Primeline Energy Holdings Inc.
(an exploration stage company)

Consolidated Financial Statements
March 31, 2013

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July 29, 2013

Independent Auditor's Report

To the Shareholders of Primeline Energy Holdings Inc.

We have audited the accompanying consolidated financial statements of Primeline Energy Holdings Inc., which comprise the consolidated statement of financial position as at March 31, 2013 and 2012 and the consolidated statement of loss and comprehensive loss, cash flows and changes in equity for the years ended March 31, 2013 and March 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial

position of Primeline Energy Holdings Inc. as at March 31, 2013 and March 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Primeline Energy Holdings Inc.'s ability to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Primeline Energy Holdings Inc.

(an exploration stage company)
Consolidated Statement of Financial Position
As at March 31, 2013 and 2012
(In Chinese Yuan Renminbi)

	Note	Mar 31, 2013 RMB	Mar 31, 2012 RMB	Mar 31, 2013 CAD$ (note 3.3)
Non-current assets				
Exploration and evaluation assets	7	444,002,914	427,178,383	72,585,076
Property, plant and equipment	8	14,317	13,023	2,341
		444,017,231	427,191,406	72,587,417
Current assets				
Cash and cash equivalents		5,038,944	3,763,467	823,761
Prepaid expenses and deposit		1,812,152	2,162,407	296,248
		6,851,096	5,925,874	1,120,009
Total assets		450,868,327	433,117,280	73,707,426
Equity attributable to shareholders				
Share capital	9	858,406	858,406	140,331
Reserves		506,752,773	500,712,782	82,843,350
Accumulated deficit		(103,464,121)	(99,167,029)	(16,914,193)
Total equity		404,147,058	402,404,159	66,069,488
Non-current liabilities				
Shareholder loan	13(e)	33,249,513	17,966,082	5,435,592
Advances from a related party	13(f)	9,378,758	10,379,224	1,533,228
		42,628,271	28,345,306	6,968,820
Current liabilities				
Accounts payable and accrued liabilities		3,954,528	1,618,742	646,481
Cash calls payable	13 (b)	138,470	749,073	22,637
		4,092,998	2,367,815	669,118
Total liabilities		46,721,269	30,713,121	7,637,938
Total shareholders' equity and liabilities		450,868,327	433,117,280	73,707,426

Nature of operations and going concern (Note 1)

Approved by the Board of Directors

Director

Director

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

Primeline Energy Holdings Inc.

(an exploration stage Company)
Consolidated Statement of Loss and Comprehensive Loss
For the year ended March 31, 2013 and 2012
(In Chinese Yuan Renminbi)

	Notes	2013 RMB	2012 RMB	2013 CAD$ (note 3.3)
Expenses				
Auditor's remuneration		(762,603)	(620,623)	(124,669)
Bank charges		(86,220)	(111,373)	(14,095)
Business promotion		(1,420,626)	(498,236)	(232,242)
Directors remuneration and benefit	13(d)	(1,458,278)	(1,742,260)	(238,398)
Office expenses		(631,076)	(522,998)	(103,168)
Professional fees		(2,572,931)	(2,324,964)	(420,620)
Salary and benefit		(2,081,158)	(1,780,019)	(340,225)
Travel		(244,203)	(114,337)	(39,922)
Operating Loss		(9,257,095)	(7,714,810)	(1,513,339)
Finance income	11	4,397,489	2,464	718,896
Exchange gain, net		562,514	875,939	91,959
Loss and comprehensive loss		(4,297,092)	(6,836,407)	(702,484)
Basic and diluted loss per share		(0.05)	(0.07)	(0.007)
Weighted average number of common shares outstanding		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
(In Chinese Yuan Renminbi)

	Attributable to equity owners of the company					
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Deficit	Total
Balance – April 1, 2011	858,406	437,506,225	1,352,977	58,579,327	(92,330,622)	405,966,313
Loss and comprehensive loss for the year	-	-	-	-	(6,836,407)	(6,836,407)
Discount on shareholder loan	-	-	599,046	-	-	599,046
Contribution 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	437,506,225	2,298,099	60,908,458	(99,167,029)	402,404,159
Loss and comprehensive loss for the year	-	-	-	-	(4,297,092)	(4,297,092)
Discount on shareholder loan	-	-	2,703,383	-	-	2,703,383
Share based payments	-	-	-	3,336,608	-	3,336,608
Balance – March 31, 2013	858,406	437,506,225	5,001,482	64,245,066	(103,464,121)	404,147,058
Balance –March 31, 2013, in CAD$ (**note 3.3**)	140,331	71,523,006	817,636	10,502,708	(16,914,193)	66,069,488

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 the year ended March 31, 2013 and 2012
(in Chinese Yuan Renminbi)

	Note	2013 RMB	2012 RMB	2013 CAD$ (note 3.3)
Cash flows from operating activities				
Loss for the year		(4,297,092)	(6,836,407)	(702,484)
Items not involving cash				
Depreciation		5,774	334	944
Finance income fair value adjustment of Advances from related party		(1,416,709)	-	(231,602)
Finance income fair value adjustment of Shareholder loan		(2,978,387)	-	(486,903)
Stock-based compensation	10	2,503,899	1,564,310	409,334
Unrealized foreign exchange gain		(523,444)	(705,432)	(85,571)
		(6,705,959)	(5,977,195)	(1,096,282)
Changes in non-cash working capital items:				
Prepaid expenses and deposit		350,255	51,394	57,259
Accounts payable and accrued liabilities		463,659	(831,841)	75,798
		813,914	(780,447)	133,057
		(5,892,045)	(6,757,642)	(963,225)
Cash flows from investing activities				
Expenditures on Exploration and evaluation assets	7	(11,411,068)	(14,333,980)	(1,865,468)
Purchase of property, plant and equipment	8	(7,068)	(13,357)	(1,155)
		(11,418,136)	(14,347,337)	(1,866,623)
Cash flows from financing activities				
Shareholder loan	13(e)	19,266,218	18,824,615	3,149,619
Cash call from a related party	13(b)	3,258,000	2,432,000	532,614
Cash utilized for a related party	13(b)	(3,868,603)	(3,183,824)	(632,435)
		18,655,615	18,072,791	3,049,798
Increase/(decrease) in cash and cash equivalents		1,345,434	(3,032,188)	219,950
Effect of foreign exchange rate on cash and cash equivalents		(69,957)	(292,005)	(11,436)
Cash and cash equivalents - Beginning of year		3,763,467	7,087,660	615,247
Cash and cash equivalents - End of year		5,038,944	3,763,467	823,761

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. The Company 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 contracts in relation to Block 25/34 (the Petroleum Contract) and Block 33/07 (the New Contract). The 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), a company wholly owned by Mr. Victor Hwang, chairman, director and majority shareholder of the Company. Block 25/34 covering 84.7 sq kms is 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 hold 36.75% and 12.25% interests respectively.

