlovsk and Moscow.
- (10) China National Offshore Oil Corp. is the parent company of CNOOC Limited, a publicly listed company on the New York Stock Exchange and Hong Kong Stock Exchange.
- (11) Members of the Company's Compensation Committee.

## **Corporate Cease Trade Orders**

None of Primeline's directors or executive officers, have, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company that:

- i. was subject to an cease trade order similar to a cease trade or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or
- ii. was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

## **Bankruptcies**

None of Primeline's directors and executive officers, or a shareholder holding a sufficient number of securities of Primeline to affect materially the control of Primeline, has within 10 years prior to the date of this Annual Information Form:

- i. been a director or executive officer of any company that, while that person was acting that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings,

arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or

- ii. become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## ***Penalties or Sanctions***

None of Primeline’s directors or executive officers, nor any shareholder holding a sufficient number of securities of Primeline to affect materially the control of Primeline have been subject to:

- i. any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- ii. any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## **SENIOR MANAGERS**

Primeline’s senior managers are as follows:

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	No. of Common Shares Held
<p><b>Andrew Biggs</b> England <i>Senior Vice President and General Counsel</i></p>	<p>Mr. Biggs is qualified as a solicitor in England and in Hong Kong. Between 1981 and 1998, he was a partner of international law firm Richards Butler, both in Hong Kong and London. Mr. Biggs worked primarily on Hong Kong/Asian M&amp;A and corporate finance transactions. He was involved in many of the early H-share listings of mainland Chinese Companies on the Hong Kong Stock Exchange and dealt with numerous M &amp; A and financing transactions in China. In 1998, Mr. Biggs joined Hong Kong Parkview Group Ltd. as the Corporate Affairs Director and in-house counsel. Mr. Biggs has worked for Primeline full time since 2007.</p>	<p>452,500</p>
<p><b>Alan Soulsby</b> England <i>Technical Director</i></p>	<p>Mr. Soulsby graduated from Oxford University with a degree in Physics in 1970, which he followed with a Masters in Geophysics. Since then he has had a wide and varied career in the petroleum industry. Mr. Soulsby has over 35 years of international petroleum upstream experience including managing Exploration Consultants Limited for a number of years which he was instrumental in selling to RPS Group plc in 2005. Mr. Soulsby has managed many large integrated exploration and evaluation projects including technical, cost and personnel control, all over the world. He has acted as Technical Director for Primeline since 1994. With Primeline, Mr. Soulsby has been responsible for the initial block selection and for organising</p>	<p>1,316,600</p>

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	No. of Common Shares Held
	the exploration programme which led to the LS36-1discovery as well as ongoing evaluation work and development planning.	
<p><b>Malcolm Barrett</b> England <i>Development Manager</i></p>	<p>Mr. Barrett graduated from Nottingham University in 1968 with a B.Sc. in physics. He has worked in numerous locations around the world specialising in operational and production roles. Mr Barrett has worked in Asia, mainly Indonesia for over 20 years ultimately as Operations Manager of a 300 well onshore production operation. He has worked as a consultant to the oil and gas industry for the past 18 years and has been involved in Primeline’s Chinese operation since 2009.</p>	Nil
<p><b>Yujin Shen</b> People’s Republic of China <i>Chief Representative, China Office</i></p>	<p>Mr. Shen graduated from Beijing Geological University in 1958 majoring in oil/gas exploration and development. He has accumulated nearly 50 years of experience working in the Chinese petroleum industry. From 1959 to 1981 he worked for Shan Gan Ning Oil Fields (Ordos Basin) in northwest China, during which time he engaged in field geology, geophysical surveys, drilling operations and geological administration. In 1982 he joined China Offshore Oil Nanhai West Corporation (CONHWC), a subsidiary of CNOOC, working in the Foreign Co-operation Department. In 1993 he was appointed Deputy Manager and later Manager of the Exploration Department of CONHWC, responsible for exploration in the offshore area of western South China Sea. He retired from CONHWC in December 1997 and joined Primeline as Technical Director in Primeline’s China Office. In 2002 he was appointed Chief Representative.</p>	Nil
<p><b>Chongxin Zhang</b> People’s Republic of China <i>General Manager, China Office</i></p>	<p>Mr. Zhang graduated from Beijing Petroleum Institute in 1970 majoring in Geophysics. He has over 35 years of experience working in the Chinese petroleum industry. He is a geophysicist and has had a long career with CNOOC, including 13 years as CNOOC Shanghai Vice President and 4 years as CNOOC’s Chief Representative in USA, and has considerable experience in offshore oil and gas exploration and developments, particularly in the East China Sea. Mr. Zhang joined Primeline in June 2011.</p>	Nil
<p><b>Chengzhang Wang</b> People’s Republic of China <i>Accountant, China Office</i></p>	<p>Mr. Wang has been with Primeline China since 1994 and is responsible for accounting operations, particularly the management of the Joint Account maintained under the Petroleum Contract.</p>	Nil

