

**Primeline Energy Holdings Inc.**  
**Interim Consolidated Financial Statements**  
**June 30, 2015**  
**(Unaudited)**

**Primeline Energy Holdings Inc.**  
Consolidated Statement of Financial Position (Unaudited)  
As at June 30, 2015 and March 31, 2015  
(In RMB)

	Note	June 30, 2015 RMB'000	Mar 31, 2015 RMB'000	June 30, 2015 CAD\$'000 (Note 3)
<b>Non-current assets</b>				
Exploration and evaluation assets	6	239,086	233,873	47,788
Property, plant and equipment	7	1,474,602	1,478,476	294,744
Restricted cash	8	8,489	4,245	1,697
Restricted bank deposits	9	112,500	112,500	22,487
		<u>1,834,677</u>	<u>1,829,094</u>	<u>366,716</u>
<b>Current assets</b>				
Cash and cash equivalents		71,570	53,179	14,305
Trade receivables		5,919	25,639	1,183
Prepaid expenses and deposit		8,634	5,357	1,726
Inventories	10	8,129	7,240	1,625
		<u>94,252</u>	<u>91,415</u>	<u>18,839</u>
<b>Total assets</b>		<u>1,928,929</u>	<u>1,920,509</u>	<u>385,555</u>
<b>Equity attributable to shareholders</b>				
Share capital	11	1,223	1,030	245
Reserves		629,091	569,793	125,742
Accumulated deficit		(149,379)	(122,168)	(29,858)
<b>Total equity</b>		<u>480,935</u>	<u>448,655</u>	<u>96,129</u>
<b>Non-current liabilities</b>				
Long term bank loan	9	1,066,396	1,126,933	213,151
Accounts payable	13	18,259	19,859	3,650
Decommissioning liabilities	8	111,765	110,834	22,340
		<u>1,196,420</u>	<u>1,257,626</u>	<u>239,141</u>
<b>Current liabilities</b>				
Bank loan	9	195,584	97,792	39,093
Shareholder's loan	12(e)	-	59,335	-
Derivative warrant liabilities	14	1,099	706	220
Accounts payable and accrued liabilities		51,506	53,381	10,295
Cash calls payable	12(b)	3,385	3,014	677
		<u>251,574</u>	<u>214,228</u>	<u>50,285</u>
<b>Total liabilities</b>		<u>1,447,994</u>	<u>1,471,854</u>	<u>289,426</u>
<b>Total shareholders' equity and liabilities</b>		<u>1,928,929</u>	<u>1,920,509</u>	<u>385,555</u>

Approved by the Board of Directors

“*Brian Chan*”  
Director

“*Ming Wang*”  
Director

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

**Primeline Energy Holdings Inc.**

Consolidated Statement of Loss and Comprehensive Loss (Unaudited)

For the three months ended June 30, 2015 and June 30, 2014

(In RMB)

	Notes	June 30, 2015 RMB'000	June 30, 2014 RMB'000	June 30, 2015 CAD\$'000 (Note 3)
<b>Revenue</b>				
Oil and gas	15	6,078	-	1,215
<b>Expenses</b>				
Production costs		(12,278)	-	(2,454)
General and administrative		(3,107)	(1,171)	(621)
Depletion and depreciation		(3,767)	(2)	(753)
Bank interest		(16,021)	(128)	(3,202)
Accretion	8	(930)	-	(186)
Exchange gain (loss), net		1,099	(406)	220
Bank interest income		1,715	1	343
<b>Loss before taxation</b>		<b>(27,211)</b>	<b>(1,706)</b>	<b>(5,438)</b>
Taxation		-	-	-
<b>Loss/comprehensive loss for the period</b>		<b>(27,211)</b>	<b>(1,706)</b>	<b>(5,438)</b>
		RMB	RMB	CAD\$
Basic and diluted loss per share		(0.23)	(0.015)	(0.046)
Weighted average number of Common Shares outstanding		119,086,627	112,688,820	119,086,627

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

**Primeline Energy Holdings Inc.**

Consolidated Statement of Changes in Equity (Unaudited)

(In RMB)

	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, 2014	1,028	484,240	8,732	67,167	1,213	(108,203)	454,177
Warrants exercised	2	727	-	-	(263)	-	466
Discount on shareholder loan			5,465	-		-	5,465
Share based payments	-	-	-	2,512	-	-	2,512
Loss and comprehensive loss for the year	-	-	-	-	-	(13,965)	(13,965)
Balance – March 31, 2015	1,030	484,967	14,197	69,679	950	(122,168)	448,655
Shareholder loan conversion to shares	193	40,145	18,719	-	-	-	59,057
Share based payments	-	-	-	434	-	-	434
Loss and comprehensive loss for the period	-	-	-	-	-	(27,211)	(27,211)
Balance – June 30, 2015	1,223	525,112	32,916	70,113	950	(149,379)	480,935
Balance – June 30, 2015, in CAD\$'000 (Note3)	245	104,959	6,579	14,014	190	(29,858)	96,129

