Primeline Energy Holdings Inc.
(an exploration stage company)

Interim Consolidated Financial Statements
September 30, 2012
(Unaudited)

Primeline Energy Holdings Inc.

(an exploration stage Company)
Consolidated Statement of Financial Position (Unaudited)
As at September 30, 2012 and March 31, 2012
(In Chinese Yuan Renminbi)

	Note	Sep 30, 2012 RMB	Mar 31, 2012 RMB	Sep 30, 2012 CAD (note 3.3)
Non-current assets				
Exploration and evaluation assets	7	433,310,581	427,178,383	67,778,911
Property, plant and equipment	8	17,381	13,023	2,719
		433,327,962	427,191,406	67,781,630
Current assets				
Cash and cash equivalents		2,771,430	3,763,467	433,510
Prepaid expenses and deposit		2,164,455	2,162,407	338,567
		4,935,885	5,925,874	772,077
Total assets		438,263,847	433,117,280	68,553,707
Equity attributable to shareholders				
Share capital	9	858,406	858,406	134,273
Contributed surplus	9	502,449,669	500,712,782	78,593,723
Accumulated deficit		(101,607,870)	(99,167,029)	(15,893,612)
Total equity		401,700,205	402,404,159	62,834,384
Non-current liabilities				
Shareholder loan	13(d)	24,184,640	17,966,082	3,782,987
Advances from a related party	13(f)	10,361,306	10,379,224	1,620,726
		34,545,946	28,345,306	5,403,713
Current liabilities				
Accounts payable and accrued liabilities		464,100	1,618,742	72,595
Cash calls payable	13 (b)	1,553,596	749,073	243,015
		2,017,696	2,367,815	315,610
Total liabilities		36,563,642	30,713,121	5,719,323
Total shareholders' equity and liabilities		438,263,847	433,117,280	68,553,707

Nature of operations and going concern (Note 1)

Approved by the Board of Directors

"Brian Chan"

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Director

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

Primeline Energy Holdings Inc.

(an exploration stage Company)
Consolidated Statement of Comprehensive Loss (Unaudited)
For three months and six months ended September 30, 2012 and September 30, 2011
(In Chinese Yuan Renminbi)

	Notes	Three Months Ended September 30			Six Months Ended September 30		
		2012	2011	2012	2012	2011	2012
		RMB	RMB	CAD	RMB	RMB	CAD
				(note 3.3)			**(note 3.3)**
Expenses							
Auditor's remuneration		(45,079)	(21,268)	(7,051)	(45,079)	(21,268)	(7,051)
Bank charges		(30,825)	(26,819)	(4,822)	(61,990)	(56,752)	(9,697)
Business promotion		(155,560)	(122,211)	(24,333)	(236,589)	(254,968)	(37,008)
Non-executive directors retainer fees		(159,825)	(154,275)	(25,000)	(315,925)	(321,100)	(49,417)
Office expenses		(438,654)	(585,142)	(68,615)	(894,075)	(975,182)	(139,852)
Professional fees		(316,863)	(628,074)	(49,564)	(407,096)	(1,310,922)	(63,678)
Travel		(10,509)	(851)	(1,644)	(12,998)	(65,556)	(2,033)
Share based payments	10	(874,131)	(997,622)	(136,733)	(1,156,580)	(999,034)	(180,913)
Operating Loss		(2,031,446)	(2,536,262)	(317,762)	(3,130,332)	(4,004,782)	(489,649)
Finance income	11	606	614	95	857,293	1,277	134,099
Finance cost		(63,130)	-	(9,875)	(117,758)	-	(18,420)
Exchange gain (loss), net		2,402	863,647	376	(50,044)	908,690	(7,828)
Loss and comprehensive loss		(2,091,568)	(1,672,001)	(327,166)	(2,440,841)	(3,094,815)	(381,798)
Basic and diluted loss per share		(0.022)	(0.018)	(0.003)	(0.026)	(0.033)	(0.004)
Weighted average number of common shares outstanding		94,041,246	94,041,246	94,041,246	94,041,246	94,041,246	94,041,246

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

Primeline Energy Holdings Inc.

(an exploration stage Company)
Consolidated Statement of Changes in Equity (Unaudited)
(In Chinese Yuan Renminbi)

	Attributable to equity owners of the company			
	Share Capital	Contributed surplus	Deficit	Total
Balance – March 31, 2011	858,406	497,438,529	(92,330,622)	405,966,313
Loss and comprehensive loss for the period	-	-	(6,836,407)	(6,836,407)
Discount on shareholder loan	-	599,046	-	599,046
Discount on advances from a related party	-	346,076	-	346,076
Share based payments	-	2,329,131	-	2,329,131
Balance – March 31, 2012	858,406	500,712,782	(99,167,029)	402,404,159
Loss and comprehensive loss for the period	-	-	(2,440,841)	(2,440,841)
Discount on shareholder loan	-	364,080	-	364,080
Share based payments	-	1,372,807	-	1,372,807
Balance – September 30, 2012	858,406	502,449,669	(101,607,870)	401,700,205
Balance – September 30, 2012, in CAD **(note 3.3)**	134,273	78,593,723	(15,893,612)	62,834,384
Balance – Mar 31, 2011	858,406	497,438,529	(92,330,622)	405,966,313
Loss and comprehensive loss for the period	-	-	(3,094,815)	(3,094,815)
Stock based compensation	-	1,487,232	-	1,487,232
Balance – September 30, 2011	858,406	498,925,761	(95,425,437)	404,358,730

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

Primeline Energy Holdings Inc.

(an exploration stage Company)
Consolidated Statement of Cash Flows
For three months ended and six months ended September 30, 2012 and September 30, 2011
(in Chinese Yuan Renminbi)

	Note	Three Months Ended September 30			Six Months Ended September 30		
		2012 RMB	2011 RMB	2012 CAD **(note 3.3)**	2012 RMB	2011 RMB	2012 CAD **(note 3.3)**
Cash flows from operating activities							
Loss for the period		(2,091,568)	(1,672,001)	(327,165)	(2,440,841)	(3,094,815)	(381,798)
Item not involve cash							
Depreciation		1,532	-	240	2,710	-	424
Finance income from fair value adjustment of advance from related company		-	-	-	(309,669)	-	(48,439)
Finance income from fair value adjustment of shareholder loan		-	-	-	(546,424)	-	(85,472)
Amortization of imputed interest		63,130	-	9,874	117,758	-	18,420
Stock-based compensation	10	874,131	997,622	136,732	1,156,580	999,034	180,913
Unrealized foreign exchange (gain) loss		(3,196)	(825,605)	526	43,458	(821,142)	6,798
		(1,155,971)	(1,499,984)	(179,793)	(1,976,428)	(2,916,923)	(309,154)
Changes in non-cash working capital items:							
Prepaid expenses and deposit		(4,165)	(86,626)	(651)	(2,048)	(17,519)	(320)
Accounts payable and accrued liabilities		(335,576)	(137,001)	(52,491)	(1,006,016)	(1,797,839)	(157,362)
		(339,741)	(223,627)	(53,142)	(1,008,064)	(1,815,358)	(157,682)
		(1,495,712)	(1,723,611)	(232,935)	(2,984,492)	(4,732,281)	(466,836)
Cash flows from investing activities							
Expenditures on exploration and evaluation assets	7	(2,689,586)	(2,820,744)	(420,708)	(5,711,323)	(6,403,463)	(893,371)
Proceed property, plant and equipment	8	-	-	-	(7,068)	-	(1,106)
		(2,689,586)	(2,820,744)	(420,708)	(5,718,391)	(6,403,463)	(894,477)
Cash flows from financing activities							
Shareholder loan	13(d)	2,013,782	4,918,000	314,998	6,889,680	9,904,000	1,077,691
Cash call (utilized for)from a related party	13(b)	963,861	(587,600)	150,768	804,523	(1,166,886)	125,844
		2,977,643	4,330,400	465,766	7,694,203	8,737,114	1,203,535
Decrease in cash and cash equivalents		(1,207,655)	(213,955)	(187,877)	(1,008,680)	(2,398,630)	(157,778)
Effect of foreign exchange rate on cash and cash equivalents		173	(78,875)	(999)	16,643	(202,488)	2,602
Cash and cash equivalents - Beginning of period		3,978,912	4,779,372	622,386	3,763,467	7,087,660	588,686
Cash and cash equivalents - End of period		2,771,430	4,486,542	433,510	2,771,430	4,486,542	433,510

