

Primeline Energy Holdings Inc.

**Interim Condensed Consolidated Financial Statements
December 31, 2014
(Unaudited)**

Primeline Energy Holdings Inc.

Condensed Consolidated Statement of Financial Position (Unaudited)
As at December 31, 2014 and March 31, 2014
(In Chinese Yuan Renminbi)

	Note	Dec 31, 2014 RMB'000	Mar 31, 2014 RMB'000	Dec 31, 2014 CAD\$'000 (note 3.8 c)
Non-current assets				
Exploration and evaluation assets	10	81,039	462,104	15,122
Property, plant and equipment	11	1,627,923	8	303,774
Deferred tax	17	4,594	-	857
		<u>1,713,556</u>	<u>462,112</u>	<u>319,753</u>
Current assets				
Cash and cash equivalents		131,248	24,648	24,491
Trade receivables		25,328	-	4,726
Prepaid expenses and deposit		2,692	838	502
Inventories	7	8,615	-	1,608
		<u>167,883</u>	<u>25,486</u>	<u>31,327</u>
Total assets		<u>1,881,439</u>	<u>487,598</u>	<u>351,080</u>
Equity attributable to shareholders				
Share capital	14	1,029	1,028	192
Reserves		569,367	561,352	106,245
Accumulated deficit		(117,132)	(108,203)	(21,857)
Total equity		<u>453,264</u>	<u>454,177</u>	<u>84,580</u>
Non-current liabilities				
Long term bank loans	15	1,123,904	-	209,723
Shareholder loan	18(e)	58,210	19,259	10,862
Advances from a related party	18(f)	-	8,356	-
Derivative warrant liabilities	13	1,190	3,408	222
Accounts payable		28,569	-	5,331
Decommissioning liabilities	12	59,200	-	11,047
		<u>1,271,073</u>	<u>31,023</u>	<u>237,185</u>
Current liabilities				
Bank loans	15	97,934	-	18,274
Accounts payable and accrued liabilities		56,200	2,395	10,487
Cash calls payable	18(b)	2,968	3	554
		<u>157,102</u>	<u>2,398</u>	<u>29,315</u>
Total liabilities		<u>1,428,175</u>	<u>33,421</u>	<u>266,500</u>
Total shareholders' equity and liabilities		<u>1,881,439</u>	<u>487,598</u>	<u>351,080</u>

Approved by the Board of Directors

Director

Director

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Primeline Energy Holdings Inc.

Condensed Consolidated Statement of Loss and Comprehensive Loss (Unaudited)

For the three months and nine months ended December 31, 2014 and December 31, 2013

(In Chinese Yuan Renminbi)

	Notes	Three Months Ended			Nine Months Ended		
		December 31			December 31		
		2014	2013	2014	2014	2013	2014
	RMB'000	RMB'000	CAD\$'000	RMB'000	RMB'000	CAD\$'000	
			(note 3.8c)			(note 3.8c)	
Revenue							
Oil and gas	5	50,682	-	9,457	50,682	-	9,457
Interest and other income							
	16	605	1	113	2,271	1,113	424
Exchange gain (loss), net							
	6	(15,423)	349	(2,878)	(15,381)	996	(2,870)
Expenses							
Production Costs		(8,423)	-	(1,572)	(8,423)	-	(1,572)
General and administrative		(2,200)	(2,257)	(411)	(5,318)	(7,030)	(992)
Depletion and depreciation		(31,277)	(1)	(5,836)	(31,280)	(5)	(5,837)
Impairment of assets		-	-	-	-	-	-
Finance costs		(6,074)	-	(1,133)	(6,074)	-	(1,133)
		(47,974)	(2,258)	(8,952)	(51,095)	(7,035)	(9,534)
Profit (Loss) before taxation							
		(12,110)	(1,908)	(2,260)	(13,523)	(4,926)	(2,523)
Taxation							
	17	4,594	-	857	4,594	-	857
Profit (Loss) after taxation							
		(7,516)	(1,908)	(1,403)	(8,929)	(4,926)	(1,666)
Basic and diluted profit(loss) per share							
		RMB (0.067)	RMB (0.019)	CAD (0.013)	RMB (0.079)	RMB (0.051)	CAD (0.015)
Weighted average number of common shares outstanding							
		112,791,018	99,433,592	112,791,018	112,757,200	95,845,231	112,757,200

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Primeline Energy Holdings Inc.
Condensed Consolidated Statement of Changes in Equity (Unaudited)
(In Chinese Yuan Renminbi)

	Attributable to equity owners of the company						
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Shares Purchase Warrants Reserve	Deficit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance – April 1, 2013	858	437,506	5,002	64,245	-	(103,464)	404,147
Debt Conversion	86	27,762	1,109	-	-	-	28,957
Share issue costs	-	(15)	-	-	-	-	(15)
Private placement	84	23,158	-	-	-	-	23,242
Share issue costs	-	(2,958)	-	-	-	-	(2,958)
Broker warrant issue costs	-	(1,213)	-	-	1,213	-	-
Loss and comprehensive loss for the year	-	-	-	-	-	(4,739)	(4,739)
Discount on shareholder loan	-	-	2,621	-	-	-	2,621
Share based payments	-	-	-	2,922	-	-	2,922
Balance – March 31, 2014	1,028	484,240	8,732	67,167	1,213	(108,203)	454,177
Warrants exercised	1	727	-	-	(263)	-	465
Discount on shareholder loan	-	-	5,465	-	-	-	5,465
Share based payments	-	-	-	2,086	-	-	2,086
Profit (Loss) after taxation	-	-	-	-	-	(8,929)	(8,929)
Balance – December 31, 2014	1,029	484,967	14,197	69,253	950	(117,132)	453,264
Balance –December 31, 2014, in CAD\$ (note 3.8c)	192	90,496	2,649	12,923	177	(21,857)	84,580

	Attributable to equity owners of the company						
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Shares Purchase Warrants Reserve	Deficit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance – April 1, 2013	858	437,506	5,002	64,245	-	(103,464)	404,147
Debt Conversion	86	28,872	-	-	-	-	28,958
Share issue costs	-	(15)	-	-	-	-	(15)
Private placement	70	19,095	-	-	-	-	19,165
Share issue costs	-	(2,293)	-	-	-	-	(2,293)
Broker warrant issue costs	-	(1,074)	-	-	1,074	-	-
Loss and comprehensive loss for the year	-	-	-	-	-	(4,926)	(4,926)
Discount on shareholder loan	-	-	2,621	-	-	-	2,621
Share based payments	-	-	-	2,265	-	-	2,265
Balance – December 31, 2013	1,014	482,091	7,623	66,510	1,074	(108,390)	449,922

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Primeline Energy Holdings Inc.

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the nine months ended December 31, 2014 and December 31, 2013

(In Chinese Yuan Renminbi)

	December 31		
	2014 RMB'000	2013 RMB'000	2014 CAD\$'000 (note 3.8c)
Cash flows from operating activities			
Profit(Loss) before taxation	(13,523)	(4,926)	(2,523)
Item not involving cash			
Depletion and depreciation	31,280	4	5,837
Finance income from fair value adjustment of advance from related company	-	(1,111)	-
Finance income from fair value adjustment of warrant liability	(2,111)	-	(394)
Finance cost	6,074	-	1,133
Stock-based compensation	1,137	1,461	212
Unrealized foreign exchange (gain) loss	11,635	(1,081)	2,171
	<u>34,492</u>	<u>(5,653)</u>	<u>6,436</u>
Changes in non-cash working capital items:			
Receivables and prepaid expense	(27,182)	952	(5,072)
Inventory	(1,538)	-	(287)
Accounts payable and accrued liabilities	(606)	(883)	(113)
	<u>(29,326)</u>	<u>69</u>	<u>(5,472)</u>
	<u>5,166</u>	<u>(5,584)</u>	<u>964</u>
Cash flows from investing activities			
Oil and gas development assets	(1,240,791)	-	(231,534)
Trial production	140,746	-	26,263
Expenditures on exploration and evaluation assets	(39,628)	(11,059)	(7,394)
	<u>(1,139,673)</u>	<u>(11,059)</u>	<u>(212,665)</u>
Cash flows from financing activities			
Gross proceeds of broker warrants exercised	466	-	87
Gross proceeds of private placement	-	24,011	-
Loan drawdown	1,210,637	-	225,907
Interest paid	(4,363)	-	(814)
Share issue costs	-	(1,858)	-
Shareholder loan advance	41,373	15,103	7,720
Cash call from a related party	10,211	3,746	1,905
Cash utilized for a related party	(17,150)	(2,916)	(3,200)
	<u>1,241,174</u>	<u>38,086</u>	<u>231,605</u>
Increase (decrease) in cash and cash equivalents	<u>106,667</u>	<u>21,443</u>	<u>19,904</u>
Effect of foreign exchange rate on cash and cash equivalents	<u>(67)</u>	<u>(327)</u>	<u>(12)</u>
Cash and cash equivalents - Beginning of period	<u>24,648</u>	<u>5,039</u>	<u>4,599</u>
Cash and cash equivalents - End of period	<u>131,248</u>	<u>26,155</u>	<u>24,491</u>

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

I. Nature of Operations

Primeline Energy Holdings Inc. (the Company) was incorporated under the Companies Law of the Cayman Islands on March 31, 1995. The Company is in the business of exploration, development and production of offshore oil and gas properties in the People's Republic of China (PRC).

The Company owns exploration, development and production rights in the East China Sea in relation to Block 25/34 (Petroleum Contract 25/34) and Block 33/07 (Petroleum Contract 33/07). The contracts were entered into between China National Offshore Oil Corporation (CNOOC), a Chinese State oil company, Primeline Energy China Ltd. (PECL), a wholly owned subsidiary of the Company, and Primeline Petroleum Corporation (PPC), a company wholly owned by Mr. Victor Hwang, Chairman, Director and majority shareholder of the Company.