	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, 2014	1,028	484,240	8,732	67,167	1,213	(108,203)	454,177
Warrants exercised	2	727	-	-	(263)	-	466
Discount on shareholder loan			4,176	-		-	4,176
Share based payments	-	-	-	689	-	-	689
Loss and comprehensive loss for the year	-	-	-	-	-	(1,706)	(1,706)
Balance – June 30, 2014	1,030	484,967	12,908	67,856	950	(109,909)	457,802

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

**Primeline Energy Holdings Inc.**  
Consolidated Statement of Cash Flows (Unaudited)  
For the three months ended June 30, 2015 and June 30, 2014  
(in RMB)

	Note	June 30, 2015	June 30, 2014	June 30, 2015
		RMB'000	RMB'000	CAD\$'000 (Note3)
<b>Cash flows from operating activities</b>				
Loss for the period		(27,211)	(1,706)	(5,438)
Items not involving cash				
Interest income		(1,715)	-	(343)
Depletion and depreciation	7	3,767	2	753
Finance income from fair value adjustment of advance from related company				
Finance income from fair value adjustment of warrant liability		379	128	76
Finance costs		16,951		3,388
Stock-based compensation	11(c)	256	445	51
Unrealized foreign exchange (gain)/loss		(1,102)	300	(221)
		<u>(8,674)</u>	<u>(831)</u>	<u>(1,734)</u>
Changes in non-cash working capital items:				
Trade receivable and prepaid expenses		17,793	(71)	3,557
Inventories		(889)	-	(178)
Accounts payable and accrued liabilities		11,989	300	2,396
		<u>28,893</u>	<u>229</u>	<u>5,775</u>
		<u>20,219</u>	<u>(602)</u>	<u>4,041</u>
<b>Cash flows from investing activities</b>				
Oil and gas development assets	7	-	-	-
Expenditures on exploration and evaluation assets	6	(4,106)	(44,010)	(821)
Interest received		365	-	73
		<u>(3,741)</u>	<u>(44,010)</u>	<u>(748)</u>
<b>Cash flows from financing activities</b>				
Gross proceeds of broker warrants exercised		-	466	-
Loan drawdown		37,217	-	7,439
Restricted cash		(4,245)	-	(848)
Interest paid		(31,445)	-	(6,285)
Shareholder loan advance	12(e)	-	31,102	-
Cash call from a related party	12(b)	600	6,182	120
Cash utilized for a related party	12(b)	(229)	(14,725)	(46)
		<u>1,898</u>	<u>23,025</u>	<u>380</u>
<b>Increase (decrease) in cash and cash equivalents</b>		<u>18,376</u>	<u>(21,587)</u>	<u>3,673</u>
<b>Effect of foreign exchange rate on cash and cash equivalents</b>		<u>15</u>	<u>175</u>	<u>3</u>
<b>Cash and cash equivalents - Beginning of period</b>		<u>53,179</u>	<u>24,648</u>	<u>10,629</u>
<b>Cash and cash equivalents - End of period</b>		<u>71,570</u>	<u>3,236</u>	<u>14,305</u>

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

## 1. 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 (Mr. Hwang).

Block 25/34 is the development and production area for the LS36-1 gas field (LS36-1). 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 LS36-1 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 LS36-1 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.

In June 2014, prior to revenues from LS36-1, Mr. Hwang agreed to provide the Company with an interest free loan of US\$8 million for working capital purposes and the loan together with other loans advanced from Mr. Hwang for the total of US\$ 10.1667 million was converted into 21,218,535 Common Shares of the Company in June 2015. On November 17, 2014, the Company and PPC signed the contracts for the project finance facility for the financing of the costs to complete LS36-1 (Syndicate Facility) with the financing banks, namely China Development Bank (CDB), China Export-Import Bank (EXIM) and Shanghai Pudong Development Bank (SPDB). CDB, EXIM and SPDB are collectively referred to as the "Syndicate". The Syndicate Facility is made available to the Company and PPC as joint and several borrowers and is for a total amount of US\$274 million (Company's share US\$205.5 million) and will be repayable over 9 years. As at the end of the period, the Company and PPC have drawn down a total of US\$271 million (Company's share US\$203.25 million) under the Syndicate Facility and repaid to CNOOC their share of the costs incurred to date in the development of LS36-1 and are now subject to normal obligations to fund cash calls in relation to operations.