Block 33/07 covers an offshore area of 5,877 sq kms enclosing Block 25/34. PECL and PPC are collectively the Contractors. The Contractors are responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development. The Contractors' interest is shared 75%/25% by PECL and PPC. Primeline Energy Operations International Ltd (The wholly owned subsidiary of the Company, PEOIL) is the operator for Block 33/07.

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 and is unable to self-finance operations. The Company has significant cash requirements to meet its overhead requirements, carry out its exploration activities under New Contract and, with effect from the date the Overall Development Program (ODP) for the LS36-1 gas field development is approved, the Company must fund its share of the LS 36-1 gas field development costs. The Company's portion of the development costs are estimated to be approximately RMB 1,400 million (CAD$229 million). The Company has 3 months after notification of the ODP approval to finance its obligation for sucb development costs. To address the need for LS36-1 development funding the Company has a signed loan memorandum with the China Development bank. This loan is subject to final approvals and securitization. The Company has also entered into a term sheet with GEMS, a Hong Kong based manager of private equity funds under which GEMS is to purchase up to US$ 15 million of unsecured Convertible Bonds to be issued by the Company. The issuance of the Convertible Bonds will provide funds for general working capital and exploration expenditure requirements, if needed, over the next 12 months. In addition, the Company has agreed to issue US$6.7 million of unsecured Convertible Bonds to its Chairman and President, Mr. Victor Hwang on the same terms as GEMS's in settlement of the existing interest free working capital loan previously made available by Mr. Hwang to the Company. 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 classifications used, and such adjustments would be material.

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

These consolidated financial statements are presented under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of July 29, 2013, 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 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 financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Consolidation

Subsidiaries

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

PECL and PEOIL are registered and have been granted business licenses by the Shanghai Administration of Industry and Commerce in China.

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 financial statements are presented in Chinese Yuan Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at 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.

The financial statements are translated into Canadian dollars using a convenience translation at the rate of RMB6.117 to Canadian dollar $1, which is the exchange rate published in South China Morning Post as of March 31, 2013.

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

3.4 Exploration and evaluation assets (E&E)

Once the legal right to explore has been acquired, costs directly associated with an exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of an oil and gas resource is considered to be established when proved and/or probable reserves are determined to exist. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, the impairment costs are charged to exploration and evaluation expense. Upon determination of proved and/or probable reserves, E&E assets attributed to those reserves are first tested for impairment and then reclassified to oil and gas development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

E&E assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and upon transfer to property, plant and equipment whereby they are allocated to cash-generating units based on geographical proximity and other factors.

3.5 Property, plant and equipment (PP&E)

Property, plant and equipment may include the costs of oil and gas development and production wells and costs for the associated plant and for general corporate assets. PP&E is recorded at cost less accumulated depletion and depreciation and accumulated impairment losses, net of recovered impairment losses.

Machinery and equipment are depreciated at a straight–line basis at the rate of 30% per annum.

3.5.1 Oil and gas development and production assets

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of oil and natural gas reserves. These costs may include proved property acquisitions, development drilling (including delineation wells), completion, gathering and infrastructure, decommissioning costs, amounts transferred from E&E assets and directly attributable internal costs.

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

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

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

3.6 Impairment of non-current assets

The carrying amounts of the Company's property, plant and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset (or CGU) exceeds the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset (or CGU). A reversal of an impairment loss is recognized immediately in earnings.

E&E assets are assessed for impairment when they are reclassified to oil and gas properties, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

3.7 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 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 on the same basis as the related asset. 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.

3.8 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 discbarged, cancelled or expired.

The Company classifies its financial assets as loans and receivables. Loans and receivables and 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.

3.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held on 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.

3.10 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 classified as other financial liabilities and are measured at amortised cost using the effective interest method.

3.11 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.

3.12 Current and deferred income tax

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

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

Deferred income tax is 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 tbe 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 Company 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.

3.13 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. The fair value is determined 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 share-based compensation 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 Company 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.

3.14 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues from the sale of petroleum, natural gas and other related products are recorded when title passes to an external party.

3.15 Per share amounts

Basic earnings (loss) per share is computed by dividing the net earnings or loss for the period by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if the Company's stock options and warrants outstanding are exercised into common shares. Diluted shares are calculated using the treasury stock method which assumes that any proceeds received from "in-the-money" stock options would be used to buy back common shares at the average market price for the period. No adjustment is made to the weighted average number of common shares if the result of these calculations is anti-dilutive.

3.16 Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as finance costs in the statement of comprehensive income (loss) in the period in which they are incurred.

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, 2013 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.

The Company is still assessing the impact of this standard. 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. This standard has no impact on the Company.

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. This standard has no impact on the Company.

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, shareholder loan, cash calls payable, and advances from a related party.

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

(in Chinese Yuan Renminbi)

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

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

(a) Currency risk

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

	Mar 31, 2013	Mar 31, 2012
Cash and cash equivalents of:		
- CAD$	CAD$141,146	CAD$100,315
- US$	US$150,313	US$48,053
- GBP	GBP5,296	GBP1,508
- HK$	HK$3,106,926	HK$2,771,258
Shareholder loan of US$	(US$6,025,641)	(US$2,948,718)
Advance from a related party of CAD$	(CAD$1,700,000)	(CAD$1,700,000)

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:

	Mar 31, 2013 RMB	Mar 31, 2012 RMB
- CAD$	953,551	1,009,241
- US$	3,652,104	1,826,259
- GBP	4,983	1,520
- HK$	248,865	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 and has been informed that the CDB credit committee has approved in principle the granting of the loan of US$300 million substantially on the terms of the Loan Memorandum, subject to concluding arrangements with the Company for security before the Development reaches the design production level specified in the Overall Development Program ("ODP") in addition to that provided for in the Loan Memorandum. In addition, there is a shareholder loan facility available for drawndown of US$624,359 as at March 31, 2013. Subsequently on June 5, 2013 the Company also entered into a term sheet with GEMS, a Hong Kong based manager of private equity funds under which GEMS is to purchase up to US$ 15 million of unsecured Convertible Bonds to be issued by the Company. The issuance of the Convertible Bonds will provide funds for general working capital and exploration expenditure requirements, if needed, over the next 12 months. 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 Company has minimal interest rate risk.

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.
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 Company 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 recovery of assets carrying values.

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, the 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.