Block 25/34 is the development and production area for the LS36-I gas field (LS36-I Gas Field). CNOOC is the Operator with a 51% interest, and PECL and PPC hold 36.75% and 12.25% interests respectively. On July 1, 2014 the development of the LS36-I Gas Field was officially completed and CNOOC and the downstream buyer, Zhejiang Provincial Gas Development Co. (Zhejiang Gas), commenced joint commissioning of the upstream and downstream facilities. Trial gas production from the LS36-I Gas Field commenced on July 16, 2014. On October 29, 2014, CNOOC, as sales agent, and Zhejiang Gas signed the final Natural Gas Sale Agreement. This supersedes the Gas Sale Agreement-in principle and subsequent Framework and Amendment Agreements signed between 2008 and 2012 and confirms general commercial terms already negotiated including, inter alia, gas quality, take-or-pay principles, base price and annual quantity.

The Block 25/34 Joint Management Committee (JMC) has resolved that the commercial production period for the LS36-I Gas Field will be for a minimum of 15 years from December 1, 2014 with the production area being confirmed as the same as the development area, being 84.7 sq. km. The production period may be extended by agreement between the parties in the event that additional gas resources are discovered which can be conveniently tied into transported and processed using the production facility.

In June 2014, prior to revenues from the LS36-I Gas Field, Mr. Hwang agreed to provide the Company with an interest free loan of US\$ 8 million for working capital purposes. On November 17, 2014, the Company and PPC signed the contracts for the project finance facility for the financing of the costs to complete the LS36-I Gas Field (the "Development Facility") with the financing banks, namely China Development Bank (CDB), China Export and Import Bank (EXIM) and Shanghai Pudong Development Bank (SPDB). CDB, EXIM and SPDB are collectively referred to as the "Syndicate". The loan is made available to the Company and PPC on a joint borrower basis and is for a total amount of US\$274 million (Company's share US\$205.5 million) and will be repayable over 9 years. The Company and PPC have drawn down a total of US\$263m under the loan and have repaid to CNOOC their share of the costs incurred to date in the development of the LS36-I Gas Field and are henceforth subject to normal cash call payment obligations to fund cash calls in relation to operations.

Block 33/07 covers an offshore area of 5,877 sq. km enclosing Block 25/34. PECL and PPC are collectively the Contractors. The Contractors are responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development. The Contractors'

interest is shared 75%/25% by PECL and PPC. Primeline Energy Operations International Ltd (PEOIL), a wholly owned subsidiary of the Company, is the operator for Block 33/07.

2. Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. These interim condensed consolidated financial statement do not include all the necessary annual disclosures in accordance with IFRS.

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The accounting policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of March 2, 2015, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended March 31, 2015 could result in restatement of these interim condensed consolidated financial statements.

The condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2014.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out in the annual consolidated financial statement for the period to March 31, 2014 filed on SEDAR on July 29, 2014. These policies have been consistently applied to all the periods presented.

During the period, the Company adopted the following additional significant accounting policies:

3.1 Property, Plant and Equipment (PP&E)

Property, plant and equipment is recorded at cost less accumulated depletion and depreciation and accumulated impairment losses, net of recovered impairment losses.

PP&E may include the costs of oil and gas development and production wells and costs for the associated plant and for general corporate assets. All costs incurred after the technical feasibility and commercial viability of producing oil and gas have been demonstrated are capitalized within PP&E. Development and production assets are capitalized on an area-by-area basis and include all costs

associated with the development and production of oil and natural gas reserves. These costs may include expenditures on the construction, installation and completion of infrastructure facilities such as platforms, pipelines, and development wells drilling (including delineation wells), decommissioning costs, amounts transferred from E&E assets and directly attributable internal costs.

Subsequent expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Any gains or losses from the divestiture of development and production assets are recognized in earnings.

Accumulated costs are depleted using the unit-of-production method based on estimated proved and probable reserves from the commencement of commercial production. Depletion is calculated based on individual components (i.e. fields or combinations thereof and other major components with different useful lives).

3.2 Depletion, depreciation and amortization

Property, plant and equipment related to the oil and gas production activities is depreciated on a unit of production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Computer and office equipment is depreciated at a straight-line basis at the rate of 30% per annum.

3.3 Decommissioning liability

The Company records the present value of legal obligations associated with the retirement of long-term tangible assets, such as producing well sites and processing plants, in the period in which they are incurred with a corresponding increase in the carrying amount of the related long-term asset. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. In subsequent periods, the asset is adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The carrying amounts of the associated assets are depleted using the unit of production method, in accordance with the depreciation policy for development and production assets. Actual costs to retire tangible assets are deducted from the liability as incurred.

3.4 Restricted Cash

Cash held for security for the decommissioning costs is reported in the balance sheet and cash flow separately. If the expected duration of the restriction is less than twelve months then it is shown in current assets.

3.5 Trade receivables

Trade receivables are recognized and carried at the original invoiced amount less any provision for estimated irrecoverable.

3.6 Inventories

Inventories of materials, product inventory supplies and natural gas by-products are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method.

3.7 Current and deferred income tax

Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. As the Company and its subsidiaries are domiciled in an income tax-exempt jurisdiction and are in a taxable loss position in People's Republic of China (PRC), no income tax charges have been recognized during the period.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for circumstances where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.8 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Chinese Yuan Renminbi (RMB), which is also the functional currency of the Company and its subsidiaries.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period – end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income (loss).

c) Convenience Translation into Canadian Dollar Amounts

The Company's functional and presentation currency is RMB. The Canadian dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader.

The financial information presented in Canadian dollars has been translated from RMB using a convenience translation at the rate of RMB5.359 to Canadian \$1, which is the exchange rate published in South China Morning Post of Hong Kong as of December 31, 2014.

Such presentation is not in accordance with IFRS and should not be construed as a representation that the RMB amounts shown could be readily converted, realized or settled in Canadian dollars at this or at any other rate.

4. Changes in Accounting Standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning after April 1, 2014 or later periods. The standards that are applicable to the Company are as follows:

- a) IAS 32, "Financial instruments": Presentation has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard has no impact on the Company.
- b) IAS 36, "Impairment of Assets", has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard has no impact on the Company.
- c) IFRS 9, Financial Instruments ("IFRS 9"), was published on July 2014 which replaces the guidance in IAS 39. This final version includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the incurred loss impairment model used today. The final hedging part of IFRS 9 was issued in November 2013. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company will be required to adopt this standard. We are currently assessing the effect of this standard and related amendments on our financial statements.

5. Revenue

	Three Months Ended			Nine Months Ended		
	December 31			December 31		
	2014	2013	2104	2014	2013	2014
	RMB'000	RMB'000	CAD\$'000	RMB'000	RMB'000	CAD\$'000
			(note 3.8c)			(note 3.8c)
Natural gas	40,889	-	7,630	40,889	-	7,630
Condensate	8,258	-	1,541	8,258	-	1,541
Light Oil	1,535	-	286	1,535	-	286
	50,682	-	9,457	50,682	-	9,457

In December, 2014, the Company received payment for natural gas and condensate sold during the trial production period, from July 16, 2014 to the declaration of commercial production by the JMC on December 1, 2014, of RMB 140.7 million. This has not been recognized as revenue but has been booked under investing activities in the cash flow statement, and netted off against Property, Plant and Equipment in the balance sheet.

6. Exchange Losses

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income (loss). During the period, out of the total exchange loss of RMB 15,381,342 (CAD\$2,870,189), RMB14,804,380 (CAD\$2,762,527) resulted from the payment of US\$ 256,686,264 to CNOOC related to the first cash call for LS36-1 Gas Field development costs.

7. Inventories

	For the nine months ended		
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014
	RMB'000	RMB'000	CAD\$'000
Condensate	304	-	57
Light oil	1,208	-	225
CO2	26	-	5
Drilling materials and supplies	7,077	-	1,321
	8,615	-	1,608

8. Financial Risk Management

8.1 Financial risk factors

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, shareholder loan, cash calls payable, advances from a related party and derivative warrant liabilities.

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

The fair value of the financial assets and current liabilities approximates their carrying value.

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

(a) Currency risk

The Company held financial instruments in different currencies during the period/year ended as follows:

	Dec 31, 2014	Mar 31, 2014
Cash and cash equivalents of:		
- CAD\$'000	CAD\$105	CAD\$157
- US\$'000	US\$1,176	US\$3,610
- GBP'000	GBP16	GBP72
- HK\$'000	HK\$404	HK\$629
Shareholder loan of US\$'000	(US\$10,167)	(US\$3,495)
Bank Loans and interest of US\$'000	(US\$196,775)	-
Advance from a related party of CAD\$'000	-	(CAD\$1,700)

Based on the above net exposures, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Renminbi against the Canadian dollar, US dollar, British Pound and Hong Kong dollar, would result in an increase/decrease of the Company's net (loss) income of approximately:

	Dec 31, 2014 RMB'000	Mar 31, 2014 RMB'000	Dec 31, 2014 CAD\$'000
- CAD\$	56	866	10
- US\$	127,945	71	23,875

- GBP	15	75	3
- HK\$	32	50	6

(b) Credit risk

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

The Company's cash and cash equivalents outside China are principally held at a large international financial institution in interest bearing accounts. The majority of current cash balances are held at a Chinese financial institution in RMB, primarily for the purpose of debt servicing.

(c) Liquidity risk

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

Financing may be required in relation to any future exploration work.