Block 33/07 covers an offshore area 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. In July 2015, the Company acquired the one issued share of PPC held by Primeline International Holding Inc (PIHI) and as a result, PPC became a wholly owned subsidiary of the Company (Note 18). Primeline Energy Operations International Ltd (PEOIL), a wholly owned subsidiary of the Company, is the operator for Block 33/07.

On June 8, 2015, the Company signed a memorandum of understanding (MOU) to merge with Loyz Energy Limited (Loyz). The proposed merger of the two companies would be by way of a scheme of arrangement under Cayman Islands law (Arrangement) under which Loyz would acquire all of the Common Shares of Primeline by issuing Loyz shares, subject to approvals of the shareholders of Primeline and Loyz. On August 28, 2015 Primeline and Loyz announced that the deadline for entry into definitive, binding agreements had been extended from August 31, 2015 to September 30, 2015. The consideration to be received by Primeline shareholders for their Common Shares of Primeline pursuant to the Arrangement has been fixed at CAD\$1.01 per Common Share to be satisfied by the issue of shares of Loyz at an agreed price of SG\$0.11 (approximately CAD\$0.10) per Loyz share. The closing price of Primeline's shares on the TSX-V on June 5, 2015, the last trading day before the announcement of the MOU, was CAD\$0.415, and the closing price of Loyz' shares on the Singapore Stock Exchange Catalist Board on June 5, 2015 was SG\$0.119. If completed, the Arrangement will result in Primeline shareholders receiving approximately 10.023 Loyz Shares for every 1 Primeline Share held.

## 2. Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and follow the same accounting policies and methods of application as the Company's most recent annual audited consolidated financial statements which were prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standard Board ("IASB"). These condensed consolidated financial statements were approved for issue on August 28, 2015.

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 condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2015.

## 3. Convenience Translation into CAD\$

The CAD\$ amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. The financial information presented in CAD\$ has been translated from RMB using a convenience translation at the rate of RMB5.003 to CAD\$1, which is the exchange rate published in South China Morning Post as of June 30, 2015. 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 CAD\$ at this or at any other rate.

## 4 Changes in accounting standards

### New, Amended and Future IFRS Pronouncements

#### *IFRS 9 – Financial Instruments*

IFRS 9, Financial Instruments (IFRS 9), addresses the classification, measurement and recognition of financial assets and financial liabilities. The IASB had previously issued versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication of IFRS 9 is the completed version of the Standard, replacing earlier versions of IFRS 9 and superseding the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: those measured at fair value through profit and loss, those measured at fair value through other comprehensive income and those measured at amortized cost. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, there is an irrevocable option to present fair value changes in other comprehensive income.

Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize

expected credit losses and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The completed version of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard and its related amendments on our financial statements.

#### *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15, Revenue from Contract with Customers, which replaces IAS 18, Revenue, is effective for fiscal years ending on or after December 31, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers. Revenue is recognized as control is passed to the customer, either at a point in time or over time. New estimates and judgemental thresholds have been introduced, which may affect the amount and /or timing of revenue recognized. The Company does not intend to early adopt IFRS 15 in its financial statements for the year ending March 31, 2016. The extent of the impact of adoption of the standard has not yet been determined.

## **5 Financial risk management**

### *5.1 Financial risk factors*

The Company's financial instruments consist of the Syndicate Facility, 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 are 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 given the short term maturity of these instruments.

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:

	June 30, 2015	March 31, 2015
Cash and cash equivalents of:		
- CAD\$ '000	103	103
- US\$ '000	391	532
- GBP '000	11	12
- HK\$ '000	377	1,720
Shareholder loan of US\$ '000	-	(10,167)
Bank loans and interest of US\$ '000	(203,482)	(199,214)

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



	June 30, 2015 RMB'000	March 31, 2015 RMB'000	June 30, 2015 CAD\$'000
- CAD\$	51	50	10
- US\$	126,099	129,674	25,205
- GBP	11	11	2
- HK\$	30	138	6

(b) *Credit and trade receivables risk*

Credit and trades receivables' 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 requirements relating to the Syndicate Facility.

The Company currently sells its natural gas to a single customer, Zhejiang Natural Gas Development Ltd through CNOOC China Ltd and receives sales proceeds on a weekly basis. The Company would be exposed to significant risk with regard to its trade receivables position were settlement issues to arise.