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

1. Nature of operations and going concern

Primeline Energy Holdings Inc. (PEHI or the Company) was incorporated under the Companies Law of the Cayman Islands on March 31, 1995 and through its wholly owned subsidiaries, Primeline Energy China Ltd. (PECL) and Primeline Energy Operations International Ltd. (PEOIL) which are registered and granted business license by Shanghai Administration of Industry and Commerce in China, is in the business of exploration and development of off-shore oil and gas properties. To date, PEHI has not realized any revenues from its oil and gas properties and is considered to be an exploration stage company.

The Company owns exploration and development rights in the East China Sea pursuant to two Petroleum Contracts in relation to Block 25/34 ("the Petroleum Contract") and Block 33/07 ("the New Contract"). The petroleum contacts 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), an affiliated company wholly owned by Mr. Victor Hwang, chairman and majority shareholder of the Company. PECL and PPC are collectively referred to as the Contractors.

Block 25/34 covers 84.7 sq kms, being the development and production area for the LS36-1 gas field for which CNOOC is the Operator with a 51% interest, and PECL and PPC holding 36.75% and 12.25% respectively.

Block 33/07 covers an offshore area of 5,877 sq kms (or 1.45 million acres) enclosing Block 25/34, and the Contractors' interest is shared 75%/25% by PECL 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.

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

Several adverse conditions cast significant doubt upon the validity of this assumption. Consistent with other entities in the exploration stage, the Company has incurred operating losses since inception, has no source of revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead requirements, carry out its exploration activities under the New Contract for Block 33/07 and, with effect from the date the Overall Development Program (ODP) for the LS36-1 gas field development approval is obtained, to fund its share of the LS 36-1 gas field development costs, provided that the Company has until 3 months after notification of ODP approval to finance its obligation to fund such development costs.

The Company's ability to continue as a going concern is dependent upon management's ability to secure additional financing. While management has been successful in obtaining funding in the past, there can be no assurance that it will be able to do so in the future.

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

2. Basis of presentation and adoption of International Financial Reporting Standards ("IFRS")

These consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34") using accounting policies

consistent with International Financial Reporting Standard ("IFRS") issued by the International Accounting Standard Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") .

The Company adopts IFRS with a transition date of April 1, 2008. The rules of first time adoption of IFRS are set out in IFRS 1, "First time adoption of International Financial Reporting Standards" In preparing the Company's first IFRS consolidated financial statements, the Company applies these transition rules to the opening IFRS statements of financial position at April 1, 2008 and throughout all periods presented as if these policies had always been in effect. These consolidated interim financial statements should be read in conjunction with the Company's consolidated annual financial statements for the year ended March 31, 2012.

The accounting policies applied in these consolidated interim financial statements are based on IFRS effective for the period ended September 30, 2012, as issued as of November 28, 2012, being the date the Board of Directors approved the statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the interim consolidated financial statements are disclosed in note 6.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented.

3.1 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. All subsidiaries, as listed below have been consolidated into the Company's consolidated interim financial statements.

Name of subsidiary	Place of Incorporation	Paid up issued share capital	Percentage of issued capital held by the Company	Functional currency
Primeline Energy China Limited	Cayman Islands	US$2	100%	Chinese Yuan Renminbi
Primeline Energy Operations International Limited	Cayman Islands	US$2	100%	Chinese Yuan Renminbi

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

3.2 Segment reporting

The Company has one operating segment, which is the exploration of oil and gas properties located in the People's Republic of China.

3.3 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 interim financial statements are presented in Chinese Yuan Renminbi ("RMB"), which is the group's functional and presentation currency.

(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 year-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.

Reported balances for financial reporting have been translated into Canadian dollars using a convenience translation adjustment at the rate of RMB6.393 to Canadian dollar $1, which is the exchange rate published in South China Morning Post as of the reporting date.

Such presentation is not in accordance with generally accepted accounting principles, 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.

3.4 Exploration and evaluation assets

The Company follows the full cost method of accounting for its oil and gas interests whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized and charged against income as set out below. Capitalized costs include expenditures for lease acquisition, geological and geophysical surveys, drilling exploration and development wells and production facilities and other development expenditures. 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.

No depreciation and/or amortisation are charged during the exploration and evaluation phase.

Exploration and evaluation costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

3.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognized impairment loss, net of reversals. Machinery and equipment are depreciated at a straight–line basis at the rate of 30% per annum.

3.6 Asset retirement obligation (ARO)

Provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognised when a legal or constructive obligation arises.

The estimated costs, based on engineering cost estimates prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of exploration and evaluation expenditure or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of the estimated cost of the ARO is capitalized. The charge arising from the accretion of the discount applied to the ARO is treated as a component of finance costs.

Management has determined that, based on the exploration work carried out to date, there is no legal or constructive obligation requiring remediation of the Company's oil and gas property at this time.

3.7 Financial assets and liabilities

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

The Company classifies its financial assets as loans and receivables. Financial liabilities are recognized initially at fair value and subsequently at amortized cost using the effective interest method.

Financial assets and liabilities are classified as current if the assets are realized / liabilities are settled within 12 months. Otherwise, they are presented as non-current.

3.8 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held in call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents have been classified as loans and receivables and measured at amortized cost using the effective interest rate method.

3.9 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are measured at amortised cost using the effective interest method.

3.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.11 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 Republic China (PRC), no income tax charges had been recognized during the period.

Deferred income tax is recognised, 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 realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised 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 timing of the reversal of the temporary difference is controlled by the group 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.

3.12 Share-based payments

The Company has a share-based compensation plan, details of which are disclosed in note 10. The Company applies the fair value based method of accounting to recognize the expenses arising from stock options granted to employees and non-employees using the Black – Scholes option pricing model, which requires the use of certain assumptions including future stock price volatility and expected life of the instruments.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement of income (loss), with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

4. Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

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 January 1, 2011 or later periods. The standards that are applicable to the Company are as follows:

a) IFRS 9, 'Financial Instruments', which replaces the current standard, IAS 39 Financial Instruments: Recognition and Measurement. The new standard replaces the current classification and measurements criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value, and is effective for annual periods beginning on or after January 1, 2015, with early application permitted. The Company will be required to adopt this standard.

   There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The de-recognition rules have been transferred from IAS 39, Financial Instruments: Recognition and measurement', and have not been changed.

b) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation — Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

c) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The Company is currently assessing the impact of this standard.

d) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

e) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset

or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

f) IAS 1, 'Presentation of Financial Statements' was amended in June 2011. This standard requires companies preparing financial statements under IFRS to group items within Other Comprehensive Income (OCI) that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit of loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 set out in Presentation of Items of OCI are effective for fiscal years beginning on or after July 1, 2012. The Company is currently assessing the impact of this standard.

5. Financial risk management

5.1 Financial risk factors:

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, rights issue deposits, shareholder loan, cash calls payable, and advances from a related party. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation except for the shareholder loans, and advances from a related party with fair value of RMB24,184,640 (CAD3,782,987) (March 31, 2012 – RMB17,966,082) and RMB 10,361,306 (CAD1,620,726) (March 31, 2012 – RMB10,379,224) respectively.