In June 2014, Mr. Hwang agreed to provide the Company an interest free loan of US\$8 million to meet the Company's overhead requirement and to carry out its exploration activities under Petroleum Contract 33/07. The Company is actively exploring all possible fund-raising possibilities for the forthcoming exploration drilling program.

The Company's non-derivative financial liabilities, which are amounts due on the shareholder loan, are repayable on demand after December 31, 2015.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has minimal interest rate risk.

9. Critical Judgments and Accounting Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Further information on management's judgments, estimates and assumptions and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

The most significant judgments made by management in applying accounting policies when preparing the Company's interim financial statements are described as follows:

9.1 Shareholder Loans

Shareholder loans are recorded at fair value on inception in accordance with IAS 39 and carried at amortized cost. The difference between the fair value of these loans and cash received represents a capital contribution, which is recorded directly in equity.

The Company follows the guidance of IAS 39 to assess whether a change in the contractual terms of the shareholder loans is substantial enough to represent an extinguishment of the original agreement. This determination requires significant judgment. In making this judgment, the Company, evaluates, among other factors, the quantitative criteria and the qualitative criteria to assess if the change in the contractual terms result in a substantially different revised terms and account for the change in the contractual terms as an extinguishment.

The Company considers that, when there is a conversion of shareholder loans to equity, the related party is not acting as a creditor of the Company. As such, the equity issued is recorded at the carrying amount of the financial liability extinguished and neither gain nor loss arises.

9.2 Exploration and Evaluation Assets (E&E)

The technical feasibility and commercial viability of an oil and gas resource is considered to be established when all of the following conditions are met – proved and /or probable reserves are determined to exist, the decision to proceed with development has been approved by the Board of Directors, the receipt of regulatory approval to develop the project and the Company has the sufficient funds to complete or participate in the project.

The Company reviews and evaluates the carrying value of E&E assets for impairment when events or changes in circumstances indicate that the carrying amounts of the asset may not be recoverable. The identification of such events or changes and the performance of the assessment require significant judgment.

9.3 Impairment Testing on Property, Plant and Equipment

The Company reviews and evaluates the carrying value for impairment when events or changes in circumstances indicate that the carrying amounts of the asset may not be recoverable. The identification of such events or changes and the performance of the assessment require significant judgment.

9.4 Decommissioning Liabilities Estimate

The recognition and measurement of decommissioning provisions involves the use of estimates and assumptions. These include the existence of a legal or constructive obligation to decommission, based on current legislation, contractual or regulatory requirements or best practice; the risk-free discount rate used to determine the net present value of the liability; the estimated cost of decommissioning based on internal and external engineering estimates and

reports; and the payment dates of expected decommissioning costs which are uncertain and are based on economic assumptions surrounding the useful economic lives of the fields concerned. Actual costs could differ from estimated costs due to changes in legislation, regulations, technology, price levels and the expected date of decommissioning.

10. Exploration and Evaluation Assets

	RMB'000
Balance at March 31, 2013	444,003
Additions	18,101
Balance at March 31, 2014	462,104
Additions	47,654
Transfer to property, plant and equipment	(428,719)
Balance at December 31, 2014	81,039
	CAD\$'000
Balance December 31, 2014 in CAD\$	15,122

11. Property, Plant and Equipment

During the period, the Company transferred RMB 428,719,162 of assets directly related to exploration and development of the LS36-1 Gas Field from Exploration and Evaluation to Property, Plant and Equipment.

The JMC agreed that the commissioning and trial production of the LS36-1 Gas Field had been completed and declared the commencement of commercial production with effect from 1st December 2014. The production area for LS36-1 gas field was confirmed to be the same as the development area, being 84.7 sq. km. In accordance with Petroleum Contract 25/34 and the Supplemental Development Agreement entered into with CNOOC, the production period for the LS36-1 Gas Field will be for a minimum of 15 years from the commencement of commercial production and may be extended by agreement between the parties in the event that additional gas resources are discovered which can be conveniently tied into, transported and processed using the production facility. The Company capitalized its 36.75% share of the development costs related to the LS36-1 Gas Field, being RMB 1,371,221,989.

A fair value test was undertaken at the time of the transfer. Key assumptions included, inter alia, gas quality, take-or-pay principles, base price and annual quantity from the Natural Gas Sale Agreement, and an estimated risk-free nominal interest rate of 10%.

	Oil & Gas Properties	Computer & Office Equipment	Total	Total
	RMB'000	RMB'000	RMB'000	CAD\$'000 (note 3.8c)
COST	-	-	-	-
At April 1, 2013	-	20	20	3
Additions	=	=	=	=
At March 31, 2014	-	20	20	3
Additions	1,371,222	-	1,371,222	255,873
Transfer from exploration and evaluation	428,719	-	428,719	80,000
Less: Trial revenue	(140,746)	-	(140,746)	(26,263)
At December 31, 2014	1,659,195	20	1,659,215	309,613
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
At March 31, 2013	-	6	6	1
Charge for the year	-	6	6	1
At March 31, 2014	-	12	12	2
Charge for the period	31,276	4	31,280	5,837
At December 31, 2014	31,276	16	31,292	5,839
CARRYING VALUES				
	RMB'000	RMB'000	RMB'000	CAD\$'000
At March 31, 2013	-	14	14	2
At March 31, 2014	-	8	8	1
At December 31, 2014	1,627,919	4	1,627,923	303,774

12. Decommissioning Liabilities

	December 31, 2014 RMB'000	March 31, 2014 RMB'000	December 31, 2014 CAD\$'000
Balance, beginning of period	-	-	-
Accretion	59,200	-	11,047
Balance, end of period	59,200	-	11,047

The total undiscounted future decommissioning liabilities, including costs to reclaim and abandon wells and facilities in the years in which such costs are expected to be incurred is estimated by CNOOC and stated in the overall development plan (ODP) to be RMB 417,820,000. The Company's share of the liability is RMB153,550,000. At December 31, 2014, the Company's share of the liability had a net present value of RMB59,200,172, assuming the liability is settled in 15 years and using an estimated risk-free nominal interest rate of 10%. The Company's share of the decommissioning liability has been determined to be non-current. Financing costs relating to accretion on the decommissioning liability are RMB 94,349,828.

13. Derivative Warrant Liability

The Company issued share purchase warrants in connection with the private placement offering completed on December 30, 2013 and January 23, 2014 (see Note 14 (a) (i)). These warrants are exercisable in Canadian dollars. As the functional and reporting currency of the Company is RMB, share purchase warrants with an exercise price in a different currency are considered a derivative instrument under IAS 32. The initial fair value on recognition of the share purchase warrants was calculated using the Black-Scholes pricing model, using the assumptions in the following table. Subsequent to their initial recognition, the share purchase warrants liability is re-measured and re-translated each reporting period.

Tranche I on December 30, 2013:

	As at December 31, 2014	As at March 31, 2014	At date of issue December 30, 2013
Exchange rate at date of fair value (RMB/CAD)	5.359	5.613	5.705
Stock price	CAD\$0.50	CAD\$0.57	CAD\$0.63
Exercise price	CAD\$0.90	CAD\$0.90	CAD\$0.90
Risk free interest rate	1.00%	1.07%	1.09%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	67%	70%	83%
Expected warrant life	1 year	1.75 years	2 years

Tranche 2 on January 23, 2014:

	As at December 31, 2014	As at March 31, 2014	At date of issue January 23, 2014
Exchange rate at date of fair value (RMB/CAD)	5.359	5.613	5.55
Stock price	CAD\$0.50	CAD\$0.57	CAD\$0.53
Exercise price	CAD\$0.90	CAD\$0.90	CAD\$0.90
Risk free interest rate	1.00%	1.07%	0.97%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	70%	74%	73%
Expected warrant life	1.07 years	1.82 years	2 years

The Company's warrant liability for the period ended December 31, 2014 and year ended March 31, 2014 is set out below:

	Warrants Outstanding	Value assigned RMB'000	Value assigned CAD\$'000	Average exercise price CAD\$
Balance – as at March 31, 2013	-	-	-	-
Warrants issued	4,586,250	5,406	1,009	0.90
Fair value re-measurement in the year	-	(1,998)	(373)	-
Balance – as at March 31, 2014	4,586,250	3,408	636	0.90
Fair value re-measurement in the period	-	(2,218)	(414)	-
Balance – as at December 31, 2014	4,586,250	1,190	222	0.90

The share purchase warrants outstanding and exercisable as at December 31, 2014 is set out below:

Exercise Price CAD\$	Expiry date	Number
0.90	December 30, 2015	3,826,250
0.90	January 23, 2016	760,000

14. Share Capital and Share Options

a) Share Capital

	Number of shares	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000	Total CAD\$'000
Balance as at March 31, 2013	94,041,246	858	437,506	438,364	81,799
Shareholder loan converted to shares (Note i)	9,427,272	86	27,762	27,848	5,196
Share issue costs in relation to shareholder loan conversion (Note ii)	-	-	(15)	(15)	(2)
Gross proceeds from private placement (Note i)	9,172,500	84	23,157	23,241	4,337
Share issue costs incurred in relation to private placement (Note ii)	-	-	(2,958)	(2,958)	(552)
Share issue costs - Broker Warrants (Note iii)	-	-	(1,213)	(1,213)	(226)
Balance – as at March 31, 2014	112,641,018	1,028	484,239	485,267	90,552
Broker Warrants exercised (Note iv)	150,000	1	728	729	136
Balance – as at December 31, 2014	112,791,018	1,029	484,967	485,996	90,688

- i) On October 10, 2013, Mr. Victor Hwang agreed to convert US\$5,000,000 of the shareholder loans payable to him into 9,427,272 common shares. This transaction was approved by the TSX Venture Exchange (the TSX-V) on November 7, 2013. The carrying amount of the loan payable to Mr. Hwang immediately prior to the conversion to common shares, was RMB28,957,699 (CAD\$5,403,564). The Company recorded the shares issued to Mr. Hwang at the carrying amount of the financial liability extinguished.