(in Chinese Yuan Renminbi)

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	16,824,531
Balance at March 31, 2013	444,002,914
	CAD$
Balance at March 31, 2013 in CAD$ (note 3.3)	72,585,076

The Company and PPC are the Contractors under a petroleum contract dated March 24, 2005 (Petroleum Contract) with 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 previous petroleum contract between the Contractors and CNOOC which was in effect during the period from December 12, 1994 to February 28, 2005. PECL 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 was 15 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 kilometers of 3D seismic surveys in phase one) and the minimum cost of completing these exploration operations was to be US$6,000,000, which is equivalent to RMB 37,914,000, in the first phase and US$5,000,000, which is 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, was to be relinquished.

The Petroleum Contract provided that the Contractors would fund all costs incurred during the exploration period, and CNOOC had 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 provided that the Contractors would 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 was to 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.

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 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. Under these agreements, CNOOC became the operator for the development and production operations and is proceeding with the development pending full government approval of the ODP which was submitted to the Government for approval on June 6, 2012.

During the year under review and to date, CNOOC has carried out and completed the engineering design and procurement; offshore pipeline laying and offshore section of the sales pipeline; platform jacket fabrication and installation; fabrication and installation of the platform topsides; phase one development drilling of four producing well and the majority of the engineering work for the onshore gas processing terminal of the LS36-1 gas field development project. CNOOC proceeded with the full development operations in order to maintain the development schedule of first gas by end 2013/early 2014.

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 remains 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 previously was 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 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) will use the production facilities built for the LS36-1 gas field.

(in Chinese Yuan Renminbi)

The New Contract is held by PECL and PPC in the same proportions in which they held the Petroleum Contract being 75% / 25%. PEOIL continues to be the exploration operator on Block 33/07 under the New Contract.

8 Property, plant and equipment

	Computer& Office Equipment	Computer & Office Equipment
	RMB	CAD$ **(note 3.3)**
COST		
At April 1, 2011	-	-
Additions	13,357	2,184
At March 31, 2012	13,357	2,184
Additions	7,068	1,156
At March 31, 2013	20,425	3,340
DEPRECIATION AND IMPAIRMENT		
At April 1, 2011	-	-
Charge for the year	334	55
At March 31, 2012	334	55
Charge for the year	5,774	944
At March 31, 2013	6,108	999
CARRYING VALUES	RMB	CAD$
At April 1, 2011	-	-
At March 31, 2012	13,023	2,129
At March 31, 2013	**14,317**	**2,341**

(in Chinese Yuan Renminbi)

9 Share capital

Ordinary equity share capital

	Number
Authorized	
Ordinary shares with a par value of US$0.001 each as at March 31, 2012 and March 31, 2013	500,000,000

Allotted and fully paid	Number	Share capital RMB
At April 1, 2011, March 31, 2012 and March 31, 2013	94,041,246	858,406

	Number	Share capital CAD$
At March 31, 2013	94,041,246	140,331

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 April1, 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	(1,050,000)	1.68		
Granted	3,605,000	0.59		
As at March 31, 2013	5,505,000	0.49	1,766,660	0.37

On July 27, 2011, the Company granted 2,100,000 options at an exercise price of CAD$0.32 per share to directors, officers, employees and consultants, of which 200,000 options expired and 1,900,000 options expire on July 26, 2016. Share based payment of RMB437,441 (CAD$71,512) and RMB182,990 (CAD$29,915) (2012 – RMB1,562,898 and nil) was recognized as Directors remuneration & benefit and Salary & benefit respectively in the consolidated statement of loss and comprehensive loss. RMB307,961 (CAD$50,345) (2012 – RMB764,821) was capitalized as exploration and evaluation assets.

(in Chinese Yuan Renminbi)

The share options shall vest according to the following schedule:

Vesting date	Number of Share options
July 27, 2011	700,000
July 27, 2012	700,000
July 27, 2013	700,000

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 CAD$0.50 per share in consideration of D&D Securities Inc's ongoing service on corporate marketing and investor relations. The options will expire on June 25, 2017. Share based payment of RMB926,996 (CAD$151,544) (2012 – RMB Nil) was recognized as business promotion in the consolidated statement of loss and comprehensive loss .

The share options shall vest according to the following schedule:

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

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD$0.60 per share to directors, officers, employees and consultants. Such options expire on September 26, 2017. Share based payment of RMB453,191 (CAD$74,087), RMB238,522 (CAD$38,993) and RMB264,759 (CAD$43,282) was recognized as Directors remuneration and benefit, professional fees and salary & benefit respectively in the consolidated statement of loss and comprehensive loss. RMB524,748 (CAD$85,785) was capitalized as exploration and evaluation assets.

(in Chinese Yuan Renminbi)

The share option shall vest according to the following schedule:

Vesting date	Number of Share options
Upon date of full repayment of the existing shareholder loans	1,035,000
One year after the date of full repayment of the existing shareholder loans	1,035,000
Two years after the date of full repayment of the existing shareholder loans	1,035,000

As at July 29, 2013 there are 94,021,246 shares and 5,505,000 stock options outstanding.

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

	For the year ended March 31 2013	2012
Risk-free interest rate	1.34%	1.25%
Expected life	5 years	5 years
Expected volatility	98%	89%
Expected dividends	Nil	Nil

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			
CAD$2.00	850,000	0.60 years	850,000
CAD$0.32	2,100,000	4.30 years	699,992
	2,950,000	**3.23 years**	**1,549,992**
As at March 31, 2013			
CAD$0.32	1,900,000	3.33 years	1,266,660
CAD$0.50	500,000	4.24 years	500,000
CAD$0.60	3,105,000	4.49 years	-
	5,505,000	**4.07 years**	**1,766,660**

(in Chinese Yuan Renminbi)

11 Finance Income

	Mar 31, 2013 RMB	Mar 31, 2012 RMB	Mar 31, 2013 CAD$
Gain on extinguishment of Shareholder loan under revised loan facility	2,978,387	-	486,903
Gain on extinguishment of Related Party's loan under revised loan facility	1,416,709	-	231,602
Bank interest income	2,393	2,464	391
	4,397,489	**2,464**	**718,896**

During the period, Mr. Victor Hwang, the majority shareholder, director and officer of the Company, and PPC, a Company owned by Mr. Hwang, further agreed with the Company and extended the period not to demand repayment on the amount drawn down from the Shareholder's loan and the balance due to related party from not prior to April 30, 2013 and March 31, 2013 to April 30, 2014 and April 30, 2014 respectively. Based on this, The Company recalculated the fair value of the financial liabilities under the revised terms and the revised effective interest rate of 10%. The calculations showed significant differences of more than 10% change to the present value of the loans under the revised terms when comparing to the old terms. Therefore, in compliance with the relevant standard, the changes are accounted for as extinguishments of the liabilities. The gains due to the extinguishment of the financial liabilities have been recognized in the 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, over a one year or three years period, from commencement of oil/gas production. The Company has nil deferred income tax.