**Notes:**

- (1) Information as to the place of residence, principal occupation and shares beneficially owned, directly or indirectly, or controlled or directed, has been furnished by the respective senior managers.

## **CONFLICTS OF INTEREST**

There are potential conflicts of interest to which the directors and officers of Primeline will be subject in connection with the operations of Primeline and officers of Primeline are involved in managerial, or director positions with other oil and gas companies whose operations may, from time to time, be in indirect competition with those of Primeline or with entities which may, from time to time, provide financing to, or make equity investments in, competitors or Primeline. See “Directors and Officers”. Primeline expects that any such conflicts will be resolved in accordance with the fiduciary duties of the directors and officers in question.

Primeline is controlled by Mr. Victor Hwang, its Chairman and President. Mr. Hwang is also the President and sole shareholder of PPC, the owner of 25% of the Contractors’ interest under the Petroleum Contract. In some cases, the interests of Mr. Hwang or PPC may not be the same as those of Primeline’s other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to Primeline or its minority shareholders. See “Risk Factors”

## **RISK FACTORS**

### ***Working Capital Position and Loan Facility***

Primeline is presently dependant on advances under a loan facility from its Chairman, President and majority shareholder, Mr. Victor Hwang, for cash to continue operations. The loan facility is repayable on demand by Mr. Hwang at any time after November 30, 2011. If Primeline is unable to replace the loan facility with other financing and Mr. Hwang demands repayment, Primeline may be unable to continue present operations and planned expansion, and may be forced to cease operations entirely.

### ***History of Losses***

Primeline has incurred net losses in each of the years since the date of its incorporation. If Primeline is unable to achieve profitable operations in the future, there may be a material adverse effect on its ability to continue operations. A lack of cash flow could impede the ability of Primeline to raise capital through debt or equity financing to the extent required for continued operations or planned expansion. Accordingly, future losses may have a material adverse effect on the business, financial condition, results of operations and cash flows of Primeline.

### ***Requirement for New Capital***

Primeline will require additional financing to fund its operations. If additional financing is required, there can be no assurance that it will be available on acceptable terms, or at all. If Primeline raises additional funds by issuing equity securities, dilution to the holders of Shares may result. If adequate funds are not available, Primeline may be required to delay, scale back or eliminate portions its operations.

### ***Volatility of the Market Price of the Shares***

The market price of the Shares may exhibit significant fluctuations in response to the following or other factors, many of which are beyond the control of Primeline. The factors include variations in the operating results of Primeline, results of its oil and gas exploration activities, material announcements by Primeline or its competitors of exploration developments, strategic partnerships, joint ventures or capital commitments, general economic and political conditions in China and in the oil and gas industry, and regulatory developments. The price at which an investor purchases or acquires Shares may not be indicative of the price of the Shares that will prevail in the trading market.

## ***Dependence on Key Management Personnel***

Primeline's success is highly dependent upon the continued services of key managerial employees both in England and in China, including the Chairman and President of the Corporation, Mr. Victor Hwang, and the Chief Executive Officer of the Corporation, Mr. Ming Wang. The Corporation does not currently maintain key-man life insurance policies on any member of management. Accordingly, the loss of these key executives or one or more other key members of management could have a material adverse effect on Primeline.