On December 30, 2013, the Company completed the first tranche of a private placement (Private Placement) offering led by D&D Securities Inc. (the Agent). The Company issued a total of 7,652,500 units (Units) at a price of CAD\$0.55 per Unit for gross proceeds of CAD\$4,208,875. Each Unit consists of one ordinary share (a Common Share) and one half of one warrant (a Warrant). Each Warrant is exercisable to purchase a further Common Share at a price of CAD\$0.90 per share for period of two years following the closing date of the Private Placement. The Company has the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX-V exceeds CAD\$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Company considered the value of the right to accelerate as immaterial.

On January 23, 2014, the Company closed the second and final tranche of the Private Placement and issued a total of 1,520,000 Units at a price of CAD\$0.55 per Unit for gross proceeds of CAD\$836,000.

The Company first calculated the fair value of the derivative warrant liabilities (see Note 12) that were issued using the Black Scholes model, and the remaining cash proceeds were allocated between share capital and share premium.

- ii) In relation to the shareholder loan conversion and Private Placement, the Company incurred share issue costs of RMB2,973,681 (CAD\$554,895) in total as follows:

In connection with the shareholder loan conversion, the Company incurred total legal and professional fees of RMB 15,291 (CAD\$2,853).

In connection with the Private Placement, the Company incurred RMB2,958,390 (CAD\$552,041) share issuance costs which are comprised of the Agent's fee of RMB2,005,341 (CAD\$374,201), and legal and professional costs of RMB953,049 (CAD\$177,841).

- iii) The Company issued 733,800 warrants (Broker Warrants) exercisable to purchase a number of Common Shares equal to 8% of the number of Units sold by the Agent at an exercise price of CAD\$0.55 per share.

The fair value of the Broker Warrants issued is RMB1,213,235 (CAD\$ 226,392). The Company calculated the fair value of the Broker Warrants using the Black Scholes model.

- iv) On June 2, 2014, a member of the Agent's selling group exercised 150,000 Broker Warrants at an exercise price of CAD\$0.55 per share. The Company received gross proceeds of RMB 465,616 (CAD\$86,885). The fair value of the Broker Warrants exercised of RMB 263,064 (CAD\$ 49,088) initially recognized in share purchase warrants reserve was transferred to share premium in Equity as at the date the Broker Warrants were exercised.

b) Broker Warrants

	Warrants outstanding	Value assigned RMB'000	Value assigned CAD\$'000	Average exercise price CAD\$
Balance as at March 31, 2013	-	-	-	-
Broker Warrants issued (see Note 14(a)(iii))	733,800	1,213	226	0.55
Balance as at March 31, 2014	733,800	1,213	226	0.55
Broker Warrants exercised (see Note 14 (a)(iv))	(150,000)	(263)	(49)	0.55
Balance as at December 31, 2014	583,800	950	177	0.55

The number of Broker Warrants outstanding and exercisable as at December 31, 2014 is set out below:

Exercise Price CAD\$	Expiry date	Number
0.55	December 30, 2015	462,200
0.55	January 23, 2016	121,600

The fair value of the Broker Warrants granted has been calculated using the Black-Scholes option pricing model, using the following assumptions:

	Broker Warrants issued on December 30, 2013	Broker Warrants issued on January 23, 2014
Risk free interest rate	1.09%	0.97%
Expected dividend yield	Nil	Nil
Expected stock price volatility	83%	73%
Expected warrant life	24 Months	24 Months

c) Share Purchase Options

The Company has a stock option plan (the Plan), pursuant to which the directors are authorized to grant options to purchase up to 10% of the issued and outstanding Common Shares from time to time. The options enable the directors, officers, consultants and employees of the Company to acquire Common Shares. The exercise price of a share option is set by the board of directors, subject to TSX-V policy. Options granted under the Plan may have a maximum term of ten years and, subject to any vesting restrictions imposed by the TSX-V, shall vest over such period as is determined by the board of directors at the grant date.

The following table summarizes the stock option activity under the Plan:

	Options outstanding	Weighted Average exercise price CAD\$	Options exercisable	Weighted Average exercise price CAD\$
As at March 31, 2013	5,505,000	0.49	1,766,660	0.37
As at March 31, 2014	5,505,000	0.49	2,400,000	0.36
Additions	450,000	0.68	150,000	0.68
Expired	(20,000)	0.60		
As at December 31, 2014	5,935,000	0.51	2,550,000	0.38

On July 27, 2011, the Company granted 2,100,000 options at an exercise price of CAD\$0.32 per share to directors, officers, employees and consultants, of which 200,000 options have expired and 1,900,000 options expire on July 27, 2016. Share based payments of RMB Nil (CAD\$ Nil) and RMB Nil (CAD\$ Nil) (2013 – RMB67,570 and RMB34,630) were recognized as Directors remuneration & benefit and Salary & benefit respectively in the consolidated statement of loss and comprehensive loss. Share based payment of RMB Nil (CAD\$ Nil) (2013 – RMB58,277) was capitalized as exploration and evaluation assets.

The share options vested according to the following schedule:

Vesting date	Number of Share options
July 27, 2011	633,326
July 27, 2012	633,334
July 27, 2013	633,340

On July 9, 2012, the Company granted 500,000 options at an exercise price of CAD\$0.50 per share to D&D Securities Inc. in consideration of ongoing services on investor relations. The options expire on June 25, 2017. Share based payments of RMB nil (2013 – RMB nil) were recognized as business promotion in the consolidated statement of loss and comprehensive loss.

The share options vested according to the following schedule:

Vesting date	Number of Share options
July 9, 2012	200,000
September 30, 2012	100,000
December 31, 2012	100,000
March 31, 2013	100,000

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD\$0.60 per share to directors, officers, employees and consultants of which 20,000 options expired and 3,085,000 expire on September 26, 2017. Share based payments of RMB528,778(CAD\$98,671), RMB240,354(CAD\$44,851) and RMB184,924 (CAD\$34,507) (2013 – RMB643,867, RMB338,877 and RMB376,155) were recognized as Directors remuneration and benefit, professional fees and salary & benefit respectively in the consolidated statement of loss and comprehensive loss. Share based payment of RMB454,269 (CAD\$84,767) (2013 – RMB745,532) and RMB68,869 (CAD\$12,851) (2013 – RMB nil) were capitalized as exploration and evaluation assets and property plant and equipment.

The share options vest according to the following schedule:

Vesting date	Number of Share options
Upon date of full repayment of the existing shareholder loans	1,028,333
One year after the date of full repayment of the existing shareholder loans	1,028,333
Two years after the date of full repayment of the existing shareholder loans	1,028,334

On August 11, 2014, the Company granted 450,000 options at an exercise price of CAD\$0.68 per share to an officer. Such options will expire on August 11, 2019. Share based payments of RMB182,539 (CAD\$34,062) (2013 – nil) were recognized as salary & benefit respectively in the consolidated statement of loss and comprehensive loss. Share based payment of RMB425,921 (CAD\$79,478) (2013 – nil) was capitalized as exploration and evaluation assets.

The share options vest according to the following schedule:

Vesting date	Number of Share options
November 11, 2014	150,000
November 11, 2015	150,000

November 11, 2016

150,000

Stock options outstanding and exercisable are as follows:

Exercise price	Number of outstanding options	Weighted average remaining contractual life	Number of exercisable options
As at March 31, 2014			
CAD\$0.32	1,900,000	2.33 years	1,900,000
CAD\$0.50	500,000	3.24 years	500,000
CAD\$0.60	3,105,000	3.49 years	-
	5,505,000	3.07 years	2,400,000
As at December 31, 2014			
CAD\$0.32	1,900,000	1.57 years	1,900,000
CAD\$0.50	500,000	2.48 years	500,000
CAD\$0.60	3,085,000	2.74 years	-
CAD\$0.68	450,000	4.61 years	150,000
	5,935,000	2.49 years	2,550,000

As at March 2, 2015, there are 112,791,018 Common Shares, 5,935,000 stock options and 5,170,050 Warrants and Broker Warrants outstanding.

15. Bank Loan

	December 31, 2014	March 31, 2014	December 31, 2014
	RMB'000	RMB'000	CAD\$'000
Within one year	97,934	-	18,274
More than one year	1,123,904	-	209,723
	<hr/>	<hr/>	<hr/>
Secured floating-rate bank loan	1,221,838	-	227,997
	<hr/>	<hr/>	<hr/>

On November 17, 2014, the Company and PPC signed a project finance facility with a syndicate jointly led by CDB and EXIM, with SPDB as participant and agent bank.

The bank loan is made available to the Company and PPC on a joint borrower basis and secured on their respective interests in the LS36-1 Gas Field. The principal amount of the Development Facility is US\$ 274 million (of which the Company's share is US\$ 205.5 million) which will be repayable over 9 years at an all-in interest rate of 6 month LIBOR+4.7%.