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

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

(a) Currency risk

The Company holds financial instruments in different currencies during the periods ended are as follows:

	Sep 30, 2012	Mar 31, 2012
Cash and cash equivalents of:		
- CAD	CAD103,450	CAD100,315
- US$	US$68,859	US$48,053
- GBP	GBP4,451	GBP1,508
- HK$	HK$1,063,073	HK$2,771,258
Shareholder loan of US$	(US$4,038,462)	(US$2,948,718)
Advance from a related party of CAD	(CAD1,700,000)	(CAD1,700,000)

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 approximately:

	Sep 30, 2012 RMB	Mar 31, 2012 RMB
- CAD	1,020,675	1,009,241
- US$	2,494,102	1,826,259
- GBP	4,513	1,520
- HK$	86,109	224,749

(b) Credit risk

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

The Company's cash and cash equivalents are held at a large international financial institution in interest bearing accounts. Minimal cash balances are held in Chinese financial institutions.

(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 will be required to fund the Company's obligations in relation to the LS36-1 Development and in relation to any future exploration work. The Company and PPC have signed a Loan Memorandum with China Development Bank (CDB) with respect to financing their share of the costs of the LS36-1 Development. The Loan Memorandum is subject to CDB's credit committee approval which is in turn subject to government approval of the ODP. In addition, there is a shareholder loan facility available for drawndown of US$1,611,538 as at September 30, 2012. The Company will need to raise additional equity capital in order to finance any further exploration drilling or seismic contracts. The Company is actively exploring all possible fund-raising possibilities for the planned exploration drilling programme.

Additional information regarding liquidity risk is disclosed in Note 1.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because these investments roll over in very short periods (seven days to one month).

5.2 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.

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

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing R1-High investment rated (DBRS) investments with maturities 90 days or less from the original date of acquisition.

The Company currently is not subject to externally imposed capital requirements.

Additional information regarding capital management is disclosed in note 1.

6. Critical judgments and accounting estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are going concern, recovery of assets carrying values and income taxes.

Concerning the recoverability of assets carrying values, the Company assesses its exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

If there are low oil prices or natural gas prices during an extended period the Company may need to recognize significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, higher of the exploration expenditure's fair value less costs to sell and their value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil, natural gas and refined products.

7. Exploration and evaluation assets

	Exploration and evaluation assets
	RMB
Balance at March 31, 2011	412,817,822
Additions	14,360,561
Balance at March 31, 2012	427,178,383
Additions	6,132,198
Balance at September 30, 2012	433,310,581
	CAD
Balance at September 30, 2012 in CAD (note 3.3)	67,778,911

The Contractors) under a Petroleum Contract dated March 24, 2005 with China National Offshore Oil Corp. (CNOOC) to explore, develop and produce oil and gas reserves that may exist in an area known as Block 25/34 (the Contract Area) in Lishui and Jiaojiang Basins, East China Sea. The Contract Area includes the majority of previous Block 32/32 covered by a prior petroleum contract between the Contractors and CNOOC which was in effect during the period from December 12, 1994 to February 28, 2005. The Company and PPC hold 75% and 25% of the Contractors' interest, respectively.

The Petroleum Contract became effective on May 1, 2005, and had three periods: exploration, development and production, with a maximum contract term of 30 years. The exploration period was seven years while the production period was15 years. The exploration period was further subdivided into three exploration phases, which included the first phase of three contract years (the first contract year through the third contract year); the second phase of two contract years (the fourth contract year through the fifth contract year); and the third phase of two contract years (the sixth contract year through the seventh contract year).

Under the Petroleum Contract the Contractors were committed to drilling one exploration well in each of the three exploration phases (plus an additional 200 square kilometres of 3D seismic in phase one) and the minimum cost of completing these exploration operations should be US$6,000,000, which equivalents to RMB 37,914,000, in the first phase and US$5,000,000, which equivalent to RMB 31,595,000, in each of the second and third phases. At the end of each of the first and second exploration phases, the Contractors were required to decide whether to enter into the next exploration phase and relinquish 25% of the remaining Contract Area, or terminate the Petroleum Contract. At the end of the third exploration phase, the Contract Area, except for any discovery, development or production area that may exist in the Contract Area, is relinquished.

The Petroleum Contract provides that the Contractors will fund all costs incurred during the exploration period, and CNOOC has the right to participate in up to 51% of any future development and production of oil and/or gas fields in the Contract Area by paying its pro rata share of the development and production costs.

The Petroleum Contract provides that the Contractors will remain as operators for the development and production period until at least full cost recovery.

By an Amendment Agreement dated February 18, 2008 between CNOOC, the Company and PPC, the parties agreed that the Petroleum Contract be amended to provide that the exploration period beginning on the date of the

commencement of the implementation of the contract shall be divided into three phases and shall consist of 8 years rather than 7 years. The first exploration period shall be for a period of four years from the date of commencement on May 1, 2005, and the second and the third exploration phases shall be for two year periods respectively.

On July 15, 2011, the Company signed a Memorandum of Agreement ("MOA") with CNOOC to further amend the Petroleum Contract. The MOA amended the Petroleum Contract so that no further exploration activity would be carried out under that contract and the Company and PPC would relinquish all of the current area of 5,221 sq kms held under the Petroleum Contract, save for the development area for the LS36-1 gas field, comprising 84.7 sq kms. The Petroleum Contract remained in effect in relation to the continuing development and production operations for the LS36-1 gas field.

The MOA further provided that the parties would enter into a new petroleum contract and, on June 15, 2012, the Company and PPC signed the new petroleum contract ("the New Contract") with CNOOC to explore, develop and produce oil and gas reserves that may exist in an area known as Block 33/07 in East China Sea. Block 33/07 covers the same area as that currently held under Block 25/34 but with an additional adjacent area to the east making a new contract area of 5,877 sq kms. The New Contract was entered into on June 15, 2012 and became effective from November 21, 2012 after the ratification by the Ministry of Commence in the People's Republic of China. The New Contract 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. The commitment for each of the second and third phases is one well. PEOIL acts as the Operator for the exploration operation, development operation and production operation within this new contract area.

Future discoveries in the new contract area (and any CNOOC self -financed discoveries nearby, if there is spare capacity and subject to payment of a proportion of operational costs) will enjoy the right to free use of the production facilities to be built for the LS36-1 gas field.

All other terms of the New Contract are the same as the Petroleum Contract and the New Contract is held by Primeline and PPC in the same proportions in which they held the Petroleum Contract of 75%/25%.

Following the completion of the ODP, the Company, PPC and CNOOC entered into a Supplemental Development Agreement and other agreements with regard to the development of the LS36-1 gas field which was discovered by the Company. The ODP comprises a formal development engineering plan for the proposed development, backed up by survey results and environmental studies, together with a full economic analysis of the development, which is required to be approved by the Chinese government before the Development can officially commence. Under these agreements, CNOOC became the Operator for the development and production operations and is proceeding with the development preparation pending full government approval of the ODP which was submitted to the Government for approval on June 6, 2012. PEOIL continues to be the exploration Operator on Block 33/07 under the New Contract.