## ***Exchange Rate Risk***

Primeline is exposed to currency risk to the extent that it holds cash deposits primarily denominated in US\$ and C\$, whereas accounts payable by reference to various currencies are denominated primarily in US\$, C\$, £Sterling and RMB. For the year to March 31, 2011 the approximate percentages of the accounts payable are US \$36.6%, Hk\$ 17.2%, RMB 2.2%, £Sterling 25.8%, and C\$ 18.5%. Therefore, fluctuation between exchange rates for C\$ and US\$, in which Primeline holds the majority of its cash deposits as against RMB and £Sterling could adversely affect Primeline and, accordingly, the market price of the Shares. Primeline believes the foreign exchange risk is currently not significant

## ***Risks Related To Oil & Gas Exploration And Development***

### ***Exploration Risk***

Oil and natural gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. Primeline's exploration expenditures may not result in new discoveries of oil or natural gas in commercially viable quantities. If exploration costs exceed estimates, or if exploration efforts do not produce results which meet expectations, exploration efforts may not be commercially successful, which could adversely impact the ability to generate revenues from operations.

### ***Development Risk***

To the extent that Primeline succeeds in discovering oil and/or natural gas, reserves may not be capable of production levels projected or in sufficient quantities to be commercially viable. On a long-term basis, Primeline's viability depends on its ability to find or acquire, develop and commercially produce oil and gas reserves. Future reserves will depend not only on the ability to develop then-existing properties, but also on the ability to identify and acquire additional suitable producing properties or prospects, to find markets for the oil and natural gas developed and to effectively distribute production into markets. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-downs of connected wells resulting from extreme weather conditions, problems in storage and distribution and adverse geological and mechanical conditions. While Primeline will endeavour to effectively manage these conditions, it may not be able to do so optimally, and will not be able to eliminate them completely in any case. Therefore, these conditions could diminish revenue and cash flow levels and result in the impairment of oil and natural gas interests.

### ***Offshore Exploration***

Primeline faces additional risk due to the offshore nature of its exploration and development operations. In particular, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions or other geological and mechanical conditions.

## ***Financing Risk***

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\$6m, the majority of which has been paid. Primeline is required to fund 75% of the total ODP cost, the other 25% being borne by Primeline Petroleum. As of July 20, 2011, Primeline had cash deposits of HK\$563,169, RMB1,743,000, US\$520,312, £2,909 and C\$122,280. The costs of running Primeline's general operations are estimated at approximately C\$2.5m per annum. In order to provide interim funding for working capital, Primeline entered into an agreement with Mr. Victor Hwang, under which Mr. Hwang granted Primeline a loan facility of up to US\$4,000,000 which may be drawdown in multiple tranches at any time before November 30, 2011. Accordingly, Primeline has sufficient funds in hand with which to complete the submission of the ODP for PRC government approval and continue its general operations during the coming year. However, additional finance would be required in order to fund Primeline's obligations if the development proposals which are the subject of the ODP were to proceed or if Primeline was to enter into any drilling contracts. There may be various alternative financing options available to Primeline in the event that the development proposals proceed and, as referred to above, Primeline has already secured an in principle offer from a major Chinese Bank for a project finance facility for financing its share of the Development, but it is likely that Primeline would be required to raise additional equity capital in order to finance any exploration drilling contracts. There can be no assurance that equity or other financing will be available, on acceptable terms or at all. Primeline is exploring all possible fund-raising possibilities for its share of development costs and for the planned exploration drilling programme.

## ***Marketing and Distribution***

To sell any oil or natural gas which it may produce from the LS36-1 Gas Field or elsewhere within the Block, Primeline and CNOOC will have to establish a production facility and an offshore pipeline, and make arrangements for storage and distribution to the market. Establishment of a production facility will be costly and arrangements for storage and distribution to market will ultimately depend on the completion of the construction of a province-wide gas grid, connected to Wenzhou in Zhejiang Province. The latter requirement is beyond Primeline's control. Infrastructure development and storage and transportation facilities may be insufficient for Primeline's needs at commercially acceptable terms. This could be particularly problematic given that operations will be conducted offshore. Primeline anticipates there will be only one gathering system and pipeline and thus Primeline's ability to market production from the Lishui Gas Play will be subject to their reliability and operations. These factors may affect Primeline's ability to explore and develop the Block and to store and transport any oil and gas production, and may increase expenses.