16. Interest and other income

	For the nine months ended		
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014
	RMB'000	RMB'000	CAD\$'000
Bank interest income	160	2	30
Gain on extinguishment of Related Party's loan under revised loan facility	-	1,111	-
Gain on fair value of re-measurement of warrant liability	2,111	-	394
	<hr/>	<hr/>	<hr/>
	2,271	1,113	424
	<hr/>	<hr/>	<hr/>

17. Taxation

	For the nine months ended		
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014
	RMB'000	RMB'000	CAD\$'000
Deferred tax credit for the year	4,594	-	857
	<hr/>	<hr/>	<hr/>

The Company is domiciled in an income tax-exempt jurisdiction and carries out its oil exploration activities in the PRC; these activities are subject to PRC income tax at a rate of 25%. In accordance with PRC tax regulation, exploration costs incurred by foreign oil and gas enterprises can be deferred and amortized, over a one year or three year period, from commencement of oil/gas production. The following are the major deferred tax assets recognized and movements thereon during the current

and prior reporting periods:

	Accelerated accounting depreciation	Tax losses	Total	Total
	RMB'000	RMB'000	RMB'000	CAD\$'000
As at March 31, 2014	-	-	-	-
Credit to profit or loss for the period	4,000	594	4,594	857
As at December 31, 2014	4,000	594	4,594	857

18. Transactions with Related Parties and Directors

During the period ended December 31, 2014, the Company paid or accrued the following:

- a) London office rent of RMB291,242 (CAD\$54,346) (2013 – RMB276,388) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the majority shareholder, director and officer of the Company.
- b) Cash call received from and utilized for PPC, a company owned by Mr. Hwang, for its 25% contribution to exploration costs were RMB 10,211,133 (CAD\$1,905,418) (2013 – RMB 3,746,120) and RMB 17,149,956 (CAD\$3,200,216) (2013 – RMB 2,916,475) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB 2,968,081 (CAD\$553,850) (2013 – RMB 968,115).
- c) Fees and benefits paid or accrued to key management personnel of the Company were RMB 3,748,172 (CAD\$699,416) (2013 – RMB 3,398,066) and share based payment of RMB 1,151,934 (CAD\$214,953) (2013 – RMB 953,266) was recognized for the 2,360,000 (2013 – 2,260,000) share options granted to these key management personnel.
- d) Fees and benefits paid or accrued to directors were RMB 418,000 (CAD\$78,000) (2013 – RMB 436,700) and share based payment of RMB 526,716 (CAD\$98,286) (2013 – RMB 711,438) was recognized for the 2,100,000 (2013 – 1,750,000) share options granted to the directors.
- e) Shareholder loan of RMB 58,210,464 (CAD\$10,862,188) (2013 – RMB18,408,623) represents interest-free loans with a principal balance of RMB63,216,335 (CAD\$11,796,293) (2013 – RMB21,192,898). On June 30, 2014, Mr. Hwang agreed to advance an additional US\$8,000,000 interest-free loan facility to the Company. This loan is repayable upon demand after December 31, 2015, provided that under the Development Facility such loan may not be repaid without the consent of the Syndicate. As at December 31, 2014, the Company has drawn down a total of US\$5,166,667 from the facility with a remaining available facility of US\$2,833,333.

The shareholder loan was recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB 5,464,982 (CAD\$1,019,776) (2013 – RMB 2,784,275) and the capitalized interest of RMB 2,887,859 (CAD\$538,880) (2013 – RMB 2,621,485) were calculated using an effective rate of 10% per annum during the nine month period ended December 31, 2014.

- f) Advances from a related party of RMB Nil (CAD\$ Nil) (2013 – RMB 8,269,215) represent an interest-free balance with a principal amount of RMB Nil (CAD\$ Nil) (2013 – RMB 9,681,500)

from PPC. The interest-free non-current advance from a related company has been recorded at fair value on inception and carried at amortized cost.

The capitalized interest of RMB 1,229,353 (CAD\$229,400) (2013 – RMB 619,416) was calculated using an effective rate of 10% per annum.

In June 2014, the Company funded CAD\$1.7 million of PPC's share of the 3D seismic survey costs on behalf of PPC, thus repaying the advance.

These transactions are measured at the exchange amount, which is the amount of the consideration established and agreed by the related party.

19. Commitments

- a) Under Petroleum Contract 33/07, commencing November 2012, the Company has a 7 years' exploration period divided into 3 exploration periods of 3, 2 and 2 years each with a minimum work commitment in the first phase of two wells plus 600 sq. km of 3D seismic surveys. The minimum expenditures for the remaining exploration activities are estimated to be RMB 200 million of which the Company's 75% obligation would be a total of RMB 150 million.
- b) The Company entered into a lease agreement for the rental of its Shanghai office in the PRC. The lease is for a period of one year from September 1, 2014 to August 31, 2015 with a monthly rental fee of RMB 58,450 (CAD\$10,907).

20. Fair Value Measurement

Certain financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize inputs to valuation techniques used to measure fair value, with Level I inputs having the highest priority. The levels and valuation techniques used to value the Company's financial assets and liabilities are described below:

1) Level I - Quoted Prices in Active Markets for Identical Assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company does not have any financial assets and liabilities that are included in Level I of the fair value hierarchy.

2) Level 2 – Significant Other Observable Inputs

Quoted prices in market that are not active, quote prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially

the full term of the asset or liability.

Warrant liability is included in Level 2 of the fair value hierarchy as the warrants are valued using a pricing model, which require a variety of inputs, including but not limited to historical stock prices and discount rates.

3) *Level 3 – Significant Unobservable Inputs*

Unobservable (supported by little or no market activity) prices. The Company does not have any financial assets and liabilities that are included in Level 3 of the fair value hierarchy.

	As at December 31, 2014				March 31, 2014			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement								
Warrant liability	-	1,218	-	1,218	-	3,408	-	3,408
Accounts Payable	-	28,569	-	28,569	-	-	-	-
	-	29,787	-	29,787	-	3,408	-	3,408

21. Subsequent Events

There are no material subsequent events.

Primeline Energy Holdings Inc. (TSX Venture-PEH) (“the Company”) Management Discussion and Analysis for the Quarter Ended December 31, 2014

INTRODUCTION

This Management Discussion and Analysis is dated March 2, 2015 and takes into account information available up to that date and should be read in conjunction with the audited annual consolidated financial statements for the year ended March 31, 2014 and interim consolidated financial statements for the quarter ended December 31, 2014. All monetary amounts in this discussion and analysis are expressed in Chinese Yuan Renminbi (“RMB”) unless otherwise noted. Canadian dollar (“C\$”) equivalents are provided for information only. Such presentation in Canadian dollars is not in accordance with IFRS and should not be construed as a representations that the RMB amounts shown could be readily converted, realized or settled in Canadian dollars at the date of these financial statements or any other date. The exchange rate of one Canadian dollar for RMB published in the South China Morning Post of Hong Kong on December 31, 2014 was RMB5.359 to C\$1.00.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the following disclosures contain forward-looking statements, which involve inherent risk and uncertainty affecting the business of the Company. These statements relate to the anticipated continuing gas production from the Lishui 36-1 gas field (“LS36-1 Gas Field”), the timing of the completion of the interpretation of 3D seismic data, the drilling of exploration wells in Block 33/07 and the results of exploration of the Company’s other exploration prospects, among other things. They are based on assumptions that the LS36-1 Gas Field will continue in production, 3D seismic data interpretation will be completed in good time, drilling operations will proceed as planned and any necessary financing for the Company’s exploration drilling obligations can be obtained, and other assumptions management considers reasonable. Actual results may vary from those anticipated. LS36-1 Gas Field production may be affected for various reasons and the 3D seismic interpretation and the planned exploration drilling may be delayed. The Company may not be able to arrange financing for its exploration obligations or such funding may be insufficient and in such event it may breach its obligations under Petroleum Contract 33/07. Exploration for oil and gas is subject to inherent risks that it may not result in a commercial discovery.

COMPANY AND PROJECT OVERVIEW

The Company is focused exclusively on upstream oil and gas opportunities in China. The Company owns exploration, development and production rights in the East China Sea pursuant to two Petroleum Contracts, both entered into between China National Offshore Oil Corporation (“CNOOC”), Primeline Energy China Ltd. (“PECL”), a wholly owned subsidiary of the Company, and Primeline Petroleum Corporation (“PPC”), an affiliated company wholly owned by Mr. Victor Hwang, the Company’s chairman, president and majority shareholder. PECL and PPC act jointly as the “Contractor” under the Petroleum Contracts:

- **Petroleum Contract 25/34**, dated March 24, 2005, covers the 84.7 sq. km Block 25/34, being the development and production area for the LS36-1 Gas Field, for which CNOOC is the Operator holding a 51% interest with the Company and PPC holding a 36.75% and 12.25% interest respectively.

- **Petroleum Contract 33/07**, dated June 15, 2012, covers an offshore area of 5,877 sq. km (1.45 million acres) enclosing Block 25/34 and the Contractor's interest is shared 75%/25% by the Company and PPC. Another wholly owned subsidiary of the Company, Primeline Energy Operations International Ltd. (PEOIL), is the operator for Block 33/07. The Contractors are responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development.

References in this MD&A to 'Primeline' refer to the Company, PECL, PEOIL and PPC and references to the Company include its subsidiaries PECL and PEOIL.

Primeline and CNOOC are implementing a rolling development and exploration strategy in the Lishui Basin with CNOOC operating the development and production of the LS36-I Gas Field under Petroleum Contract 25/34 and Primeline leading the effort on exploration as operator under Petroleum Contract 33/07. The LS36-I Gas Field production infrastructure is the first gas production facility in the southern East China Sea and could become a hub for successful exploration and development work in the remainder of the petroliferous Lishui Basin.

The LS36-I Gas Field has been in commercial production since December 1, 2014, establishing access to the dynamic regional gas market in Eastern China. The confirmation of the gas market and the completion of the production facility significantly enhances the value of incremental reserves and prospective resources within the LS36-I Gas Field and any additional resources which may be discovered in the Lishui Gas Play and elsewhere within Block 33/07.