8. Property, plant and equipment

	Machinery& Equipment	Machinery & Equipment
	RMB	CAD (note 3.3)
COST		
At April 1, 2011	-	-
Additions	13,357	2,089
At March 31, 2012	13,357	2,089
Additions	7,068	1,106
At September 30, 2012	20,425	3,195
DEPRECIATION AND IMPAIRMENT		
At April 1, 2011	-	-
Charge for the year	334	52
At March 31, 2012	334	52
Charge for the period	2,710	424
At September 30, 2012	3,044	476
CARRYING VALUES	RMB	CAD
At April 1, 2011	-	-
At March 31, 2012	13,023	2,037
At September 30, 2012	17,381	2,719

9. Share capital

Ordinary equity share capital

	Number
Authorized	
Ordinary shares with a par value of US$0.001 each as at September 30, 2012 and March 31, 2012	500,000,000

Allotted and fully paid		Number	Share capital RMB	Contributed Surplus RMB
At April 1, 2011		94,041,246	858,406	497,438,529
Discount on shareholder loan	(13d)	-	-	599,046
Discount on advances from a related party	(13f)	-	-	346,076
Fair value of options		-	-	2,329,131
At March 31, 2012		94,041,246	858,406	500,712,782
Discount on shareholder loan	(13d)	-	-	364,080
Fair value of options		-	-	1,372,807
At September 30, 2012		94,041,246	858,406	502,449,669
At September 30, 2012 in CAD		94,041,246	134,273	78,593,723

On March 25, 2010, the Company filed a preliminary short form prospectus in the provinces of British Columbia, Alberta, Ontario and Quebec relating to a rights offering (the “Offering”) to raise gross proceeds of RMB157,575,811(CAD23,510,311).

Under the Offering, each holder of the Company’s common shares (“Shares”) was entitled to receive one right (a “Right”) for each Share held. One Right would entitle the holder to acquire one Share at a price of CAD0.50 per share (the “Subscription Price”).

The Company’s largest shareholder, Primeline International (Holdings) Inc. (“PIHI”), had agreed to provide a standby commitment (the “Standby Guarantee”) under which PIHI agreed to purchase from the Company at the Subscription Price any Shares (the “Standby Shares”) that were not otherwise subscribed for under the Offering. Accordingly, PIHI deposited RMB157,575,811 (CAD23,510,311) into the Company’s bank account on March 26, 2010 as a deposit for the Standby Guarantee.

The rights were issued to holders of common shares of record on April 15, 2010 and expired on May 6, 2010. Under the Offering, a total of 39,640,833 common shares were subscribed. Under the Standby Guarantee Agreement with the Company, PIHI purchased the remaining balance of 7,379,790 common shares available under the Offering.

Aggregate total gross proceeds of RMB58,585,386 (CAD8,733,411) were received by the Company from external shareholders and the Company had repaid RMB7,038,100 (CAD1,049,180) of the standby guarantee deposits to PIHI with the remaining balance of RMB51,547,286 (CAD7,684,224) being assigned by PIHI to PPC and treated as an advance from PPC to the Company for working capital purposes.

10. Share-based payments

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 to acquire common shares. The exercise price of a share option is set by the board of directors, subject to TSX Venture Exchange policy. Options granted under the Plan may have a maximum term of ten years and, subject to any vesting restrictions imposed by the Exchange, 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 Apri1, 2011	6,025,000	1.52	5,975,000	1.53
Expired	(5,175,000)	1.44		
Granted	2,100,000	0.32		
As at March 31, 2012	2,950,000	0.81	1,549,992	1.25
Expired	(25,000)	1.44		
Granted	3,605,000	0.59		
As at September 30, 2012	6,530,000	0.68	2,524,993	0.89

On April 4, 2006, the Company granted 4,500,000 options at an exercise price of CAD1.50 per share to directors, officers, employees and consultants, of which 200,000 options were cancelled on July 29, 2006 and 4,300,000 options expired on April 4, 2011.

On December 1, 2006, the Company granted options to its non-executive directors, management and consultants to purchase up to 1,200,000 common shares at an exercise price of CAD1.60 per share. 217,000 of the 1,200,000 options have been cancelled by agreement with the option holders. 483,000 of the 1,200,000 options expired while the balance of 525,000 options expired on November 30, 2011.

On November 1, 2007, the Company granted options to purchase a total of 875,000 common shares at an exercise price of CAD2.00 per share. 250,000 of the 875,000 options were granted to CHF Investor Relations, the company's investor relations counsel, while 625,000 options were granted to executive directors, management and consultants, of which 50,000 options expired. The balance of such options expires on October 31, 2012.

On November 29, 2010, 350,000 options were granted to a consultant. Such options expired on May 29, 2011.

On July 27, 2011, the Company granted 2,100,000 options at an exercise price of CAD0.32 per share to directors, officers, employees and consultants. Such options expire on July 26, 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 CAD0.50 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 CAD0.60 per share to directors, officers, employees and consultants. Such options expire on September 26, 2017.

Assumptions used in the Black-Scholes option pricing model of the options granted during the periods are as follows:

	For the quarter ended September 30	
	2012	2011
Risk-free interest rate	1.34%	1.25%
Expected life	5 years	5 years
Expected volatility	98%	89%
Expected dividends	Nil	Nil

In connection with the grant of stock options to directors, officers, consultants and employees, the Company recognized a share-based payments of RMB1,156,580 (CAD180,913) (2011 – RMB999,034) and capitalized RMB216,227 (CAD33,982) (2011 – RMB 488,198) to exploration and evaluation assets for the six months ended September 30, 2012 .

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, 2012			
CAD2.00	850,000	0.60 years	850,000
CAD0.32	2,100,000	4.30 years	699,992
	2,950,000	**3.23 years**	**1,549,992**
As at September 30, 2012			
CAD2.00	825,000	0.08 years	825,000
CAD0.32	2,100,000	3.82 years	1,399,993
CAD0.50	500,000	4.74 years	300,000
CAD0.60	3,105,000	4.99 years	-
	6,530,000	**3.98 years**	**2,524,993**

11. Finance Income

	For the six months ended		
	Sep 30, 2012 RMB	Sept 30, 2011 RMB	Sep 30, 2012 CAD
Fair value adjustment of Shareholder's loan under revised loan facility	546,424	-	85,472
Fair value adjustment of Related Party's loan under revised loan facility	309,669	-	48,439
Bank interest income	1,200	1,277	188

	857,293	**1,277**	**134,099**

Mr. Victor Hwang and PPC agreed with the Company not to demand repayment on the amount drawn down from the Shareholder's loan and the balance due to related party respectively prior to April 30, 2014. The Company recalculated the fair value of the financial liabilities under the revised terms. The difference in the fair value of the financial liabilities is recognized in Consolidated Statement of Comprehensive Loss as finance income.

12. Taxation

The Company is domiciled in an income tax-exempt jurisdiction and carries out its oil exploration activities in the People's Republic of China (PRC); these activities are subject to PRC income tax at a rate of 25%. In accordance with PRC tax regulation, exploration costs incurred by foreign oil and gas enterprises can be deferred and amortized from commencement of oil/gas production. The company has nil deferred income tax.

13. Related party transactions

During the six months ended September 30, 2012, the Company paid or accrued the following:

a) London office rent of RMB192,079 (CAD30,045) (2011–RMB200,462) to a company under common control of which the shareholder is also the shareholder of the Company's ultimate and immediate holding company, PIHI, a private British Virgin Islands corporation, all of the issued and outstanding shares of which are beneficially owned by Mr. Victor Hwang, President and a director of the Company.

b) Cash call of RMB804,523 from (CAD125,844) (2011 –RMB1,166,886 utilized for) PPC, a company under common control of which the shareholder is also the shareholder of the Company's ultimate holding company PIHI, was repaid via utilization for its 25% contribution on the exploration costs.

c) Retainer fees of RMB315,925 (CAD50,000) (2011 – RMB321,100) were paid to 4 non-executive directors for the period ended September 30, 2012.

d) Shareholder loan of RMB24,184,640 (CAD3,782,987) (2011- RMB9,852,920) represents an interest-free balance with a principal amount of RMB25,373,657 (CAD3,968,975) due to Mr. Victor Hwang, the President and a director of the Company, which consists of the full amount drawn down from a loan facility of up to US$4,000,000 and the amount of US$38,462 drawn down from an additional loan facility of up to US$1,650,000 during the period. The entire total drawn down is interest free and Mr. Victor Hwang agreed not to demand repayment on amount drawn down on the US$4 million and US$1.65 million facilities prior to April 30, 2014 and July 31, 2014 respectively. The interest-free non-current shareholder loan is adjusted to its fair value. The fair value adjustment of RMB1,189,017 (CAD185,988) is calculated using an effective rate of 3.07 to 3.09% per annum. The amount remaining available for drawdown is US$1,611,538 as at September 30, 2012.