13 Related party transactions

During the year ended March 31, 2013, the Company paid or accrued the following:

a) London office rent of RMB 379,408 (CAD$62,025) (2012–RMB391,808) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the majority shareholder, director and officer of the Company.

b) Cash call received from and utilized for, PPC, a company owned by Mr. Hwang, the majority shareholder, director and officer of the Company for its 25% contribution to exploration costs were RMB 3,258,000 (CAD$532,614) (2012: RMB2,432,000) and RMB3,868,603 (CAD$632,435) (2012: RMB3,183,284) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB 138,470 (CAD$22,637) (2012: RMB 749,073).

c) Fees and benefits paid to Key management personnel of the Company were RMB5,474,268 (CAD$894,927) (2012 – RMB 4,766,130) and share based payment of RMB1,048,161 (CAD$171,352) (2012 – RMB1,081,382) were recognized for the 2,260,000 (2012- 975,000) share options granted to these key management personnel.

d) Fees and benefits paid or accrued to directors were RMB567,644 (CAD$92,798) (2012 – RMB 633,150) and share based payment of RMB890,633 (CAD$145,600) (2012 – RMB1,109,110) were recognized for the 1,750,000 (2012- 1,000,000) share options granted to the directors. During the year, one of the non–executive directors ceased to hold office.

e) Shareholder loan of RMB 33,249,513 (CAD$5,435,592) (2012- RMB 17,966,082) represents interest-free loans with a principal balance of RMB 37,455,385 (CAD$6,123,162) (2012 – RMB 18,565,128) due to Mr. Victor Hwang, the majority shareholder, director and officer of the Company, which consists of drawdown from three loan facilities, which were US$4 million, US$1.65 million and US$1 million respectively. The first of these loan facilities was issued in May 2011. Mr. Victor Hwang has further agreed not to demand repayment on amounts drawn down on the US$4 million, US$1.65 million and US$1 million facilities prior to April 30, 2014, July 31, 2014 and July 31, 2015 respectively. The Principle balance in 2012 was related to the loan facility of US$4,000,000 and the repayment date was not prior to April 31, 2013 as at March 31, 2012. The interest-free non-current shareholder loan has been recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB 2,703,383 (CAD$441,946) (2012 – RMB 599,046) and the subsequent capitalized interest of RMB 1,964,535 (CAD$321,160) (2012 – nil) were calculated using an effective rate of 10% per annum. RMB2,978,387(CAD$486,903) (2012 – RMB Nil) has been recognized as a gain on extinguishment during the year (see Note 11). The remaining amount available for drawdown is US$624,359 as at March 31, 2013.

f) Advances from a related party of RMB 9,378,758 (CAD$1,533,228) (2012 – RMB10,379,224) represents an interest-free balance with a principal amount of RMB10,398,900 (CAD$1,700,000) (2012 – RMB 10,725,300) from PPC. The opening balance of the advances payable at April 1, 2011 was RMB 11,463,250. On June 30, 2012, PPC and the Company further agreed 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 has been recorded at fair value on inception and carried at amortized cost. The discount on advances from a related party of nil (2012 – RMB 346,076) and the subsequent capitalized interest of RMB 744,092 (CAD$121,643) (2012 – nil) were calculated using an effective rate of 10% per annum. RMB1,416,709 (CAD$231,602) has been recognized as a gain on extinguishment during the year (see Note 11).

These transactions 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 surveys. The minimum expenditures for such exploration activities are estimated to be RMB 100 million of which the Company's 75% obligation would be a total of RMB75.6 million. Subsequent to year end, the Company is in discussion with seismic companies to secure a boat for the planned 600 sq kms 3D seismic survey.

b) The Company entered into a lease agreement for the rental of PEHI's Shanghai office in the PRC. 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 an 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 (Implementation Agreement), CNOOC agreed to provide all funding in relation to the development operations until the ODP approval is obtained. The Company has no obligation to fund cash calls nor is it liable for costs expended by CNOOC for the development until such date. With effect from the date ODP approval is obtained, the Company will become liable and will have the obligation to fund its share of the development costs according to the Implementation Agreement. This is currently anticipated to be approximately RMB 1,400 million (CAD$228 million) being the Company's 36.75% share of the total development budget for LS36-1 Gas field. 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 in relation to the development operations. The Company and PPC have signed a Loan Memorandum for an amount of US$300 million with China Development Bank (CDB) with respect to financing their share of the costs of the LS36-1 Development. CDB credit committee has approved in principle the granting of the loan substantially on the terms of the Loan Memorandum, subject to concluding arrangements with the Company and PPC for security before the Development reaches the design production level specified in the ODP in addition to that provided for in the Loan Memorandum .

15 Subsequent Events

a) On June 5, 2013, the Company entered into a term sheet with GEMS, a Hong Kong based manager of private equity funds, under which GEMS is to purchase up to US$15 million of unsecured Convertible Bonds to be issued by Primeline (the "Bonds"). The term sheet is non-binding and subject to the conclusion of formal documentation.

b) On June 19, 2013, the Company agreed to issue US$6.7 million of unsecured Convertible Bonds to its Chairman and President, Mr. Victor Hwang in settlement of the existing interest free working capital loan previously made available by Mr. Hwang to the Company. The issuance of the Bonds to Mr. Hwang will nevertheless remain conditional on receipt of all necessary regulatory approvals.

Primeline Energy Holdings Inc. (TSX Venture-PEH) ("the Company")
Management Discussion and Analysis for the Year Ended March 31, 2013

INTRODUCTION

This management discussion and analysis is dated July 29, 2013 and takes into account information available up to that date and should be read in conjunction with the annual consolidated financial statements for the year ended March 31, 2013 which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in this discussion and analysis are expressed in Chinese Yuan Renminbi ("RMB") unless otherwise noted. Canadian dollar equivalents are provided for information only. Such presentation in Canadian dollars is not in accordance with IFRS and should not be construed as a representations that the RMB amounts shown could be readily converted, realized or settled in Canadian dollars at the date of these interim financial statements or any other date. The exchange rate of one Canadian dollar for RMB published in the South China Morning Post on March 31, 2013 was RMB 6.117 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 ("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 ("LS36-1 Development"), the timing of first gas production from the LS36-1 gas field, the results of exploration of the Company's other exploration prospects. They are based on assumptions that approval of the ODP by the National Development and Reform Commission ("NDRC") 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

Primeline is an independent oil and gas exploration and production company, focusing exclusively on oil and gas opportunities in China during the last 20 years with first gas production expected within the next 12 months. 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, President and majority shareholder. Petroleum Contract 25/34, dated March 24, 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 is the Operator holding a 51% interest with the Company and PPC holding a 36.75% and 12.25% interest 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.