QUARTERLY PROGRESS REVIEW

During the quarter, trial production of gas from the LS36-I Gas Field continued to progress well and commercial production formally commenced on December 1, 2014. Subsequently, in December 2014, Primeline received the first payment of sales revenue.

The commencement of commercial production and the receipt of first revenue represent significant milestones for the Company. At the time of the discovery of the LS36-I Gas Field in 1997, the Chinese gas market was in the very early stages of development with gas prices that could not justify the development of the discovery. Now, some 18 years later, the Chinese gas market is a more mature market with tremendous growth potential.

On the exploration side, Primeline completed the acquisition and interpretation of an additional 600 sq. km of 3D seismic data in Block 33/07. Primeline has now started the interpretation of this data to identify additional prospects for the next exploration drilling program in the large exploration area in Block 33/07 surrounding the LS36-I Gas Field. Any additional resources discovered will be able to use the infrastructure built for the LS36-I Gas Field to access the expanding East China market.

DEVELOPMENT AND PRODUCTION OF THE LS 36-I GAS FIELD

Over the past four years, CNOOC, as the operator, completed the development of the LS36-I Gas Field, including the construction of the production platform, subsea pipeline, development wells, onshore processing terminal and sales gas pipeline. Trial production of gas from the LS36-I Gas Field

commenced on July 16, 2014 and gas production has been steady since early September 2014 and during the quarter under review.

The Joint Management Committee established by CNOOC and Primeline for Block 25/34 resolved that the commissioning and trial production of the LS36-I Gas Field had been completed and declared the commencement of commercial production with effect from December 1, 2014. The production area for the LS36-I Gas Field has been confirmed to be the same as the development area, being 84.7 sq. km. The production period for the LS36-I Gas Field will be for a minimum of 15 years from the commencement of commercial production and may be extended by agreement between the parties in the event that additional gas resources are discovered which can be conveniently tied into, transported and processed using the production facility.

By the end of the December 2014, over 88.4 million cubic meters (mcm) (3.09bcf) of natural gas had been produced from the LS36-I Gas Field and sold to Zhejiang Provincial Gas Development Co. ("Zhejiang Gas"). Condensate and light oil production has also commenced. The average daily volume of gas sold during the quarter (October, 1- December, 31) was 686 mcmpd, or 24 mmcfpd (versus the design level of 25 mmcfpd).

During 2014, CNOOC and Zhejiang Gas negotiated the terms of the final gas sale contract. The first gas sale agreement in principle was signed in 2008 and a framework agreement for gas sale was signed in 2011, which together provided the commercial support for the development of the LS36-I Gas Field. The terms of the final gas sale contract were agreed in early July and the contract was signed on October 29, 2014 in Beijing, replacing the previous framework agreement. It confirmed the general commercial terms already negotiated, including gas quality, take or pay principles, base price and annual quantity.

The Company received its first share of production revenue on December 12, 2014, which included revenue from sales of gas and by-products. Subsequently, the Company has received gas sales revenue at weekly intervals and by-product sales revenue at monthly intervals. The total production revenue due to the Company as at end of December 2014 was RMB191.43, (circa US\$30.88m), which included sales generated during the trial production period from July 2014. Approximately RMB50,652,000 of such revenue was received as at December 31, 2014, and the balance has been received subsequently.

The total development cost paid by the Company and PPC for development of the LS36-I Gas Field up to the end of December 2014 was RMB 1,654.39m (C\$308.71m) (Company share RMB 1,240.79m, or C\$231.53m) including the management charge for CNOOC's carry of the development costs from 2010 to 2014. The total production costs paid by the Company and PPC for the production operations of the LS36-I Gas Field up to the end of December 2014 were RMB11,230,293 (C\$2,095,595) (Company share RMB8,422,720 or C\$1,571,696).

With production having commenced, CNOOC is now working on the construction of a small jetty next to the terminal to facilitate the transportation of CO₂ and hydrocarbon liquid products by sea. Prior to the completion of this jetty, transportation of such products will be by truck only.

EXPLORATION IN BLOCK 33/07

During the first half of 2014, Primeline completed the acquisition of a 600sq km 3D seismic survey in Block 33/07 and commenced the data processing in May 2014. Processing of the 3D seismic data was

completed during the quarter under review and the initial processed data results were sent to Primeline's technical team in November 2014 for evaluation and initial interpretation. The interpretation of the total 3D seismic cube commenced in December 2014 and is ongoing.

The data from the survey have provided better definition of the prospects and leads previously identified in the survey area using 2D data and will help to generate additional drillable prospects. Such interpretation will continue in the next quarter and Primeline is aiming for completion of the work by April 2015. This will identify the best two exploration well drilling locations for the planned 2015 drilling campaign.

Primeline has been in discussion with a number of potential drilling contractors during the quarter aiming to secure a suitable rig for the planned exploration drilling campaign. Drilling rig market conditions are currently favourable to Primeline given the recent drop in crude oil prices, and there are a number of available rigs for the exploration drilling operation planned for Q2/Q3 2015.

DEVELOPMENT FINANCE

Under the terms of the agreements entered into by the Company, PPC and CNOOC in March 2010, Primeline had no obligation to fund its cost of development of the LS36-1 Gas Field until 3 months after government approval of the overall development plan ("ODP") for the project. In the meantime, CNOOC had responsibility for all work required to ensure that the development remained on schedule.

In May 2010, PECL, PPC and CDB entered into a loan memorandum to confirm the terms on which China Development Bank ("CDB") agreed in principle to provide a loan facility to PECL and PPC as joint borrowers, to fund their respective share of the costs of the development of the LS36-1 Gas Field. PECL, PPC and CDB signed a revised loan memorandum on November 2, 2012, which took into account the various changes and progress made in relation to the development since 2010 and replaced the previous loan memorandum.

On May 16, 2014, CNOOC notified Primeline that government approval of the ODP had been obtained. In order to allow Primeline sufficient time to finalize the financing arrangements, CNOOC agreed that the period allowed for Primeline to arrange for funding of cash calls in relation to the development should be extended by 4 months to December 16, 2014. A memorandum of agreement was signed to that effect on October 29, 2014.

Following the approval of the ODP, Primeline worked with CDB to finalise the loan arrangements for PECL and PPC's share of the development costs. As a result of changes in the banking environment and CDB internal regulations since the date of the previous credit committee approval it was agreed that CDB would lead and arrange a syndicated project finance facility. China Export and Import Bank ('EXIM') joined the syndicate as joint lead arranger, and Shanghai Pudong Development Bank ("SPDB") as participant and agent bank. CDB, EXIM and SPDB are collectively referred to as the "Syndicate". The Company, PPC and the Syndicate signed the loan contract (the "Development Facility") on November 17, 2014.

The Development Facility is made available to the Company and PPC on a joint borrower basis and secured on their respective interests in the LS36-1 Gas Field, its infrastructure and revenue streams. The Development Facility is for a total amount of US\$ 274 million (of which the Company's share is US\$ 205.5 million) and is repayable over 9 years at an all-in interest rate of 6 month LIBOR+4.7%. The Development Facility is sufficient to cover all of the obligations of the Company and PPC with respect to their development costs and some of the anticipated development work in the next 12 months.

Following the signing of the Development Facility, the security arrangements and accounts were swiftly set up and implemented. The Company and PPC made the first drawdown under the Development Facility at the end of November, and repaid CNOOC the agreed share of cash calls for the development of the LS36-I Gas Field to the end of November, in the order of US\$256.7m (Company's share US\$192m), on December 5, 2014. The Company and PPC have subsequently been subject to normal cash call payment obligations for the development and production expenditures.

GENERAL FINANCIAL OUTLOOK

As at December 31, 2014, the Company held cash resources of RMB131,247,660 (C\$24,491,073), loans from Victor Hwang, its Chairman, President and majority shareholder in the principal amount of RMB63,216,335 (C\$11,796,293) and a secured loan from the Syndicate of RMB1,221,838,000 (C\$227,997,388).

The Company's free cash flow from production of LS36-I Gas Field is expected to be significant and, after serving the obligations under the syndicated loan, will cover general and administrative expenses. However, it may not be sufficient to provide support for all intended exploration drilling operations. This is particularly so as the decline in oil prices since September 2014 impacts sales revenue from liquid hydrocarbons. Primeline is exploring various options for the financing of the planned exploration, including a possible farm out process, which is likely to start by the end of March 2015.

FINANCIAL INFORMATION

Results of Operations

Summary of Quarterly Results (Unaudited)

Quarter Ended	2014 Dec 31 CNY	2014 Dec 31 RMB	2014 Sep 30 RMB	2014 Jun 30 RMB	2014 Mar 31 RMB
Net gain (loss)	(1,402,451)	(7,515,732)	292,059	(1,705,590)	187,718
Per basic share	(0.013)	(0.067)	0.003	(0.015)	0.002
Per diluted share	(0.013)	(0.067)	0.003	(0.015)	0.002

Quarter Ended	2013 Dec 31 RMB	2013 Sep 30 RMB	2013 Jun 30 RMB	2013 Mar 31 RMB
Net (loss) gain	(1,908,099)	(1,039,850)	(1,978,511)	508,236
Per basic share	(0.019)	(0.011)	(0.021)	0.005
Per diluted share	(0.019)	(0.011)	(0.021)	0.005

The Company's results for the quarter ended December 31, 2014 were a loss of RMB7,515,732 (C\$1,402,451) compared to a loss of RMB1,908,099 for the same quarter last year. The increased loss of RMB5,607,633 (C\$1,046,395) was mainly due to an exchange loss of RMB15,243,280 (C\$2,878,014), bank loan interest of RMB6,074,149 (C\$1,133,448), depletion and depreciation of RMB31,277,353 (C\$5,836,416), operating and production costs of RMB8,422,720 (C\$1,571,696) and general and administrative costs of RMB2,200,378 (C\$410,595). The loss was partially off-set by oil and gas revenue of RMB50,682,497 (C\$9,457,454), the gain recognized from the warrant liabilities' fair value change of RMB446,046 (C\$83,233), and the fixed deposit interest income of RMB144,928 (C\$21,446).