e) Compensation of key management personnel of the Group of for the period of RMB2,215,595 (CAD346,566) (2011 – RMB2,507,787) and a total of 2,650,000 stock options (2011- 1,550,000 stock options) are outstanding to these key management personnel.

f) Advance of RMB10,361,306 (CAD1,620,726) (2011 – RMB10,490,700) represents an interest-free balance with a principal amount of RMB10,868,100 (CAD1,700,000) from PPC, a company the shareholder of which is also the shareholder of the Company's ultimate holding company PIHI, for working capital purposes. On June 30, 2012, by a further agreement made between PPC and the Company that repayment of this amount will not be demanded either in whole or in part from the

Company prior to April 30, 2014. The interest-free non-current advance from a related company is adjusted to its fair value. The fair value adjustment of RMB506,794 (CAD79,274) is calculated using an effective rate of 3.07% per annum.

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

14. Commitments

a) Under the New Contract for Block 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. The minimum expenditures for such exploration operation are estimated to be RMB 100 million of which the Company's 75% obligation would be a total of RMB75.6 million.

b) The company entered into a lease agreement for the rental of PEHI's Shanghai office in the People's Republic of China. The lease is for a period of two years from September 1, 2012 to August 31, 2014 with a monthly rental fee of RMB55,845 in the first year and RMB57,436 in the subsequent year.

c) Under the Implementation Agreement signed between the Company, PPC and CNOOC for the development and production of the LS 36-1 gas field within contract area 25/34 on March 17, 2010, CNOOC agreed to provide all funding in relation to the Development Operations until the ODP approval is obtained so the Company shall have no obligation to fund cash calls under the Contract until such date. With effect from the date of the ODP approval is obtained, the Company will have the obligation to fund its share of the Development costs according to the Contract. CNOOC has agreed that it will allow the Company 3 months from the notification of the grant of the ODP approval to arrange financing for its obligations to fund cash calls in relation to the Development Operations The Company and PPC have signed a Loan Memorandum with China Development Bank (CDB) with respect to financing their share of the costs of the LS36-1 Development. The Loan Memorandum is subject to CDB's credit committee approval.

15. Subsequent Events

a) On November 21, 2012, the Ministry of Commence of China ratified the new Petroleum Contract which the Company and PPC signed with CNOOC on June 15, 2012 to explore, develop and produce oil and gas reserves that may exist in an area known as Block 33/07 in East China Sea of the PRC and the effective date of the Petroleum Contract is from November 21, 2012.

b) On November 2, 2012, PECL, PPC and CDB have signed a revised loan memorandum ("Loan Memorandum") to take into account the various changes and progress made in relation to the Development since 2010. The Loan Memorandum replaces the previous loan memorandum entered into between the same parties in May 2010. Pursuant to the Loan Memorandum, CDB has agreed in principle to provide a loan facility with principal amount of US$ 300,000,000.00 to PECL and PPC, as joint borrowers, in order to fund a portion of their respective shares of the costs of the Development. The Loan Memorandum received disinterested shareholder approval at Primeline's annual general meeting held on November 19, 2012.

Primeline Energy Holdings Inc. (TSX Venture-PEH)
Management Discussion and Analysis for the Quarter Ended September 30, 2012

INTRODUCTION

This management discussion and analysis is dated November 28, 2012 and takes into account information available up to that date and should be read in conjunction with the interim consolidated financial statements dated September 30, 2012 and the annual consolidated financial statements for the year ended March 31, 2012. The September 30, 2012 interim financial statements and all interim and annual consolidated financial statements after the April 1, 2011 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Prior to that date financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Primeline Energy Holdings Inc. ("the Company" or "Primeline") adopted IFRS on April 1, 2011 with a transition date of April 1, 2008. The Company has provided IFRS accounting policies and prepared reconciliations between Canadian GAAP and IFRS in Note 15 of the annual consolidated financial statements for the year ended March 31, 2012. All monetary amounts in this discussion and analysis are expressed in Chinese Yuan Renminbi unless otherwise noted. Canadian dollar equivalents are provided for information only. Such presentation is not in accordance with generally accepted accounting principles 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 interim financial statements or any other date. The exchange rate of one Canadian dollar for RMB published in the South China Morning Post on September 30, 2012 was RMB 6.393 to CAD 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 time anticipated to obtain government approval of the Overall Development Program (referred to herein as the "ODP") for the development of the Lishui 36-1 (or LS36-1) gas field, the timing of planned work forming part of the development of the LS36-1 gas field (referred to herein as the "LS36-1 Development"), and the results of exploration of the Company's other exploration prospects. They are based on assumptions that government approval of the ODP will be gained in a timely fashion, that the LS36-1 Development will proceed in accordance with the agreed timetable, that a binding agreement for the financing of the Company's share of the costs of the LS36-1 Development will be concluded with the China Development Bank (CDB), and that the results of further exploration will be favorable. Actual results may vary from those anticipated. The approval of the ODP may be delayed or not obtained. Funding may not be available to the Company for the LS36-1 Development and/or for exploration or may not be sufficient and, if it is not, the Company may be in breach of its funding obligations under the Petroleum Contracts (defined below). Costs of the LS36-1 Development may be greater than anticipated and the timetable for the LS36-1 Development may be delayed. It is possible that a binding agreement with CDB will not be obtained. Exploration for oil and gas is subject to the inherent risk 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 and development rights in the East China Sea pursuant to two Petroleum Contracts, one in relation to Block 25/34 ("Petroleum Contract 25/34") and one in relation to Block 33/07

("Petroleum Contract 33/07") 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 and majority shareholder. Petroleum Contract 25/34, dated March 25, 2005 and Petroleum Contract 33/07, dated June 15, 2012, are together referred to as "the Petroleum Contracts". PECL and PPC act jointly as the "Contractor" under the Petroleum Contracts

- Block 25/34 covers 84.7 sq km, being the development and production area for the LS36-1 gas field for which CNOOC Limited is the Operator holding a 51% interest with the Company and PPC holding 36.75% and 12.25% respectively.

- Block 33/07 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.

Primeline and CNOOC are implementing a rolling development and exploration strategy in the Lishui Basin with CNOOC operating the LS36-1 Development under Petroleum Contract 25/34 and Primeline leading the effort on exploration under Petroleum Contract 33/07.

The LS36-1 Development is progressing smoothly with first gas expected in Q3 2013 which will bring cash flow to the Company. It will also establish a production facility for the Lishui Gas Play and secure access to the dynamic local gas market in Eastern China. The confirmation of the market and the creation of the production facility should significantly enhance the potential value of any additional resources which may be discovered, not only in the LS36-1 gas field itself, in the probable and possible category resources, but also in the Lishui Gas Play and elsewhere within Block 33/07 in the Lishui Basin.

QUARTERLY PROGRESS REVIEW

Primeline's development and exploration activities during the quarter under review have consisted of:

DEVELOPMENT OF LS 36-1 GAS FIELD

EIA Approval and Overall Development Program (ODP)

The project's safety assessment, occupational hazard assessment and pipeline route reports have all been approved by relevant government departments previously. The Environmental Impact Assessment was finally approved by the State Oceanic Authority in May 2012, clearing the path for the regulatory approval for civil construction. The final ODP was thus filed with National Development and Reform Commission ("NDRC") for confirmation in June 2012. Subsequently, NDRC appointed China National Petroleum Corporation Consulting Limited ("CNPC") to review the LS36-1's ODP. The review meeting was held in Beijing in August 2012. The expert panel critically reviewed the ODP and passed the ODP with minor comments. The formal review report was submitted by CNPC to NDRC in the middle of August and CNOOC and Primeline are waiting

for the confirmation of approval of the ODP.