(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 settled its shareholder loan balance with shares on June 5, 2015. On August 14, 2015, the Company completed the issue of the first tranche (Tranche A Bonds) of US\$20 million principal amount of unsecured Convertible Bonds (Bonds) to GRF Prime Limited (GRF Prime), a resource fund managed by GEMS Enterprise Management Limited of Hong Kong. The Tranche A Bonds have a principal amount of US\$10 million. The Tranche B Bonds will have a principal amount of US\$10 million and are required to be drawn down by December 31, 2015. The issuance of the Bonds is to fund the operation and exploration work relating to Block 33/07 (see Note 18 (d)).

(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 is subject to interest rate risk relating to the Syndicate Facility.

## 5.2 Capital management

The Company's objectives when managing capital are to safeguard its 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 Board of Directors approves the annual and updated budgets.

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

## 6 Exploration and evaluation assets

	<b>Exploration and evaluation assets</b>
	RMB'000
<b>Balance at April 1, 2014</b>	462,104
Transfer to property, plant and equipment	(281,559)
Additions	53,328
<b>Balance at March 31, 2015</b>	233,873
Additions	5,213
<b>Balance at June 30, 2015</b>	239,086
	CAD\$'000
<b>Balance at June 30, 2015 in CAD\$</b>	47,788

Block 33/07 covers an offshore area 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 for the exploration operation, development operation and production operation within this contract area.

Petroleum Contract 33/07 provides for an exploration period, a development and production period. The exploration period is for 7 consecutive years 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 kms of 3D seismic surveys. The commitment for each of the second and third phases is one well. See Note 18(b).

At the end of phase one of the exploration period, the Company has the option to enter into phase two or terminate the contract.

## 7 Property, plant and equipment

In accordance with Petroleum Contract 25/34 and the Supplemental Development Agreement entered into with CNOOC, the production period for LS36-1 is 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. During the quarter ended June 30, 2015, the Company incurred an additional RMB4,046,281 of development costs which were transferred to Property, plant and equipment and reversed transfer of RMB4,153,109 development costs accrued in the previous quarter, resulting a net decrease of RMB106,827.

	Oil & Gas Properties	Computer & Office Equipment	Total	Total
	RMB'000	RMB'000	RMB'000	CAD\$'000
				(Note 3)
<b>COST</b>				
At April 1, 2014	-	20	20	4
Additions	1,411,284	-	1,411,284	282,088
Transfer from exploration and evaluation assets	281,559	-	281,559	56,278
Less: Trial production revenue	(140,746)	-	(140,746)	(28,132)
<b>At March 31, 2015</b>	1,552,097	20	1,552,117	310,238
Adjustment	(107)	-	(107)	(21)
<b>At June 30, 2015</b>	1,551,990	20	1,552,010	310,217
<b>DEPRECIATION</b>				
At April 1, 2014	-	12	12	3
Charge for the period	73,623	6	73,629	14,717
<b>At March 31, 2015</b>	73,623	18	73,641	14,720
Charge for the period	3,767	-	3,767	753
<b>At June 30, 2015</b>	77,390	18	77,408	15,473
<b>CARRYING VALUES</b>	RMB'000	RMB'000	RMB'000	CAD\$000
At April 1, 2014	-	14	14	3
At March 31, 2015	1,478,474	2	1,478,476	295,518
<b>At June 30, 2015</b>	<b>1,474,600</b>	<b>2</b>	<b>1,474,602</b>	<b>294,744</b>

## 8 Decommissioning Liabilities

	March 31, 2015 RMB'000	June 30, 2015 RMB'000	June 30, 2015 CAD\$'000 (Note 3)
Balance, beginning of year	-	110,835	22,154
Additions	109,912	-	-
Accretion	922	930	186
Balance, end of year/period	110,834	111,765	22,340

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) for LS36-1 to be RMB 417,820,000. The Company's share of the liability is RMB153,550,000.

At June 30, 2015, the Company's share of the liability is the principal amount of RMB153,550,000 (CAD\$30,691,585) which has a net present value of RMB111,764,712 (CAD\$22,339,539) (assuming the liability is settled in 10 years and using an estimated risk-free nominal interest rate of 3.4% which equates to the long term yield on PRC government bonds). The Company's share of the decommissioning liability has been determined to be non-current. Financing costs relating to the accretion of the decommissioning liabilities are RMB930,314 (CAD\$185,951).

Cash held as security for the decommissioning costs is reported in the balance sheet as restricted cash.