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

Primeline and CNOOC are implementing a rolling development and exploration strategy in the Lishui Basin with CNOOC operating the LS36-1 Development under Petroleum Contract 25/34 and Primeline leading the effort on exploration under Petroleum Contract 33/07. The strategy is to establish the first production infrastructure in the southern East China Sea which will provide an anchor for ongoing exploration and development work in the remainder of the petroliferous Lishui Basin.

The LS36-1 Development is progressing smoothly with first gas expected around the end of 2013 or early 2014 which will bring cash inflow to the Company and established access to the dynamic local gas market in Eastern China. The confirmation of the market and the creation of the production facility will significantly enhance the value of any production from LS36-1 gas field's incremental reserves and prospective resources, and also of any additional resources which may be discovered, in Block 33/07. Experience in the oil industry in general is that once infrastructure is established in a basin, additional resources will be found to tie into that infrastructure and Primeline has a very large area surrounding the infrastructure for future expansion through its rolling development and exploration strategy.

QUARTERLY AND ANNUAL PROGRESS REVIEW

This financial year has been a challenging yet very productive year for the Company's project as the bulk of the construction work for the LS36-1 Development has been completed as planned by CNOOC as operator. At the time of the writing, the development work is circa 95% completed and is on schedule and on budget. The anticipated commissioning and connection to the provincial gas grid will be completed in the second half of the year and CNOOC is preparing for first gas production around the end of 2013 or early 2014. On the exploration side, Primeline and CNOOC entered into the Block 33/07 Petroleum Contract which provides Primeline with a large exploration area surrounding the LS36-1 gas field.

DEVELOPMENT OF LS 36-1 GAS FIELD

EIA Approval and Overall Development Program (ODP)

The safety assessment approval for the Development was granted on June 28, 2011; the occupational hazard assessment approval was granted on December 13, 2011 and the pipeline route approval was granted on February 27, 2012 by the relevant government departments. However, the environmental impact assessment ("EIA") was the major obstacle which delayed the completion of the final regulatory approvals. The EIA passed the expert review by the State Oceanic Administration ("SOA") in July 2011, after the first review in April 2011. Following revision, the EIA was formally submitted by CNOOC to the SOA in September 2011. The EIA for LS36-1 Development was finally approved by the SOA in May 2012, clearing the path for the regulatory approval for civil construction.

The final ODP was filed with NDRC for confirmation in June 2012. Subsequently, NDRC appointed China National Petroleum Corporation Consulting Limited ("CNPC Consulting") to review the LS36-1 Development's ODP. The review meeting was held in Beijing in August 2012 when the expert panel critically reviewed the ODP and passed the ODP with minor comments. The formal review report was then submitted by CNPC Consulting Limited to NDRC. NDRC subsequently requested additional information in relation to the terminal site which CNOOC supplied in July 2013 and CNOOC and Primeline are now waiting for the confirmation of approval of the ODP. Separately, the preliminary ocean area usage approval was granted by SOA on February 4, 2013.

Development Engineering Design and Procurement

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. With the progress in obtaining the regulatory approval on environmental matters, CNOOC proceeded with the full development operations in order to maintain the development schedule of first gas by end 2013/early 2014.

During the year under review and to date, CNOOC has carried out the following work on the LS36-1 gas field development:

- Completed the engineering design and procurement of the development project
- Completed the laying of the offshore pipeline in September 2012, and the offshore section of the sales gas pipeline in April 2013
- Completed the platform jacket fabrication and completed the installation of the platform jacket in July 2012
- Completed the phase one development drilling and completion work for four producing wells in April 2013
- Completed the fabrication of the platform topsides, and successfully installed it on the platform jacket in May 2013
- Completed the majority of the engineering work for the onshore gas processing terminal.

The platform, offshore pipeline and the terminal achieved mechanical completion in June 2013 and the production operation teams have been working on the platform and in the terminal since June 2013, carrying out production preparation and commissioning work.

Primeline is very pleased with the progress of the development operated by CNOOC. The remainder of the development construction work, which will be carried out in next few months, consists of:

- the completion of the last 3.6 km (onshore section) of the sales gas pipeline in order to connect to the Zhejiang Provincial Gas Pipeline and gas distribution facility in Wenzhou
- the completion of a small jetty next to the terminal for the transportation of CO2 and hydrocarbon liquid products
- the completion of commissioning of the platform, terminal and pipeline
- the completion of joint commissioning of the production facility including the wells
- trial production

So far, the total development engineering work is anticipated to be in line with the time schedule as planned three years ago, and on budget.

Once all development commissioning is completed, the connection to the provincial gas grid and Wenzhou city local grid will be implemented. CNOOC and Primeline are working closely with Zhejiang provincial government, Zhejiang Gas Development Co. and Wenzhou Municipality Government and other entities to ensure a smooth connection process. Full gas production is expected in 2014.

Development Finance

Under the terms of the agreements relating to the Development entered into by the Company, PPC and CNOOC in March 2010, Primeline has no obligation to fund its share of the development costs for the LS36-1 Development until 3 months after ODP approval has been obtained. In the meantime, CNOOC continues to be responsible for all work in order to ensure that the Development remains on schedule. As noted above, CNOOC and Primeline are also working closely in seeking to obtain the NDRC approval of the ODP as soon as possible.

In May 2010, PECL and PPC, and CDB entered into a loan memorandum to confirm the terms on which CDB agreed to provide a loan facility for PECL and PPC's share of the costs of the Development. PECL, PPC and CDB signed a revised loan memorandum ("Loan Memorandum") on November 2, 2012, which took into account the various changes and progress made in relation to the Development since 2010 and replaced the previous loan memorandum. Pursuant to the Loan Memorandum, CDB has agreed to provide a loan facility to PECL and PPC, as joint borrowers, in order to fund a portion of their respective share of the costs of the Development.

The Loan Memorandum provides that the principal amount of the loan is US$ 300 million and will 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 million, including the development costs of RMB ¥3,811 million, 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 million and PECL and PPC's share is approximately RMB ¥1,867 million. The loan amount of US$300 million equated to approximately RMB ¥1,873 million at the time of the signing of Loan Memorandum. The Loan Memorandum provides that PECL and PPC are collectively required to contribute an amount, referred to as "project equity", towards the total investment amount quoted in the ODP, which project equity amount is stated to be RMB ¥493 million. PECL and PPC have between them already invested approximately RMB ¥454 million, being the exploration expenditure incurred in relation to Block 25/34, which amount is included in the ODP investment budget, and therefore the amount required to be contributed in the future by them pursuant to the Loan Memorandum, as "project equity funding" is approximately RMB ¥39 million (approximately US$ 6.3 million). PECL will be required to contribute 75% of this amount, being RMB29million (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 was subject to the approval of CDB's Credit Committee. Conditions precedent for entry into a legally binding loan agreement set out in the Loan Memorandum also included the 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 reached and that PECL and PPC are able to timely repay principal and interest on the loan until such time. Such support is to cease once such production level has been achieved.