The exchange loss of RMB15,423,280 resulted from the payment of USD256,686,264 to CNOOC in relation to the first cash call for the LS36-I Gas Field development costs.

In December, 2014, the Company received payment for natural gas and condensate sold during the trial production period, from July 16, 2014 to the declaration of commercial production by the JMC on December 1, 2014, of RMB 140.7 million. This has not been recognized as revenue but has been booked under investing activities in the cash flow statement, and netted off against Property, Plant and Equipment in the balance sheet.

General and administrative expenses were RMB2,200,378 (C\$410,595) compared to RMB2,256,720 for the same quarter last year. The decrease of RMB56,342 (C\$10,514) mainly resulted from the decrease of directors' remuneration and benefits of RMB97,530 (C\$18,199), the decrease of professional fees of RMB112,131 (C\$20,924) and an increase of salary allowances and benefits of RMB90,648 (C\$16,915).

The increase of interest and other income of RMB604,893 (C\$112,874) compared to the same quarter last year related mainly to the change in fair value of warrant liabilities of RMB446,046 (C\$83,233) and the increase of fixed deposit interest income of RMB144,928 (C\$27,044).

The loss for the quarter ended December 31, 2013 of RMB1,908,099 was mainly attributable to professional fees of RMB896,874, salary and benefits of RMB445,639 and directors' remuneration and benefits of RMB352,656 and was partially set off by the exchange gain of RMB349,602.

Liquidity and Capital Resources

As at December 31, 2014, net current assets of the Company amounted to RMB10,781,607 (C\$2,011,869), whereas net current assets of RMB23,087,905 were recorded as at March 31, 2014. The decrease in net current assets of RMB12,306,298 (C\$2,296,380) was mainly due to an increase of current bank loans RMB97,933,500 (C\$18,274,585), increase of accrual and payables of RMB53,804,787 (C\$10,040,080) mainly for the development costs and exploration costs and an increase of cash call payable to PPC of RMB2,965,377 (C\$553,345). The result was partially set off by an increase of cash and cash equivalents of RMB106,599,625 (C\$19,891,701), increase of trade receivables, other receivables, prepayment and deposits of RMB27,182,619 (C\$5,072,330) and increase of inventories of RMB8,615,121 (C\$1,607,599).

During the period, the Company transferred RMB 428,719,162 of assets directly related to exploration and development of the LS36-I Gas Field from Exploration and Evaluation to Property, Plant and Equipment.

As at December 31, 2014, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB81,038,954 (C\$15,122,029) (March 31, 2014 – RMB462,103,858) and can be broken down as follows:

	<u>Dec 31,</u> <u>2014</u>	<u>Mar 31, 2014</u>	<u>Dec 31, 2014</u>
	RMB	RMB	C\$
Exploration Drilling Related Services			
Drilling services	-	178,263,638	-
Drilling technical supervision and evaluation	-	4,650,259	-
Exploration Geological&Geophysical Surveys& Work			
Geological&geophysical survey acquisition& processing	38,783,106	64,892,882	7,237,004
Technical evaluations&management	5,696,200	43,713,058	1,062,922
Pre-development study	-	32,583,351	-
Interests on funding of deferred exploration expenditures	10,483,181	27,423,969	1,956,182
Deferred costs acquired from Primeline Petroleum Corporation	-	8,485,080	-
Project administration	6,823,833	29,299,370	1,273,341
Salaries and benefits	14,892,767	50,173,660	2,779,020
Travel and accommodation	4,359,867	19,475,389	813,560
Contract signing fee	-	3,143,202	-
	<u>81,038,954</u>	<u>462,103,858</u>	<u>15,122,029</u>

As at December 31, 2014, the Company had total assets of RMB1,881,439,129 (C\$351,080,263) (March 31, 2014 – RMB487,598,179), which were financed by net shareholders' equity of RMB453,264,098 (C\$84,579,977) (March 31, 2014 – RMB454,177,109), long term bank loans of RMB1,123,903,500 (C\$209,722,616) (March 31, 2014 – RMB Nil) and shareholder loans of RMB58,210,463 (C\$10,862,188) (March 31, 2014 – RMB19,258,753).

As at December 31, 2014, the Company had net current assets of RMB10,781,607 (C\$2,011,869) (March 31, 2014 – RMB23,087,905) and an accumulated deficit of RMB117,132,126 (C\$21,857,086) (March 31, 2014 – RMB108,202,863). The shareholder loan facility of US\$8,000,000 (with a remaining amount available for drawdown of US\$ 2,833,333 as at December 31, 2014) from Mr. Victor Hwang was arranged in June 2014 and met the Company's overhead requirement and costs to carry out its exploration activities under Petroleum Contract 33/07, but does not cover the drilling plan in 2015. The Company is actively investigating other funding options to address further financing requirements for the Company's exploration activities.

The US\$ 274 million Development Facility (of which the Company's share is US\$ 205.5 million) was sufficient to cover all of the obligations of the Company and PPC with respect to the costs of the LS36-I development to date and some of the anticipated development work in the next 12 months.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, shareholder loan, cash calls payable, advances from a related party and derivative warrant liabilities.

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in transactions between knowledgeable parties. Fair value is based on available public market information or when such information is not available, estimated using present value techniques and assumptions

concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at the specific point in time and in the respective geographic locations and may not be reflective of future values.

The fair value of the financial assets and current liabilities approximates their carrying value.

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

(b) *Currency risk*

The Company held financial instruments in different currencies during the period/year ended as follows:

	Dec 31, 2014	Mar 31, 2014
Cash and cash equivalents of:		
- C\$	C\$104,767	\$C156,625
- US\$	US\$1,175,991	US\$3,609,762
- GBP	GBP15,858	GBP72,339
- HK\$	HK\$403,984	HK\$629,345
Shareholder loan of US\$	(US\$10,166,667)	(US\$3,494,871)
Bank Loans and interest of US\$	(US\$196,775,296)	-
Advance from a related party of \$C	-	(C\$1,700,000)

Based on the above net exposures, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the Canadian dollar, US dollar, British Pound and Hong Kong dollar, would result in an increase/decrease of the Company's net (loss) income of approximately:

	Dec 31, 2014 RMB	Mar 31, 2014 RMB	Dec 31, 2014 C\$
- C\$	56,145	866,296	10,477
- US\$	127,945,281	71,290	23,874,844
- GBP	15,351	74,726	2,864
- HK\$	32,400	50,348	6,046

(e) *Credit risk*

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

The Company's cash and cash equivalents outside China are principally held at a large international financial institution in interest bearing accounts. The majority of current cash balances are held at a Chinese financial institution in interest bearing accounts, primarily for the purpose of debt servicing.

(f) Liquidity risk

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

Financing may be required in relation to any future exploration work.

In June 2014, Mr. Hwang agreed to provide the Company an interest free loan of US\$ 8,000,000 to meet the Company's overhead requirement and to carry out its exploration activities under Petroleum Contract 33/07. The Company is actively exploring all possible fund-raising possibilities for the planned exploration drilling program.

The Company's non-derivative financial liabilities, which are amounts due on the shareholder loan, are repayable on demand after December 31, 2015.

(g) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has minimal interest rate risk.

Derivative warrant liability

The Company's derivative instruments are the share purchase warrants issued. The Company issued warrants as part of a Unit offering. These share purchase warrants were issued with an exercise price in Canadian dollars rather than RMB (the functional currency of the Company). Such share purchase warrants are considered to be derivative instruments under IAS32.

The initial fair value on recognition of the share purchase warrants was calculated using the Black-Scholes pricing model, using the assumptions in the following table. Subsequent to their initial recognition, the share purchase warrants liability is re-measured and re-translated each reporting period.

Tranche I on December 30, 2013:

	As at December 31, 2014	As at March 31, 2014	At date of issue December 30, 2013
Exchange rate at date of fair value (RMB/C\$)	5.359	5.613	5.705
Stock price	C\$0.50	C\$0.57	C\$0.63
Exercise price	C\$0.90	C\$0.90	C\$0.90
Risk free interest rate	1.00%	1.07%	1.09%
Expected dividend yield	Nil	Nil	Nil

Primeline Energy Holdings Inc.