## 9 Bank Loan

	<b>March 31, 2015</b> RMB'000	<b>June 30, 2015</b> RMB'000	<b>June 30, 2015</b> CAD\$'000
Within one year	97,792	195,584	39,093
More than one year	1,126,933	1,066,396	213,151
	<hr/>	<hr/>	<hr/>
Secured floating-rate bank loan	1,224,725	1,261,980	252,244
	<hr/>	<hr/>	<hr/>

On November 17, 2014, the Company and PPC signed the Syndicate Facility as joint and several borrowers. The Syndicate Facility is secured on their respective interests in LS36-1. The principal amount of the Syndicate Facility is US\$274 million (of which the Company's share is US\$205.5 million) which is repayable over 9 years at an all-in interest rate of 6 month LIBOR+4.7% with interest and principal repayments made bi-annually (except the first year which is annually). The Company has not recognized a provision for the part of the obligation expected to be met by PPC, as the possibility of an outflow of resources embodying economic benefits is remote.

The Company's share of principal repayment amounts outstanding under the Syndicate Facility is as follows:

	<b>June 30, 2015</b> RMB'000	<b>June 30, 2015</b> CAD\$ '000
Within 1 year	195,584	39,093
More than 1 year, but not more than 5 years	731,110	146,134
More than 5 years	335,286	67,017
	<hr/>	<hr/>
Total	1,261,980	252,244
	<hr/>	<hr/>

The Company's share of estimated interest amounts outstanding under the Syndicate Facility is as follows:

	<b>June 30, 2015</b>	<b>June 30, 2015</b>
	RMB'000	CAD\$ '000
Within 1 year	61,933	12,379
More than 1 year, but not more than 5 years	151,336	30,249
More than 5 years	20,904	4,178
<b>Total</b>	<b>234,173</b>	<b>46,806</b>

The Company is also required to fund a Debt Service Reserve Account (DSRA) in no less than the aggregate amount of the next principal payment, next interest payment and any other expenses payable to the lenders. Restricted cash on deposit is cash held in the debt reserve account on a 3-year term for the purpose of servicing the Syndicate Facility, which can be accessed with penalty loss of interest and/or permission of the Syndicate. The next principal payment is due on November 20, 2015 amounting to approximately US\$21 million (of which the Company's share is US\$15.75 million). As at June 30, 2015 the Company was in compliance with all its covenants under the Syndicate Facility, including, inter alia, a debt coverage ratio and an asset indebtedness ratio.

## 10 Inventories

	June 30, 2015	March 31, 2015	June 30, 2015
	RMB'000	RMB'000	CAD'000
Condensate	831	98	166
Light oil	24	48	5
CO2	17	17	3
LPG	54	-	11
Drilling materials and supplies	7,203	7,077	1,440
	<b>8,129</b>	<b>7,240</b>	<b>1,625</b>

## 11 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 April 1, 2014	112,641,018	1,028	484,240	485,268	96,995
Broker Warrants exercised	150,000	2	727	729	146
Balance – as at March 31, 2015	112,791,018	1,030	484,967	485,997	97,141
Shareholder loan converted to shares	21,218,535	193	40,145	40,338	8,063
Balance – as at June 30, 2015	134,009,553	1,223	525,112	526,335	105,204

On June 5, 2015, the Company's shareholder loan of US\$10.1667 million from Mr. Hwang was converted into 21,218,535 Common Shares of the Company at a conversion price of CAD\$0.58 per share with TSX-V approval. Mr. Hwang now directly and indirectly owns 80,543,619 Common Shares, representing approximately 60% of the 134,009,553 shares issued and outstanding. As a consequence of the loan conversion, 3,085,000 outstanding stock options exercisable at C\$0.60 per share issued to directors, officers, employees and consultants in September 2012, vesting of which was conditional on repayment of the shareholder loans, have been amended such that they have now vested.

### b) Broker Warrants

	Warrants outstanding	Value assigned RMB'000	Value assigned CAD\$'000	Average exercise price CAD\$
As at April 1, 2014	733,800	1,213	242	0.55
Broker Warrants exercised (see Note 12(a)(i))	(150,000)	(263)	(52)	0.55
As at March 31, 2015 & June 30, 2015	583,800	950	190	0.55

The number of Broker Warrants outstanding and exercisable as at June 30, 2015 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:

	<b>Broker Warrants issued on December 30, 2013</b>	<b>Broker Warrants issued on January 23, 2014</b>
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 board of directors, subject to TSX-V policy, sets the exercise price of a share option. 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:

	<b>Options outstanding</b>	<b>Weighted Average exercise price CAD\$</b>	<b>Options exercisable</b>	<b>Weighted Average exercise price CAD\$</b>
As at April 1, 2014	5,505,000	0.49	2,400,000	0.37
Granted	450,000	0.68	150,000	0.68
Expired	(20,000)	0.60	-	
As at March 31, 2015	5,935,000	0.51	2,550,000	0.38
Vested	-		3,085,000	
As at June 30, 2015	5,935,000	0.51	5,635,000	0.44

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 RMB112,423 (CAD\$22,471), RMB41,393 (CAD\$8,274) and RMB51,101 (CAD\$10,214), (2014 – RMB244,132, RMB110,970 and RMB89,885) and RMB15,842 (CAD\$3,167) (2014 – RMB nil) were recognized as Directors remuneration and benefit, salary & benefit, professional fees and production costs respectively in the consolidated statement of loss and comprehensive loss. Share based payment of RMB96,581 (CAD\$19,305) (2014 – RMB244,133), were

capitalized as exploration and evaluation assets. 3,085,000 options vested on June 5, 2015 upon the conversion of shareholder loan. (Note 11(a)).

Stock options outstanding and exercisable are as follows:

<b>Exercise price</b>	<b>Number of outstanding options</b>	<b>Weighted average remaining contractual life</b>	<b>Number of exercisable options</b>
As at March 31, 2015			
CAD\$0.32	1,900,000	1.33 years	1,900,000
CAD\$0.50	500,000	2.24 years	500,000
CAD\$0.60	3,085,000	2.49 years	-
CAD\$0.68	450,000	4.37 years	150,000
	<b>5,935,000</b>	<b>1.99 years</b>	<b>2,550,000</b>

As at June 30, 2015

CAD\$0.32	1,900,000	1.08 years	1,900,000
CAD\$0.50	500,000	1.99 years	500,000
CAD\$0.60	3,085,000	2.24 years	3,085,000
CAD\$0.68	450,000	4.12 years	150,000
	<b>5,935,000</b>	<b>1.75 years</b>	<b>5,635,000</b>

At June 30, 2015, there are 134,009,553 Common Shares, 5,935,000 stock options and 5,170,050 Warrants/Broker Warrants.

## 12 Transactions with related parties and directors

During the period ended June 30, 2015, the Company paid or accrued the following:

- London office rent of RMB91,864 (CAD\$18,362) (June 30, 2014 – RMB100,693) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the Chairman, President and majority shareholder of the Company.
- Cash call received from and utilized for PPC, a company owned by Mr. Hwang, for its 25% contribution to exploration, was RMB600,000 (CAD\$119,928) (June 30, 2014 – RMB6,182,133) and RMB228,968 (CAD\$45,766) (June 30, 2014 – RMB14,724,792) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB3,384,615 (CAD\$676,517) (March 31, 2015 – RMB3,013,583).
- Fees and benefits paid or accrued to key management personnel of the Company were RMB1,408,711 (CAD\$281,517) (June 30, 2014 – RMB1,067,314) and share based payment of RMB233,655 (CAD\$46,694) (June 30, 2014 – RMB251,901) was recognized for the 2,360,000 (June 30, 2014 – 1,910,000) share options granted to these key management personnel.
- Fees and benefits paid or accrued to directors were RMB125,874 (CAD\$25,160) (June 30, 2014 – RMB145,650) and share based payment of RMB113,153 (CAD\$22,617) (June 30, 2014 – RMB244,132) was recognized for the 2,100,000 (June 30, 2014 – 2,100,000) share options granted to the directors.



- e) Shareholder loan of RMB Nil (CAD\$ Nil) (March 31, 2015 – RMB59,335,376) represents interest-free loans with a principal balance of RMB Nil (CAD\$ Nil) (March 31, 2015 – RMB63,124,835). On June 5, 2015, the Company’s shareholder loan of US\$10.1667 million from Mr. Hwang was converted into 21,218,535 Common Shares of the Company at a conversion price of CAD\$0.58 per share with TSX-V approval.

The shareholder loan was recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB Nil (CAD\$ Nil) (June 30, 2014 – RMB4,176,188) and the capitalized interest of RMB874,194 (CAD\$174,734) (June 30, 2014 – RMB636,537) were calculated using an effective rate of 10% per annum during the period ended June 30, 2015.

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

### 13 Long term accounts payable

Under the agreement between the Company, PPC and CNOOC in December 2014 regarding the Company and PPC’s repayment of their LS36-1 development cost obligations, a supplementary management fee was added in consideration of the carry by CNOOC of those costs prior to LS36-1 going into production. The fee is expected to be paid by cash call adjustments by CNOOC and the non-current portion has been accrued as an account payable with the full amount capitalised as a development cost into PP&E.