On January 29, 2013, CDB's Credit Committee approved in principle the granting of the loan substantially on the terms of the Loan Memorandum, subject to satisfactorily concluding arrangements with Primeline for the provision of additional security to cover the period until the Development reaches the design production level specified in the ODP. Primeline and CDB are now in the process of negotiating and finalising the formal loan agreement, the security arrangements and documentation.

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.

The formal loan agreement will be signed after the approval of the ODP by the NDRC.

EXPLORATION AND NEW PETROLEUM CONTRACT

On July 5, 2011, the Company, PPC and CNOOC, entered into a Memorandum of Agreement ("MOA") which amended Petroleum Contract 25/34 and agreed on the general teams of a new Petroleum Contract; the Company, PPC and CNOOC signed the new Petroleum Contract 33/07 on June 15, 2012. The main terms of Petroleum Contract 33/07 are as follows:

- Area: The exploration area under Petroleum Contract 33/07 covers the same area as that previously held under Petroleum Contract 25/34 but with an additional adjacent area to the east making a new contract area of 5,877 sq kms (1.45 million acres).

- Term: Petroleum Contract 33/07 has a seven year exploration period divided into three exploration periods of three, two and two years each with a minimum work commitment. In the first phase, the minimum commitment is two exploration wells to 2500m plus 600 sq kms of 3D seismic, the commitment for each of the second and third phases is one exploration well to 2500m.

- Future discoveries in Block 33/07 (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 of free use of the production facilities built for the LS36-1 gas field.

- All other terms are the same as Petroleum Contract 25/34 and Petroleum Contract 33/07 is held by the Company and PPC in the same proportions in which they hold Petroleum Contract 25/34 of 75%/25%.

Accordingly, the Company and PPC will continue to have 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 through 2013 and produce thereafter.

Petroleum Contract 33/07 was subject to ratification by the Ministry of Commerce in China and such ratification was granted in September 2012. The effective date of the Petroleum Contract 33/07 is November 1, 2012.

The main purpose of the LS 36-1 development is to provide a production infrastructure in the Lishui Basin so that the Company can capitalise on its access to the dramatically growing Chinese gas market by expanding its reserves through exploration in the remainder of the basin. Block 33/07 provides the exploration fairway for long term growth. Surrounding the LS36-1 Development, Primeline has a 737 sq km of 3D seismic data by which several prospects have been identied and mapped. Primeline's first step in exploration under the new licence is to expand the 3D seismic coverage so that more drillable targets can be mapped in the remainder of the block which is currently only covered by 2D seismic data. Exploration drilling is planned for 2014 after establishing production from LS36-1.

Since November 2012, Primeline has been working closely with CNOOC in trying to secure a 3D seismic boat for the 3D seismic acquisition work. The seismic work will be implemented as soon as the boat is secured.

RESERVE UPDATE

The Company appointed McDaniel and Associates Consultants Limited ("McDaniel") of Calgary to update its independent evaluation of its assets, including the LS36-1 gas field and Block 33/07, effective on March 31, 2013. McDaniel is one of the world's leading petroleum consulting firms specialising in geological studies, reserves evaluations, resource assessments, economic evaluations and petroleum engineering studies. McDaniel has been the independent engineering auditor for the Company since 2007 and has witnessed the full progress of the LS36-1 Development from feasibility study, ODP, to currently approaching completion. They have reviewed the full current development status, including the engineering, development drilling and commercial progress, as well as ODP report and the Gas Sale Agreements as at March 31, 2013 and have updated their evaluation of the natural gas and natural gas liquid reserves located in the LS36-1 gas field in accordance with the standards set out in Canadian National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook (COGEH). McDaniel's evaluation estimates that the LS36-1 gas field has total project recoverable Proved Reserves of 50.4 Bcf of natural gas and 2.5 MMbbl of natural gas liquids, and Proved + Probable Reserves of 66.9 Bcf of natural gas and 3.5MMbbl of natural gas liquid, which translates to Company net Proved + Probable Reserves of 25.8Bcf of gas and 1.4MMbbl of natural gas liquid. The total Proved + Probable Barrel Oil Equivalent (BOE) (using conversion of 6 Mcf = 1 boe) for the project is 14.7MMbbl and net to the Company is 5.7MMbbl. The total Proved + Probable + Possible BOE for the Project is 19.1MMbbl, and net to Company at 7.3MMbbl. McDaniel's current Proved + Probable reserves are similar to these used in the ODP by CNOOC.

Summary of Reserves (1) (2)

	Natural Gas Reserves			LPG Reserves (3)		
	Property Gross	Company Gross	Company Net	Property Gross	Company Gross	Company Net
Reserve Category	MMcf	MMcf	MMcf	Mbbl	Mbbl	Mbbl
Total Proved Reserves	50,380	18,515	19,732	1,888	694	739
Probable Reserves	16,564	6,087	6,054	621	228	227
Proved Plus Probable Reserves	66,944	24,602	25,786	2,509	922	966
Possible Reserves	20,575	7,561	7,536	771	283	282
Proved + Prob. + Poss. Reserves	87,519	32,163	33,323	3,280	1,205	1,249

	Condensate & Oil Reserves			BOE Reserves (4)		
	Property Gross	Company Gross	Company Net	Property Gross	Company Gross	Company Net
Reserve Category	Mbbl	Mbbl	Mbbl	Mbbl	Mbbl	Mbbl
Total Proved Reserves	655	241	269	10,940	4,021	4,297
Probable Reserves	359	132	137	3,740	1,375	1,373
Proved Plus Probable Reserves	1,014	373	406	14,680	5,395	5,670
Possible Reserves	259	95	99	4,460	1,639	1,637
Proved + Prob. + Poss. Reserves	1,274	468	505	19,140	7,034	7,308

(1) Company Gross reserves are based on Company working interest share of the reserves.
(2) Company Net reserves are based on Company share of total Cost and Profit Oil and due to repayment of past costs are greater than Company Gross.
(3) Barrels of LPG are based on density of Propane
(4) Based on gas/boe conversion of 6 to 1 and LPG/boe conversion of 1 to 1.