Notes to Condensed Consolidated Financial Statements
December 31, 2014
(in Chinese Yuan Renminbi)

Expected stock price volatility	67%	70%	83%
Expected warrant life	1 year	1.75 years	2 years

Tranche 2 on January 23, 2014:

	As at December 31, 2014	As at March 31, 2014	At date of issue January 23, 2014
Exchange rate at date of fair value (RMB/C\$)	5.359	5.613	5.550
Stock price	C\$0.50	C\$0.57	C\$0.53
Exercise price	C\$0.90	C\$0.90	C\$0.90
Risk free interest rate	1.00%	1.07%	0.97%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	70%	74%	73%
Expected warrant life	1.07 years	1.82 years	2 years

The Company's warrant liability for the period ended December 31, 2014 and year ended March 31, 2014 is set out below:

	Warrants Outstanding	Value assigned RMB	Value assigned C\$	Average exercise price C\$
Balance – as at March 31, 2013	-	-	-	-
Warrants issued	4,586,250	5,406,242	1,008,815	0.90
Fair value re-measurement in the year	-	(1,997,759)	(372,786)	-
Balance – as at March 31, 2014	4,586,250	3,408,483	636,029	0.90
Fair value re-measurement in the period	-	(2,218,340)	(413,946)	
Balance – as at December 31, 2014	4,586,250	1,190,143	222,083	0.90

The share purchase warrants outstanding and exercisable as at December 31, 2014 is set out below:

Exercise Price C\$	Expiry date	Number
0.90	December 30, 2015	3,826,250
0.90	January 23, 2016	760,000

Capital management

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

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

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

Transactions with related parties and directors

During the period ended December 31, 2014, the Company paid or accrued the following:

- g) London office rent of RMB291,242 (C\$54,346) (2013 – RMB276,388) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the majority shareholder, director and officer of the Company.
- h) Cash call received from and utilized for PPC, a company owned by Mr. Hwang, for its 25% contribution to exploration costs were RMB 10,211,133 (C\$1,905,418) (2013 – RMB3,746,120) and RMB17,149,956 (C\$3,200,216) (2013 – RMB2,916,475) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB2,968,081 (C\$553,850 (2013 – RMB968,115)).
- i) Key management includes, inter alia, members of the Board, the Chairman, Chief Executive Officer, Chief Financial Officer, the Senior Vice President and the General Manager for China. The aggregate total compensation paid or payable to the key management is as follows:

Key Management	Position	Nature	December 31,	December 31,	December 31,
			2014	2013	2014
			RMB	RMB	C\$
Victor Hwang	Chairman	Remuneration	-	-	-
Ming Wang	CEO	Salary	1,302,417	1,178,505	243,033
Andrew Biggs	SVP	Salary	907,363	859,791	169,316
Stuart Joyner*	CFO	Salary	480,785	-	89,715
Alan Soulsby	Tec. Director	Salary	211,970	259,301	39,554
Mark Norman	GM China	Salary	618,938	622,279	115,495
Brian Chan	Director	Remuneration	-	-	-
Alan Johnson	Director	Remuneration	104,500	109,175	19,500
Vincent Lien	Director	Remuneration	104,500	109,175	19,500
Yunshi Cao	Director	Remuneration	104,500	109,175	19,500
Peter Kelty	Director	Remuneration	104,500	109,175	19,500
Total			4,166,172	3,735,825	777,416

*Mr. Joyner's employment commenced August 11, 2014

Share based payments of RMB1,678,650 (C\$313,239) (2013 – RMB1,664,704) were recognized for the 4,460,000 (2013 – 4,010,000) share options granted to these key management personnel. These amounts have not been included in the table above and should be considered as additional compensation.

- j) Shareholder loan of RMB 58,210,464 (C\$10,862,188) (2013 – RMB18,408,623) represents interest-free loans with a principal balance of RMB63,216,335 (C\$11,796,293) (2013 – RMB21,192,898) due to Mr. Hwang. On June 30, 2014, Mr. Hwang agreed to advance an additional US\$ 8M interest-free loan facility to the Company. This loan is repayable upon demand after December 31, 2015 provided that under the Development Facility such loan may not be repaid without the consent of the Syndicate. As at December 31, 2014, the Company has drawn down a total of US\$5,166,667 from the facility with a remaining available facility of US\$2,833,333.

The shareholder loan was recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB5,464,982 (C\$1,019,776) (2013 – RMB2,784,275) and the capitalized interest of RMB2,887,859 (C\$538,880) (2013 – RMB2,621,485) were calculated using an

effective rate of 10% per annum during the nine month period ended December 31, 2014.

- k) Advances from a related party of RMB Nil (C\$ Nil) (2013 – RMB8,269,215) represent an interest-free balance with a principal amount of RMB Nil (C\$Nil) (2013 – RMB9,681,500) from PPC.

The interest-free non-current advance from a related company has been recorded at fair value on inception and carried at amortized cost.

The capitalized interest of RMB1,229,353 (C\$229,400) (2013 – RMB619,416) was calculated using an effective rate of 10% per annum.

In June 2014, the Company funded C\$1.7million of PPC's share of the 3D seismic survey costs on behalf of PPC, thus repaying the advance.

These transactions are measured at the exchange amount, which is the amount of the consideration established and agreed by the related party.

Change in Accounting Standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning after April 1, 2014 or later periods. The standards that are applicable to the Company are as follows:

- (a) IAS 32, "Financial instruments": Presentation has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard has no impact on the Company.
- (b) IAS 36, "Impairment of Assets", has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard has no impact on the Company.
- (c) IFRS 9, Financial Instruments ("IFRS 9"), was published on July 2014 which replaces the guidance in IAS 39. This final version includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the incurred loss impairment model used today. The final hedging part of IFRS 9 was issued in November 2013. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company will be required to adopt this standard. We are currently assessing the effect of this standard and related amendments on our financial statements.

Outstanding Share Data

On July 27, 2011, the Company granted 2,100,000 options at an exercise price of C\$0.32 per share to directors, officers, employees and consultants, of which 200,000 options expired and 1,900,000 options expire on July 27, 2016.

On July 9, 2012, the Company granted to D&D Securities Inc. an option to purchase a total of 500,000 common shares at an exercise price of C\$0.50 per share. The option expires on June 25, 2017.

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of C\$0.60 per share to directors, officers, employees and consultants of which 20,000 options expired and 3,085,000 options expire on September 26, 2017.

On December 30, 2013, the Company closed the first tranche of the Private Placement led by D&D Securities Inc. (the Agent) as agent. The Company issued a total of 7,652,500 units (Units) at a price of C\$0.55 per Unit for gross proceeds of C\$4,208,875. Each Unit consisted of one ordinary share (a Common Share) and one half of one warrant (a Warrant). Each Warrant is exercisable to purchase a further Common Share at a price of C\$0.90 per share for 24 months from December 30, 2013. The Company has the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX-V exceeds C\$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Agent was paid a cash commission of 7% of the gross proceeds, and together with members of its selling group issued 612,200 warrants (Broker Warrants), equal to 8% of the number of Units sold. Each Broker Warrant is exercisable for 24 months from December 30, 2013 to purchase a Common Share at C\$0.55 per share.

On January 24, 2014, the Company closed the second and final tranche of the Private Placement. In this second tranche Primeline issued a total of 1,520,000 Units at a price of \$0.55 per Unit for gross proceeds of C\$836,000. Each Unit consisted of one Common Share and one half of one Warrant. Each Warrant is exercisable to purchase a further Common Share at a price of C\$0.90 per share for 24 months from January 24, 2014. The Company has the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX-V exceeds C\$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Agent was paid a cash commission of 7% of the gross proceeds and, together with members of its selling group, was issued 121,600 Broker Warrants, equal to 8% of the number of Units sold. Each Broker Warrant is exercisable for 24 months from January 24, 2014 to purchase a Common Share at C\$0.55 per share.

On June 2, 2014, 150,000 of the Broker Warrants were exercised resulting in the issue of 150,000 Common Shares at C\$ 0.55 each and the receipt of C\$ 82,500 by the Company.

On August 11, 2014, the Company granted 450,000 options at an exercise price of C\$0.68 per share to an officer. Such options will expire on August 11, 2019.

As at March 2, 2015, there are 112,791,018 Common Shares; 5,935,000 stock options and 5,170,050 Warrants and Broker Warrants outstanding.

Critical Judgments and Accounting Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Further information on management's judgments, estimates and assumptions and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements. The most significant judgments made by management in applying accounting policies when preparing the Company's interim financial statements are described as follows:

21.1 Shareholder Loans

Shareholder loans are recorded at fair value on inception in accordance with IAS 39 and carried at amortized cost. The difference between the fair value of these loans and cash received represents a capital contribution, which is recorded directly in equity. The Company follows the guidance of IAS 39 to assess whether a change in the contractual terms of the shareholder loans is substantial enough to represent an extinguishment of the original agreement. This determination requires significant judgment. In making this judgment, the Company, evaluates, among other factors, the quantitative criteria and the qualitative criteria to assess if the change in the contractual terms result in a substantially different revised terms and account for the change in the contractual terms as an extinguishment.

The Company considers that, when there is a conversion of shareholder loans to equity, the related party is not acting as a creditor of the Company. As such, the equity issued is recorded at the carrying amount of the financial liability extinguished and neither gain nor loss arises.

21.2 Exploration and Evaluation Assets (E&E)

The technical feasibility and commercial viability of an oil and gas resource is considered to be established when all of the following conditions are met – proved and/or probable reserves are determined to exist, the decision to proceed with development has been approved by the Board of Directors, the receipt of regulatory approval to develop the project and the Company has the sufficient funds to complete or participate in the project. The Company reviews and evaluates the carrying value of E&E assets for impairment when events or changes in circumstances indicate that the carrying amounts of the asset may not be recoverable. The identification of such events or changes and the performance of the assessment require significant judgment.

21.3 Impairment Testing on Property, Plant and Equipment

The Company reviews and evaluates carrying value for impairment when events or changes in circumstances indicate that the carrying amounts of the asset may not be recoverable. The identification of such events or changes and the performance of the assessment require significant judgment.

d. Decommissioning Liability Estimate

The recognition and measurement of decommissioning provisions involves the use of estimates and assumptions. These include the existence of a legal or constructive obligation to decommission,

based on current legislation, contractual or regulatory requirements or best practice; the risk-free discount rate used to determine the net present value of the liability; the estimated cost of decommissioning based on internal and external engineering estimates and reports; and the payment dates of expected decommissioning costs which are uncertain and are based on economic assumptions surrounding the useful economic lives of the fields concerned. Actual costs could differ from estimated costs due to changes in legislation, regulations, technology, price levels and the expected date of decommissioning.

The Company has a website at www.primelineenergy.com or www.pehi.com. The site features information on PEHI, new releases, background information and a technical summary of the project.