### 14 Derivative Warrant Liability

The Company issued Warrants in connection with the private placement offering completed on December 30, 2013 and January 23, 2014. These Warrants are exercisable in CAD\$. 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 Warrants was calculated using the Black-Scholes pricing model, using the assumptions in the following table. Subsequent to their initial recognition, the Warrants liability is re-measured and re-translated each reporting period in accordance with IAS 32.

Tranche 1 on December 30, 2013:

	<b>As at June 30, 2015</b>	<b>As at March 31, 2015</b>	<b>At date of issue December 30, 2013</b>
Exchange rate at date of fair value (RMB/CAD)	5.003	4.899	5.705
Stock price	CAD\$0.53	CAD\$0.47	CAD\$0.63
Exercise price	CAD\$0.90	CAD\$0.90	CAD\$0.90
Risk free interest rate	0.49%	0.5%	1.09%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	86%	74%	83%
Expected Warrant life	0.5 years	0.75 years	2 years

Tranche 2 on January 23, 2014:

	As at June 30, 2015	As at March 31, 2015	At date of issue January 23, 2014
Exchange rate at date of fair value (RMB/CAD\$)	5.003	4.899	5.55
Stock price	CAD\$0.53	CAD\$0.47	CAD\$0.53
Exercise price	CAD\$0.90	CAD\$0.90	CAD\$0.90
Risk free interest rate	0.49%	0.5%	0.97%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	98%	61%	73%
Expected Warrant life	0.57 years	0.82 years	2 years

The Company's Warrant liability for the years and period ended March 31, 2015 and June 30, 2015 is set out below:

	Warrants Outstanding	Value assigned RMB'000	Value assigned CAD\$'000	Average exercise price CAD\$
As at April 1, 2014	4,586,250	3,408	681	0.90
Warrants issued				
Fair value re-measurement in the year	-	(2,492)	(498)	-
Foreign exchange gain	-	(210)	(42)	-
As at March 31, 2015	4,586,250	706	141	0.90
Fair value re-measurement in the year	-	378	76	-
Foreign exchange loss	-	15	3	-
As at June 30, 2015	4,586,250	1,099	220	0.90

The Warrants outstanding and exercisable as at June 30, 2015 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

## 15 Revenue

	<b>For three months Period Ended June 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>2015</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>CADS'000</b>
Natural gas	5,887	-	1,177
Condensate	62	-	12
Light Oil	129	-	26
	<u>6,078</u>	<u>-</u>	<u>1,215</u>

## 16 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 1 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 1- 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 1 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.

The Syndicate Facility (Note 10) is a secured floating rate instrument was recorded at fair value on inception and is carried at amortized cost.

A 1% change in the 6-month USD LIBOR rate would cause a 19.4% increase in interest payable.

A 1% change in the USD/RMB rate would cause (from RMB6.209 to RMB6.271) a 1% change in interest payable.

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.

## 17 Commitments

- a) Under Petroleum Contract 33/07, 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 kms of 3D seismic surveys. The minimum expenditures for such exploration activities are estimated to be RMB100 million of which the Company's 75% obligations would be a total of RMB75 million. The drilling for the first phase is planned in September 2015. (See Note 18 (a)). To allow the Company to conduct the two well programme with the possible suspension of operations between wells, CNOOC has agreed to grant a 6 month extension to Block 33/07's first exploration period (which is due to expire October 31, 2015) so that it will expire March 30, 2016. A formal amendment amending the petroleum contract for Block 33/07 to confirm this arrangement is expected to be signed shortly. At the end of phase one of the exploration period, the Company has the option to enter into phase two or terminate the contract.
- 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 RMB58,450 (CAD\$11,683). The Company signed a new lease agreement in June 2015 for new premises for its Shanghai office in the PRC covers the period from September 15, 2015 to 2018 for three months for a monthly rental fee of RMB111,437.00 (CAD\$22,274).