Procurement, Fabrication and Construction of LS36-1 Development Project

The Joint Management Committee established by CNOOC and Primeline and the CNOOC Investment Committee approved the LS36-1 Development in July 2011 and since then CNOOC, as the operator, has been carrying out detailed engineering design, procurement and fabrication of the LS36-1 Development. During the quarter under review, significant progress has been made on procurement, fabrication, and construction. With the progress in obtaining the regulatory approval on environmental matters, CNOOC is now progressing with the full development operations in order to maintain the development schedule of first gas in the third quarter of 2013. The installation of platform jacket was completed in July 2012, the laying of the 127 km subsea pipeline was completed in September 2012, the terminal construction is ongoing and in October 2012, the development drilling commenced and is currently ongoing. Primeline is very pleased with the progress of the development operated by CNOOC.

Development finance

In May 2010, PECL and PPC, and CDB entered into a loan memorandum to confirm the terms on which CDB agreed in principle to provide a loan facility for PECL and PPC's share of the costs of the Development. Following the filing of the ODP in June 2012 with the NDRC, and the passing of an expert review organized by the NDRC in August 2012, PECL, PPC and CDB negotiated the terms of a revised loan memorandum ("Loan Memorandum") to take into account the various changes and progress made in relation to the Development since 2010. The Loan Memorandum, which is dated as of 2nd November 2012, replaces the previous loan memorandum entered into between the same parties in May 2010. Pursuant to the Loan Memorandum, CDB has agreed in principle to provide a loan facility to PECL and PPC, as joint borrowers, in order to fund a portion of their respective shares of the costs of the Development.

The Loan Memorandum provides that the principal amount of the loan is to be US $300,000,000 and states that the loan is to bear interest at a floating rate of six month LIBOR plus 480 basis points rising to 510 basis points upon expiration of the support letter from Mr. Victor Hwang referred to below, subject to final negotiation. The loan is to have a term of 11 years, consisting of an availability period of one year (from the date of the first drawdown) and a repayment period of 10 years. The proceeds of the loan are to be used only for the Development.

The investment budget for the Development under the ODP is approximately RMB 4,564,660,000, including the development costs of RMB 3,810,750,000, accredited exploration costs which Primeline expended in Block 25/34 and future abandonment costs. CNOOC's share of the development costs is approximately RMB 1,943,482,500 and PECL and PPC's share is approximately RMB 1,867,267,500. The loan amount of US$300 million equates to approximately RMB 1,967,512,000. The Loan Memorandum provides that PECL and PPC are collectively required to contribute an amount, referred to as "project equity", towards the total investment amount quoted in the ODP, which project equity amount is stated to be RMB 493,190,000. PECL and PPC have between them already invested approximately RMB 454,020,000, being the exploration expenditure incurred in relation to Block 25/34, which amount is included in the ODP investment budget, and therefore the amount required to be contributed in the future by them as "equity funding" is approximately RMB 39,170,000 (approximately US $6.2 million). PECL will be required to contribute 75% of this amount, being RMB 29,377,500 (approximately US$4.7 million). The

Company is currently reviewing its options with respect to financing the "project equity" contribution from PECL.

The Loan Memorandum is subject to the approval of CDB's credit committee. Conditions precedent to entry into a legally binding loan agreement as set out in the Loan Memorandum include approval of the ODP by the NDRC and a support letter from Mr. Victor Hwang confirming his undertaking to arrange for additional funding to be made available to PECL and PPC to the extent necessary to ensure the completion of the Development, that the design production level specified in the ODP is achieved and that PECL and PPC are able to timely repay principal and interest on the loan. Such support is to cease once such production level has been achieved.

PPC is 100% owned by Mr. Victor Hwang, who is the Chairman, President and controlling shareholder of the Company. Pursuant to the Loan Memorandum, PECL and PPC are to be jointly liable for repayment of the loan facility (the "Loan"). In addition, the Company is to guarantee PECL's and PPC's obligations under the Loan agreement. The loan and the guarantee arrangements are referred to as "the Loan Transaction". Because of the requirement of CDB that PECL and PPC should be joint borrowers and the guarantee by the Company, the Loan Transaction required approval by shareholders other than Mr. Victor Hwang. Accordingly, an Information Circular providing full details of the Loan Transaction was sent to shareholders of Primeline and filed on SEDAR. The Loan Transaction received disinterested shareholder approval at Primeline's annual general meeting held on November 19, 2012.

CDB (http://www.cdb.com.cn) is a financial institution in China under the direct jurisdiction of the State Council with net assets over US$1 trillion. It is primarily responsible for raising funding for large infrastructure projects. Debt issued by CDB is fully guaranteed by the central government of the People's Republic of China. CDB is one of the biggest issuers of bonds in China. CDB's mission statement reads "CDB provides medium to long term financing facilities that assist in the development of a robust economy and a healthy prosperous community, it aligns its business with national economic strategy and allocates resources to break through bottlenecks in China's economic and social development. CDB carries out its mission by supporting the development of national infrastructure, basic industry, key emerging sectors and national priority projects …" The nature of Primeline's business accordingly qualifies for support from CDB.

As referred to above, any formal loan agreement will be subject to the approval of the ODP by the NDRC. However, under the terms of the agreements relating to the Development entered into by Primeline, PPC and CNOOC in March 2010, Primeline has no obligation to provide funding for the Development until after such approval has been obtained.

CDB is now preparing the submission of the loan facility for approval of its credit committee. An announcement will be made when and if such approval is obtained.

PETROLEUM CONTRACT FOR BLOCK 33/07

The Company, PPC and CNOOC signed the Petroleum Contract 33/07 on June 15, 2012, which grants the Company and PPC a significant exploration area around the LS36-1 gas field for a further seven years whilst CNOOC, the Company and PPC will continue to develop the LS36-1 gas field over the next year.

Petroleum Contract 33/07 was subject to ratification by the Ministry of Commerce in China and such ratification has been granted. The effective date of the Petroleum Contract 33/07 is November 21, 2012.

Block 33/07 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. Petroleum Contract 33/07 has a 7-year exploration period divided into 3 exploration phases of 3, 2 and 2 years, each with a minimum work commitment. The firm commitment in the first phase is for two exploration wells plus 660 sq km of 3D seismic. Any discoveries in the new contract area have the right to use the production facilities being built for the LS36-1 gas field. The fiscal terms for Petroleum Contract 33/07 are the same as the previous petroleum contract for Block 25/34.

GENERAL FINANCIAL OUTLOOK

As at September 30, 2012, the Company held cash resources of RMB2,771,430 (CAD433,510). In May 2011, the Company entered into an agreement with Victor Hwang, its President, Chairman and majority shareholder, under which Mr. Hwang granted the Company an interest free loan facility of up to US$4,000,000 (the "Facility"), which could be drawn down in multiple tranches at any time before November 30, 2011, to be used for working capital purposes. The Facility was intended to provide the Company with sufficient funds to meet the costs of its general operations for the fiscal year 2011/2012. Subsequently, Mr Hwang further agreed to extend the termination date of the Facility from November 30, 2011 to May 31, 2012 and agreed not to demand repayment or charge interest on the amount draw down under the Facility prior to September 30, 2012. By a further agreement with Mr. Hwang these dates were extended to July 1, 2012 and March 31, 2013 respectively. On March 31, 2012, an amended and restated loan agreement was entered into in relation to the Facility confirming that the amount drawdown as at that date was US$2,948,718 equivalent to RMB18,565,128 (CAD2,942,642) and that US$1,051,282, equivalent to RMB6,618,871 (CAD1,019,116) remained available for drawdown until November 30, 2012 with repayment extended to not before April 30, 2013. Subsequently, Mr Hwang agreed not to demand repayment or charge interest on the amount drawn down under the Facility prior to April 30, 2014. The Company has fully drawn down this facility.