## ***Operational Risk***

If Primeline's operations offshore China are disrupted, business may experience a setback. These unexpected events may be due to technical difficulties, operational difficulties which impact the production, transport or sale of products, geographic and weather conditions, business reasons, political events or otherwise. Because Primeline is at the early stages of development, it is particularly vulnerable to these events. Prolonged problems may threaten the commercial viability of operations.

## ***Lack of Diversification***

Primeline's business focuses exclusively on the oil and gas industry in China. Larger companies have the ability to manage their risk by diversification. However, Primeline currently lacks diversification, in terms of both the nature and geographic scope of business. As a result, factors affecting the oil and gas industry or China are likely to impact Primeline more acutely than if its business were more diversified.

## ***Insurance***

Involvement in the exploration for and development of oil and natural gas properties may result in Primeline becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Primeline will obtain insurance in accordance with industry standards to address such risks, such

insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, Primeline may choose not to obtain insurance to protect against specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce funds available. If Primeline suffers a significant event or occurrence that is not fully insured, or if the insurer of such event is not solvent, then Primeline would be required to fund any shortfall.

### ***Competition for Exploration and Development Rights***

The oil and gas industry is highly competitive. Other oil and gas companies will compete with Primeline by bidding for services needed to operate Primeline's business in China. This competition is increasingly intense as prices of oil and natural gas on the commodities markets have arisen in recent years. Additionally, other companies engaged in the same line of business may compete with Primeline from time to time in obtaining capital from investors. Competitors include much larger, foreign owned companies, which, in particular, may have access to greater resources than Primeline, may be more successful in the recruitment and retention of qualified employees and may conduct their own marketing operations, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

### ***Risks Related to Primeline's Controlling Shareholder***

Primeline is effectively controlled by Mr. Victor Hwang, its Chairman and President, who directly and indirectly owns Shares representing approximately 55% of the votes attaching to all of the Shares. Mr. Hwang is also the President and sole shareholder of PPC, the owner of 25% of the Contractors' interest under the Petroleum Contract. Mr. Hwang has the ability to control election to the board of directors and may be able to cause Primeline to effect corporate transactions without the consent of its other shareholders, subject to applicable law and the fiduciary duty of Primeline's directors and officers. Transactions effected between Primeline and Mr. Hwang or PPC may not be on the same terms as could be obtained from independent parties. Mr. Hwang is also able to cause or prevent a change of control of Primeline. This may have an adverse effect on the market price or value of the Shares.

### ***Risks Related to Doing Business in the PRC*** ***PRC Political and Economic Considerations***

Primeline's business operations are located in, and its revenues will be derived from, activities in the PRC. Accordingly, the business, financial condition and results of operations of Primeline could be significantly and adversely affected by economic, political and social changes in PRC. The economy of PRC has traditionally been a planned economy, subject to five-year and annual plans adopted by the state, which set down national economic development goals. Since 1978, the PRC has been moving the economy from a planned economy to a more open, market-oriented system. The economic development of the PRC is following a model of market economy under socialism. Under this direction, it is expected that PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces and the rules of market economics. However, there is no guarantee that a major turnover of senior political decision-makers will not occur, or that the existing economic policy of PRC will not be changed. A change in policies by the PRC could adversely affect Primeline's business by changes in laws, regulations, or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports and sources of supplies, or the expropriation of private enterprises.

### ***PRC Legal System and Enforcement***

The Petroleum Contract is, and most of the material agreements which Primeline will enter into in the future with respect to oil and gas assets in China are expected to be, governed by Chinese law and many of those agreements will be with Chinese governmental entities or State-owned or controlled companies. The PRC legal system embodies uncertainties that could limit the legal protections available to Primeline and its shareholders.

The outcome of any litigation may be more uncertain than usual because: (i) the experience of PRC judiciary is relatively limited, and (ii) the interpretation of PRC laws may be subject to policy changes reflecting domestic political changes. The laws that do exist are relatively recent and their interpretation and enforcement involve uncertainties, which could limit the available legal protections. Even where adequate law exists in China, it may be impossible to obtain swift and equitable enforcement of such law or to obtain enforcement of judgments by a court of another jurisdiction. The inability to enforce or obtain a remedy under such agreements would have a material adverse impact on Primeline.