Under the reporting definitions, there is a 90% probability, under a specific set of economic circumstances, that the quantities actually recovered will equal or exceed the estimated Proved Reserves; at least a 50% probability that the quantities actually recovered will equal or exceed the estimated Proved plus Probable Reserves. Possible Reserves are these additional reserves that are less certain to be developed than Probable Reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of Proved plus Probable plus Possible Reserves.

Based on the Framework Agreement with Zhejiang Gas and McDaniel's view of the full product price, together with the development costs spent to date and commercial arrangement made by Primeline relating to the Development, McDaniel estimates a net present value before tax for the LS36-1 project's Proved + Probable Reserves, net to Primeline, of US$115 million at a discount rate of 5% and US$203million, again net to Primeline, when the Possible Reserves in LS36-1 are included. It should be noted that these estimates of net present values are not estimates of fair market value.

ESTIMATED COMPANY SHARE OF NET PRESENT VALUES OF THE RESERVES
AS OF MARCH 31, 2013
$M US (1) (2) (3) (4)

	Net Present Value Discounted At				
	0%	**5%**	**10%**	**15%**	**20%**
Before Income Taxes					
Total Proved Reserves	72,879	40,269	14,958	(4,982)	(20,899)
Probable Reserves	98,145	74,890	58,664	47,057	38,565
Total Proved & Probable Reserves	171,023	115,158	73,622	42,075	17,666
Possible Reserves	125,466	88,689	64,710	48,604	37,487
Total Proved & Probable & Possible Reserves	296,490	203,847	138,332	90,679	55,154
After Income Taxes					
Total Proved Reserves	68,038	36,547	12,050	(7,287)	(22,750)
Probable Reserves	73,577	56,536	44,660	36,169	29,957
Total Proved & Probable Reserves	141,616	93,083	56,710	28,882	7,207
Possible Reserves	94,065	66,636	48,785	36,811	28,555
Total Proved & Probable & Possible Reserves	235,680	159,719	105,495	65,693	35,763

(1) Based on forecast prices and costs at April 1, 2013 (see Price Forecasts in Table 9).
(2) Interest expenses and corporate overhead etc. were not included.
(3) The net present values may not necessarily represent the fair market value of the reserves.
(4) Company Share of Net Present Values are after the deduction of Chinese Corporation Tax.

In their 2012 report, McDaniel assigned no Proved reserves and the Probable gas reserve was 119bcf for the project and 44bcf net to the Company. Following the development progress and development drilling results, Proved Reserves have now been assigned but the Proved + Probable is reduced, compared to the previous evaluation. The downward adjustment of the reserves is partly as a result of a reduction in the northern part of the field where the development drilling results showed a reduced structural elevation in that part of the field causing most of the developed reservoir there to be below a conservative gas water contact. All initial production will now come from the southern part of the field where sufficient well capacity has been assured to meet the contracted gas deliverability. Developed reserves are not assigned as McDaniel noted that there were still significant expenditure to be spent on the Development as of March 31, 2013 (although subsequently the work has been largely completed as noted above). McDaniel's current Proved + Probable reserves is very similar to the reserves used by CNOOC in the ODP.

Additionally, McDaniel evaluates that there are substantial Prospective Resources in the other sands and in the lower geological section beneath the developed zone which as yet cannot be assigned as Reserves under COGEH guidelines. McDaniel has estimated 143Bcf of unrisked mean and 72 Bcf of risked mean Prospective Resources within the LS36-1 gas field with average chance of success of over 50%, or over 70% for the upper 3 main sands. McDaniel states that "Primeline intends to drill the prospective resources from the production platform using some of the 5 unused drilling slots, and, if successful, the resources could be upgraded to reserves and added to the production stream".

McDaniel also evaluated the 3D area surrounding the LS36-1 and assessed that within the three prospects close to LS36-1 Development in the 3D area, there could be a mean unrisked Prospective Resources of 499Bcf with a chance of success ranging between 14% and 28%.

Primeline Energy Holdings Inc. **Table 10**

LS36-1 Development Area & Block 33/07 - People's Republic of China

Summary of Resource Estimates - Property Gross Values (1) (2) (3)

Effective March 31, 2013

Prospective Resources - Natural Gas

		Prospective Resources - Unrisked (1)				Risked (2) Resources	Chance of
		Low	Median	Mean	High	Mean	Success
Prospect	Zone	MMcf	MMcf	MMcf	MMcf	MMcf	%
LS36-1	Paleocene - M1-0	2,725	5,513	6,370	11,087	4,644	73
LS36-1	Paleocene - M1-1 South	1,759	3,965	4,779	8,931	3,484	73
LS36-1	Paleocene - M2	5,046	14,464	18,934	38,513	11,360	60
LS36-1	Paleocene - M3	14,187	31,725	37,210	67,032	26,047	70
LS36-1	Paleocene - L1	8,351	23,772	32,862	69,109	16,431	50
LS36-1	Paleocene - L2	2,379	5,363	6,444	11,822	2,577	40
LS30-8	Paleocene - M2	9,136	27,070	36,195	73,148	7,601	21
LS36-1 Development Area (Sub-total)		**43,584**	**111,871**	**142,794**	**279,641**	**72,145**	
LS30-3	Paleocene - M1-1	14,631	32,007	38,820	71,810	10,870	28
LS30-3	Paleocene - M1-2	43,387	178,831	315,221	727,991	88,262	28
LS29-2	Paleocene - M1-2	19,016	47,306	60,442	117,561	14,506	24
LS29-3	Paleocene - M1-2	7,090	22,601	32,984	70,620	7,124	22
LS35-1	Paleocene - M1-2	14,592	38,521	51,441	105,723	7,407	14
Block 33/07 (Sub-total)		**98,715**	**319,266**	**498,907**	**1,093,706**	**128,170**	
Total (3)		**142,299**	**431,137**	**641,701**	**1,373,347**	**200,314**	

Prospective Resources - Condensate

		Prospective Resources - Unrisked (1)				Risked (2) Resources	Chance of
		Low	Median	Mean	High	Mean	Success
Prospect	Zone	Mbbl	Mbbl	Mbbl	Mbbl	Mbbl	%
LS36-1	Paleocene - M1-0	27	65	79	149	58	73
LS36-1	Paleocene - M1-1 South	17	47	60	118	44	73
LS36-1	Paleocene - M2	52	171	237	497	142	60
LS36-1	Paleocene - M3	144	374	465	897	325	70
LS36-1	Paleocene - L1	75	251	365	792	182	50
LS36-1	Paleocene - L2	20	57	72	141	29	40
LS36-1 Development Area (Sub-total)		**335**	**965**	**1,277**	**2,594**	**780**	
LS30-3	Paleocene - M1-1	176	454	584	1,143	164	28
LS30-3	Paleocene - M1-2	553	2,505	4,732	11,025	1,325	28
LS29-2	Paleocene - M1-2	233	667	909	1,878	218	24
LS29-3	Paleocene - M1-2	74	265	408	901	88	22
LS35-1	Paleocene - M1-2	146	452	646	1,363	93	14
Block 33/07 (Sub-total)		**1,182**	**4,343**	**7,279**	**16,310**	**1,888**	
Total (3)		**1,517**	**5,308**	**8,557**	**18,903**	**2,668**	

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

(2) These are partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.