## 18 Subsequent Events

- a) On July 22, 2015 the Company selected China Oilfield Service Co. ("COSL") as the drilling contractor and signed a Letter of Intent (LOI) with COSL. The formal drilling contract (Contract) with COSL was entered into on August 14, 2015. Under the Contract, COSL will undertake turnkey drilling works for 2 wells in Block 33/07 for Primeline, starting in August 2015. The first well will be LS23-1-1 and the second well will be selected from 2 further candidate locations following the evaluation of the results of the first well. The total drilling costs for the 2 wells will be around US\$20 million, excluding costs for any test if oil and gas is discovered. The costs of drilling will be funded by the US\$20 million principal amount convertible bonds to be issued to GEMS (See Note 18 (d) ). The site survey of the three drilling locations commenced on August 4, 2015 and is in progress. According to COSL's current schedule, LS23-1-1 is to be spudded around the middle of September 2015 using drilling rig HYSY941. This exploration drilling programme is the first step in the rolling development strategy now that the production infrastructure hub and access to gas market has been established and LS36-1 is in production. The plan now is to find more hydrocarbons to capitalize on the infrastructure hub and access to market. Any discovery in this future exploration in the area can be quickly and cost effectively developed.
- b) On July 30, 2015 the Company received the approval of the disinterested shareholders at an Extraordinary General Meeting for the acquisition (Acquisition) of the one issued and outstanding share of PPC held by Primeline International Holdings Inc. (PIHI), a company wholly owned by Mr. Hwang and the right to be repaid the shareholder loan made by PIHI to PPC (Shareholder Loan). PPC's only material assets are its 12.25% interest in Petroleum Contract 25/34 and its 25% interest in Petroleum Contract 33/07 and the same percentage interests in related contracts. Upon completion of the Acquisition on August 13, 2015, the Company's only operating assets (being its interests in the Petroleum Contracts) increased from 36.75% to 49% with respect to Petroleum Contract 25/34 and 75% to 100% with respect to Petroleum Contract 33/07. The consideration for the Acquisition was satisfied by the issue of 44,669,851 Common Shares of the Company to PIHI, representing one third of the number of issued and outstanding Common Shares as of June 26, 2015.
- c) On August 14, 2015, the Company completed the issue of the first tranche (Tranche A Bonds) of US\$20 million principal amount of unsecured Bonds to GRF Prime, a resource fund managed by GEMS Enterprise Management Limited of Hong Kong. The Tranche A Bonds have a principal amount of US\$10 million. The Tranche B Bonds will have a principal amount of US\$10 million and are required to be drawn down by December 31, 2015. The Bonds will be for a term of three years extendable for two one-year periods at the option of the Bondholders if the average of the volume weighted average trading price of the Common Shares for the 30 days prior to the maturity date of the Bonds is less than 115% of the conversion price in respect of the first extension and 125% in respect of the second extension. Interest will be payable quarterly at 7% per annum, of which 4.5% will be paid in cash and 2.5% in Common Shares issued at a deemed price per share equal to the volume-weighted average trading price of the Common Shares on the TSX-V for the 15 days preceding the interest payment date. The Tranche A Bonds are convertible at the option of the holder 4 months from the date of issue to maturity into Common Shares at a conversion price of CAD\$0.70 per share, and the Tranche B Bonds will be convertible at the option of the holder 4 months from the date of issue to maturity at a conversion price CAD\$0.85 per share. The Company will have the right to require conversion of a portion of the Tranche A Bonds and the Tranche B

Bonds at any time after one year following their respective dates of issue if the volume-weighted average trading price of the Common Shares exceeds 175% of this applicable conversion price for 30 consecutive trading days. Such portion is a number of Bonds, which, on conversion, would not cause the number of Common Shares issued to exceed 25% of the arithmetic mean of the daily volume of shares traded during such 30 consecutive trading days. GRF Prime will have the right to call for redemption of the Bonds at maturity, on a change of control of the Company and upon occurrence of an event of default. On redemption, the Company will be required to pay such amount, which, together with previously paid fees and coupons, results in an aggregate return to GRF Prime of 10% per annum as of the date of redemption, with an additional premium in the event of a change of control of the Company. GRF Prime is entitled to nominate one voting member and one observer to the Board of Directors. As consideration for GRF Prime's entry into the subscription agreement for the Bonds, the Company paid GRF Prime a cash finder's fee of US\$376,000 (equal to 1.88% of the principal amount of the Bonds), and has agreed to issue GRF Prime Common Shares with a value of US\$376,000, calculated at a price per share equal to the arithmetic mean of the volume weighted average trading price for the Common Shares for the 15 trading days prior to the date of payment.

- d) On August 17, 2015, CNOOC wrote to inform Primeline their agreement to grant a six month extension to March 30, 2016 to Block 33/07's first exploration period, which was due to expire on October 31, 2015 to allow the Company to conduct the two well programme with possible suspension of operations between wells. The formal documentation is being worked on.
- e) On August 28, 2015, the Company agreed with Loyz to extend the date for entry into definitive, binding agreements with Loyz for the proposed merger between Primeline and Loyz announced on June 9, 2015 from August 31, 2015 to September 30, 2015 in order to allow due diligence and negotiations of the binding documentation to continue.