Further, many tax rules are not published, and those that are published can be ambiguous and contradictory, leaving a considerable amount of discretion to local tax authorities. PRC currently offers tax and other preferential incentives to encourage foreign investment. However, there is no assurance that such tax and other incentives will continue to be available. There is also no guarantee that the pursuit of economic reforms by PRC will be consistent or effective and as a result, changes in the rate or method of taxation may have a negative effect on Primeline's operating results and financial condition.

### ***Environmental Considerations***

As Primeline is involved in oil and gas exploration, it is subject to extensive environmental and safety legislation (for example, in relation to plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection) and this legislation may change in a manner that may require additional or stricter standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may be unforeseen environmental liabilities resulting from oil and gas activities that may be costly to remedy. In particular, the acceptable level of pollution and the potential clean-up costs and obligations and liability for toxic or hazardous substances for which Primeline may become liable as a result of its activities may be impossible to assess against the current legal framework and current enforcement practices of PRC. The extent of potential liability, if any, for the costs of abatement of environmental hazards cannot be accurately determined and consequently no assurances can be given that the costs of implementing environmental measures or meeting any liabilities in the future will not be material to Primeline or affect its business or operations. Primeline will be committed to meeting its responsibilities to protect the environment and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment in China, and will be taking such steps as required to ensure compliance with such legislation.

Under the Environmental Protection Law of PRC, the division of the State Council responsible for environmental protection has the power to set national environmental quality standards and supplement the national standards in areas where the national standards are silent. Due to the very short history of the Environmental Protection Law of PRC, national and local environmental protection standards are still in the process of being formulated and implemented. Primeline believes there are no outstanding notices, orders or directives from central or local environmental protection agencies or local government authorities alleging any breach of national or local environmental quality standards by Primeline and that Primeline has complied with all existing environmental protection laws, regulations, administrative orders and standards. Given the nature of Primeline's business, there is a possibility that Primeline will have to meet higher environmental quality standards as the economy of the PRC expands and its level of environmental consciousness increases in the future.

### ***Reliability of Information***

While the information contained herein regarding PRC and its economy has been obtained from a variety of government and private publications, independent verification of this information is not available and there can be no assurance that the sources from which it is taken or on which it is based are wholly reliable.

## **LEGAL PROCEEDINGS**

There are no legal proceeding to which Primeline or its subsidiaries is or was a party to, or that any of Primeline's property is or was the subject of, during the most recently completed financial year, that were or are material to Primeline, and there are no such material legal proceedings contemplated that Primeline is currently aware of.

There were no: (i) penalties or sanctions imposed against Primeline or its subsidiaries by a court relating to securities legislation or by a security regulatory authority during the most recently completed financial year; (ii) other penalties or sanctions imposed by a court or regulatory body against Primeline that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements which were entered into before a court relating to securities legislation or with a securities regulatory authority during Primeline's most recently completed financial year.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed herein, Primeline is not aware of any material transaction within the last three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Primeline involving any director, executive officer or any shareholder that beneficially owns or controls or directs, directly or indirectly more than ten (10%) percent of the voting rights attached to the Shares, or any associate or affiliates of any of the foregoing.

## **AUDITORS AND REGISTRAR AND TRANSFER AGENT**

Primeline's auditors are PricewaterhouseCoopers LLP, chartered accountants, at 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C 3S7. PricewaterhouseCoopers LLP has advised that they are independent with respect to Primeline within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

Computershare Investor Services Inc. is the transfer agent and registrar of the Shares.

## **MATERIAL CONTRACTS**

There are no material contracts which can reasonably be regarded as presently material to Primeline in the most recently completed financial year, except for contracts entered into in the ordinary course of business, other than those previously disclosed and filed on SEDAR.

## **INTERESTS OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Primeline during, or related to, Primeline's most recently completed financial year other than McDaniel, Primeline's independent engineering evaluator and PricewaterhouseCoopers LLP, Primeline's auditors. None of the designated professionals of McDaniel had any registered or beneficial interests, direct or indirect, in any securities or other property of Primeline.

## **ADDITIONAL INFORMATION**

Additional information relating to Primeline is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Primeline's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in Primeline's information circular dated October 19 2010.

Further information on financial matters is contained in Primeline's audited financial statements and management discussion and analysis for the year ended March 31, 2011.