On June 1, 2012, Mr. Victor Hwang agreed to provide another interest free loan facility up to US$ 1.65 million to the Company for working capital purposes repayable on demand any time after July 31, 2014. The Company is investigating options for raising funds to repay the funds drawn down and expects to make an announcement about repayment in due course. However, if the Company is unable to replace the loan facilities with other financing and Mr. Hwang demands repayment thereof after April 30, 2014, the Company may be unable to continue present operations and planned expansion, and may be forced to cease operations entirely.

Financing will be required to fund the Company's obligations in relation to the LS36-1 Development and in relation to any future exploration work. As referred to above, the Company and PPC have signed a Loan Memorandum with China Development Bank (CDB) with respect to financing their share of the costs of the LS36-1 Development. The Loan Memorandum is subject to CDB's credit committee approval which is in turn subject to government approval of the ODP. The Company will need to raise additional equity capital in order to finance any further exploration drilling or seismic contracts. The Company is actively exploring all possible fund-raising possibilities for the planned exploration drilling programme.

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

Several adverse conditions cast significant doubt upon the validity of this assumption. Consistent with other entities in the exploration stage, the Company has incurred operating losses since inception, has no source of revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead, carry out its exploration activities under the Petroleum Contract 33/07 and to fund its share of the LS36-1 Development costs in three months from the date government approval of the ODP for the LS36-1 gas field is obtained.

The Company's ability to continue as a going concern is dependent upon management's ability to secure additional financing. While management has been successful in obtaining funding in the past, including support from its major shareholder, there can be no assurance that it will be able to do so in the future.

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

FINANCIAL INFORMATION

Results of Operations

The Company's results for the quarter ended September 30, 2012 were a loss of RMB2,091,568 (CAD327,166). Compared to the loss of RMB1,672,001 for the same quarter last year, The increase in loss of RMB419,567 (CAD65,629) for this quarter was largely due to decrease of exchange gain of RMB861,245 (CAD134,717), increase of finance cost of RMB63,130 (CAD9,875) and partially offset by decrease of professional fees of RMB311,211 (CAD48,680) and decrease of share based payment of RMB123,491 (CAD19,317). During the quarter, finance cost of RMB63,130 (CAD9,875) relating to the amortization of imputed interest on the shareholder's loan and advances from a related party.

Liquidity and Capital Resources

As at September 30, 2012, net current assets of the Company amounted to RMB2,918,189 (CAD456,466), whereas net current assets of RMB3,558,059 were recorded as at March 31, 2012. The decrease in net current assets of RMB639,870 (CAD100,089) was mainly due to the increase of cash call payable of RMB 804,523 (CAD125,844), decrease of cash and cash equivalents of RMB992,037 (CAD155,176) and partially offset by decrease of accounts payable and accrued liabilities of RMB1,154,642 (CAD180,610).

During the quarter, exploration and evaluation assets of RMB2,574,738 (CAD402,743) were incurred, and financed mainly from the shareholder loan. As at September 30, 2012, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB433,310,581 (CAD67,778,911) (March 31, 2012 – RMB427,178,383) and can be broken down as follows:

	September 30, 2012 RMB	Mar 31, 2012 RMB
Exploration Drilling Related Services		
Drilling services	178,263,638	178,263,638
Drilling technical supervision and evaluation	4,650,259	4,650,259
Exploration Geological&Geophysical Surveys& Work		
Geological&geophysical survey acquisition& processing	64,892,882	64,892,882
Technical evaluations&management	37,965,723	37,628,360
Pre-development study	32,583,351	32,583,351
Interests on funding of deferred exploration expenditures	21,409,388	21,057,521
Deferred costs acquired from Primeline Petroleum Corporation	8,485,080	8,485,080
Project administration	25,682,767	24,542,417
Salaries and benefits	38,922,683	35,948,587
Travel and accommodation	17,311,608	15,983,086
Contract signing fee	3,143,202	3,143,202
	433,310,581	427,178,383

As at September 30, 2012, the Company had total assets of RMB438,263,847 (CAD68,553,707) (March, 2012 – RMB433,117,280) which were financed by net shareholders' equity of RMB401,700,205 (CAD62,834,384) (March 31, 2012 – RMB402,404,159), shareholder loan of RMB24,184,640 (CAD3,782,987) (March 31, 2012 – RMB17,966,082) and advance from a related party of RMB10,361,306 (CAD1,620,726) (March 31, 2012 – RMB10,379,224).

As at September 30, 2012, the Company had net current assets of RMB2,918,189 (CAD456,466) (March 31, 2012 – RMB3,558,059) and had a deficit of RMB101,607,870 (CAD15,893,612) (March 31, 2012 – RMB99,167,029). Following the grant of the loan facility of US$1.65 million from Mr. Victor Hwang on June 1, 2012, the Company has sufficient funds to pay for its general and administration activities for the rest of the financial year to March 31, 2013. However, as previously mentioned, additional financing will be required in respect of the LS36-1 Development once the ODP has been approved and to fulfill the exploration operation commitment under Petroleum Contract 33/07. The Company has already secured an in principle offer of a project finance facility from China Development Bank (CDB) for financing its share of the LS36-1 Development and the Company is actively investigating funding options to address the financing requirements for the Company's exploration activities.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, rights issue deposits, shareholder loan, cash calls payable, and advances from a related party. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation except for the rights issues deposits, shareholder loans and advances from related party with fair values of RMB24,184,640 (CAD3,782,987) (March 31, 2012 – RMB17,966,082) and RMB 10,361,306 (CAD1,620,726) (March 31, 2012 – RMB10,379,224) respectively.

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

a) Currency risk

The Company held financial instruments in different currencies during the quarter ended are as follows:

	Sep 30, 2012	Mar 31, 2012
Cash and cash equivalents of:		
- CAD	CAD103,450	CAD100,315
- US$	US$68,859	US$48,053
- GBP	GBP4,451	GBP1,508
- HK$	HK$1,063,073	HK$2,771,258
Shareholder loan of US$	(US$4,038,462)	(US$2,948,718)
Advance from a related party of CAD	(CAD1,700,000)	(CAD1,700,000)

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 approximately:

	Sep 30, 2012	Mar 31, 2012
	RMB	RMB
- CAD	1,020,675	1,009,241
- US$	2,494,102	1,826,259
- GBP	4,513	1,520
- HK$	86,109	224,749

b) Credit risk

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

The Company's cash and cash equivalents are held at a large international financial institution in interest bearing accounts. Minimal cash balances are held in Chinese financial institutions.

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 will be required to fund the Company's obligations in relation to the LS36-1 Development and in relation to any future exploration work. The Company and PPC have signed a Loan Memorandum with China Development Bank (CDB) with respect to financing their share of the costs of the LS36-1 Development. The Loan Memorandum is subject to CDB’s credit committee approval which is in turn subject to government approval of the ODP. In addition, there is a shareholder loan facility available for draw down of US$1,611,538 as at September 30, 2012. The Company will need to raise additional equity capital in order to finance any further exploration drilling or seismic contracts. The Company is actively exploring all possible fund-raising possibilities for the planned exploration drilling programme.

Additional information regarding liquidity risk is disclosed in Note 1 of the interim financial statements.

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because the investments roll over very short periods (seven days to one month).

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.

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

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing R1-High investment rated (DBRS) investments with maturities 90 days or less from the original date of acquisition.

The Company currently is not subject to externally imposed capital requirements.

Additional information regarding capital management is disclosed in note 1 of the interim financial statements.

Transactions with Related Parties and Directors

During the six months ended September 30, 2012, the Company paid or accrued the following:

a) London office rent of RMB192,079 (CAD30,045) (2011–RMB200,462) to a company under common control of which the shareholder is also the shareholder of the Company's ultimate and immediate holding company, PIHI, a private British Virgin Islands corporation, all of the issued and outstanding shares of which are beneficially owned by Mr. Victor Hwang, President and a director of the Company.

b) Cash call of RMB804,523 from (CAD125,844) (2011 –RMB1,166,886 utilized for) PPC, a company under common control of which the shareholder is also the shareholder of the Company's ultimate holding company PIHI, was repaid via utilization for its 25% contribution on the exploration costs.

c) Retainer fees of RMB315,925 (CAD50,000) (2011 – RMB321,100) were paid to 4 non-executive directors for the period ended September 30, 2012.

d) Shareholder loan of RMB24,184,640 (CAD3,782,987) (2011- RMB9,852,920) represents an interest-free balance with a principal amount of RMB25,373,657 (CAD3,968,975) due to Mr. Victor Hwang, the President and a director of the Company, which consists of the full amount drawn down from a loan facility of up to US$4,000,000 and the amount of US$38,462 drawn down from an additional loan facility of up to US$1,650,000 during the period. The entire total drawn down is interest free and Mr. Victor Hwang agreed not to demand repayment on amount drawn down on the US$4 million and US$1.65 million facilities prior to April 30, 2014 and July 31, 2014 respectively. The interest-free non-current shareholder loan is adjusted to its fair value. The fair value adjustment of RMB1,189,017 (CAD185,988) is calculated using an effective rate of 3.07 to 3.09% per annum. The amount remaining available for drawdown is US$1,611,538 as at September 30, 2012.

e) Compensation of key management personnel of the Group of for the period of RMB2,215,595 (CAD346,566) (2011 – RMB2,507,787) and a total of 2,650,000 stock options (2011- 1,550,000 stock options) are outstanding to these key management personnel.

f) Advance of RMB10,361,306 (CAD1,620,726) (2011 – RMB10,490,700) represents an interest-free balance with a principal amount of RMB10,868,100 (CAD1,700,000) from PPC, a company the shareholder of which is also the shareholder of the Company's ultimate holding company PIHI, for working capital purposes. On June 30, 2012, by a further agreement made between PPC and the Company repayment of this amount will not be demanded either in whole or in part from the Company prior to April 30, 2014. The interest-free non-current advance from a related company is adjusted to its fair value. The fair value adjustment of RMB506,794 (CAD79,274) is calculated using an effective rate of 3.07% per annum.

These transactions, which occurred in the normal course of operations, are measured at the exchange amount, which is the amount of the consideration established and agreed by the related party and directors

Subsequent Events

a) On November 21, 2012, the Ministry of Commence of China ratified the new Petroleum Contract which the Company and PPC signed with CNOOC on June 15, 2012 to explore, develop and produce oil and gas reserves that may exist in an area known as Block 33/07 in East China Sea of the PRC and the effective date of the Petroleum Contract is from November 21, 2012.

b) On November 2, 2012, PECL, PPC and CDB have signed a revised loan memorandum ("Loan Memorandum") to take into account the various changes and progress made in relation to the Development since 2010. The Loan Memorandum replaces the previous loan memorandum entered into between the same parties in May 2010. Pursuant to the Loan Memorandum, CDB has agreed in principle to provide a loan facility with a principal amount of US$ 300,000,000.00 to PECL and PPC, as joint borrowers, in order to fund a portion of their respective shares of the costs of the Development. The Loan Memorandum received disinterested shareholder approval at Primeline's annual general meeting held on November 19, 2012.

Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective And Have Not Been Early Adopted by the Company

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 January 1, 2011 or later periods. The standards impacted that are applicable to the Company are as follows:

a) IFRS 9, 'Financial Instruments' which replaces the current standard, IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard replaces the current classification and measurements criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value, and is effective for annual periods beginning on or after January 1, 2015, with early application permitted. The Company will be required to adopt this standard. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39, Financial Instruments: Recognition and measurement', and have not been changed.

b) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation — Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to

assess. The Company is currently assessing the impact of this standard.

c) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

d) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

e) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

f) IAS 1, 'Presentation of Financial Statements' was amended in June 2011. This standard requires companies preparing financial statements under IFRS to group items within Other Comprehensive Income (OCI) that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit of loss should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 set out in Presentation of Items of OCI are effective for fiscal years beginning on or after July 1, 2012. The Corporation is currently assessing the impact of this standard.

Outstanding Share Data

On November 1, 2007, the Company awarded options to purchase a total of 875,000 common shares at an exercise price of $2.00 per share. 250,000 of the 875,000 options were awarded to CHF Investor Relations, the Company's investor relations counsel, while 625,000 options were awarded to executive directors, management and consultants, of which 50,000 options expired. The balance of such options expires on October 31, 2012.

On July 27, 2011, 2,100,000 options were granted to directors, officers, employees and consultants to purchase common shares at 0.32 per share. Such options will 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 exercise price of CAD0.50 per shares. The option expires on June 25,

2017.

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD0.60 per share to directors, officers, employees and consultants. Such options expire on September 26, 2017.

As at November 28, 2012, there are 94,041,246 common shares and 6,530,000 stock options outstanding.

Quarter ended September 30, 2012

The Company's results for the quarter ended September 30, 2012 were a loss of RMB2,091,568 (CAD327,166), compared to RMB1,672,001 for the same quarter last year. The increase in loss of RMB419,567 (CAD65,629) was mainly due to decrease of exchange gain of RMB861,245 (CAD134,717), increase of finance cost of RMB63,130 (CAD9,875) and partially offset by decrease of professional fees of RMB311,211 (CAD48,680) and decrease of share based payment of RMB123,491 (CAD19,317) . During the quarter, finance cost of RMB63,130 (CAD9,875) relating to the amortization of the imputed interests of the shareholder's loan and advances from a related party resulted from the non interest facilities for the working capital to the company (see "General Financial Outlook") also contributed to the increase in loss.

During the quarter exploration expenditures of RMB2,574,738 (CAD402,743) were incurred, comprised mainly of travel and accommodation of RMB402,205 (CAD62,913), project administration of RMB406,495 (CAD63,584), interest on funding of deferred exploration of RMB 188,800 (CAD 29,532) and salaries and benefits of RMB1,547,366 (CAD242,041). These amounts were capitalized as exploration and evaluation assets.

Summary of Quarterly Results (Unaudited)

Quarter Ended	2012 Sep 30	2012 Jun 30	2012 Mar 31	2011 Dec 31
Net loss	(2,091,568)	(349,273)	(2,010,881)	(1,730,711)
Per basic share	(0.022)	(0.004)	(0.002)	(0.018)
Per diluted share	(0.022)	(0.004)	(0.002)	(0.018)

Quarter Ended	2011 Sep 30	2011 Jun 30	2011 Mar 31	2010 Dec 31
Net loss	(1,672,001)	(1,422,814)	(5,400,106)	(2,022,922)
Per basic share	(0.018)	(0.015)	(0.060)	(0.022)
Per diluted share	(0.018)	(0.015)	(0.060)	(0.022)

The loss for the quarter ended September 30, 2012 of RMB2,091,568 (CAD327,116) was mainly attributable to office expenses of RMB438,654 (CAD68,615), stock based payments of RMB874,131 (CAD136,733) and professional fees of RMB316,863 (CAD$49,564).

The loss for the quarter ended September 30, 2011 of RMB1,672,001 (CAD$261,536) was mainly attributable to professional fees of RMB628,074 (CAD$98,244) and share based payments of RMB997,622 (CAD$156,049).

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.