(3) Total based on an arithmetic aggregation of all the Prospect/Zones and as such there is >90 percent chance of exceeding the overall Low Total and <10 percent chance of exceeding the overall High Total

McDaniel & Associates
Consultants Ltd.

McDaniel commented that "The development of the LS36-1 field provides an infrastructure hub in the area which may be utilized in any development of the nearby prospects; there is spare capacity in this infrastructure to accommodate future expansion. It is envisaged that development of these prospects will either be by wells drilled from the existing platform using the 5 spare well slots on the platform, by subsea wells or using a well head platform with all processing at the infrastructure hub. Incremental development costs will therefore be low and so that the economics for any additional resources which may be discovered within LS36-1 field itself or in the nearby identified prospects would be significantly enhanced. The initial production plateau from 1P, 2P and 3P reserves may then be extended and/or the production level can be increased subject to reserve volumes and market demand."

The effective date of McDaniel's evaluation is March 31, 2013. A summary of the McDaniel's report is available on Primeline's website: http://www.pehi.com.

EXPLORATION AND WORKING CAPITAL FINANCING

The anticipated cash flow from the LS36-1 development is significant but it may not commence in time to fund the 3D seismic work planned in 2013 as a commitment under Petroleum Contract 33/07. Furthermore, the Company has been supported in the past two years by its Chairman's generous provision of interest free loans for working capital which at March 31, 2013, amounted to RMB37,455,385 (CAD$6,123,163) in principal.

In May 2011, the Company entered into an agreement with Victor Hwang, its Chairman, President and majority shareholder, under which Mr. Hwang granted the Company an interest free loan facility of up to US$ 4 million (the "Facility"). This facility is repayable on demand any time after April 30, 2014. By the end of September 2012, the Company had fully drawn down this facility. On June 1, 2012, Mr. Victor Hwang agreed to provide another interest free loan facility of up to US$ 1.65 million to the Company for working capital purposes, repayable on demand any time after July 31, 2014. By the end of March 2013, the Company had fully drawn down this Facility. On March 31, 2013, Mr. Victor Hwang further granted an interest free loan facility of up to US$ 1 million to the Company for working capital purposes, repayable on demand any time after July 31, 2015.

On June 5, 2013, in order to secure funds for the proposed 3D seismic programme in 2013 and future working capital, the Company entered into a non-binding term sheet, with GEMS, a Hong Kong based manager of private equity funds, under which a fund managed by GEMS is to subscribe for up to US $15 million of unsecured convertible bonds to be issued by Primeline (the "Bonds").

The Bonds are for 3 years with one year optional extension in certain circumstances to be agreed, and are to be issued in 3 tranches of US $5 million each, to be drawn down within 9 months following entering into binding documentation. The first tranche must be drawn down within one month of binding documentation. Interest will be payable semi-annually at 7%, to be paid in cash at the rate of 4.5% per annum, plus in Common Shares at the rate of 2.5% per annum at a deemed price per share equal to the volume weighted average trading price of the shares for the preceding 15 days. The Bonds will be convertible at the option of the holder at any time from 12 months from the date of issue to maturity into Common Shares at a conversion price of CAD $0.57 per share for the first tranche, CAD $0.785 per share for the second tranche, and CAD $1.00 per share for the third tranche. The Company will have the right to require conversion of some of the Bonds in circumstances to be agreed.

On redemption, Primeline will be required to pay such amount as results in an aggregate return to GEMS of 10% per annum as of the date of redemption, with an additional premium in the event of a change of control.

GEMS will be entitled to nominate one voting member, and one alternate or observer to Primeline's board of directors. GEMS will have the right to participate in all further issuances of common shares, or securities convertible into common shares, by the Company, on a basis pro rata to its holding of common shares assuming conversion of the issued Bonds. The Company will pay GEMS a fee consisting of 1.88% of the principal amount of the Bonds in cash payable at the time of drawdown of the first tranche and 1.88% in Common Shares payable within 3 or 6 months from first drawdown.

Issue of the Bonds will be subject to customary conditions including satisfactory completion of due diligence, receipt of all required regulatory approvals, absence of adverse material change and approval of GEMS' Investment Committee.

GEMS was founded in 1998 as an independent investment company whose sole business is the management of private equity funds. This focus sets GEMS apart from the broad activities pursed by diversified financial institutions running private equity funds as part of their asset management portfolio. Asia has always been the core focus for GEMS with a strong and experienced team having spent the majority of their working lives in the region. As a result, GEMS has extensive networks and relationships across the region. The team is made up of a diverse mix of individuals with relevant experience in both direct investment and the resources industry, headed by the well- known businessmen Simon Murray.

If the Company enters into binding documentation with GEMS with respect to the Bonds, the Company will have its 12 months exploration work and working capital fully funded.

On June 19, 2013 the Company's Chairman, President and major shareholder, Victor Hwang agreed to convert all his outstanding interest free working capital loan of US$6.7 million to the Company into convertible bonds to be issued on the same terms as the Bonds with a fee at the same rate and terms, save that there will be no change of control premium. The issuance of the bonds to Mr. Hwang will be effected at the same time as the Bonds and is conditional on receipt of all necessary regulatory approvals.

GENERAL FINANCIAL OUTLOOK

As at March 31, 2013, the Company held cash resources of RMB5,038,944 (CAD$823,761), and loans in principal amount from Victor Hwang, its Chairman, President and majority shareholder, and PPC in the order of RMB37,455,385 (CAD$6,123,162) and RMB 10,398,900 (CAD$1,700,000) respectively.

The Company and PPC have signed a Loan Memorandum with CDB with respect to financing their share of the costs of the LS36-1 Development. The Loan Memorandum has been approved in principle by CDB's credit committee and CDB and Primeline are in the process of negotiating the formal loan contract which will be subject to NRDC approval of the ODP.

Per discussion above, the Company is in the process of securing funding for 12 months of working capital plus for the 3D seismic work and once such funding has been completed the Company will be fully funded for its planned exploration work over the next 12 months.

The Company anticipates starting to receive significant cash flow from the production of LS36-1 once the Development is fully completed and sales to Zhejiang Gas have commenced. Such cash flow is anticipated to commence during the next financial year.

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 and development 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, to carry out its exploration activities under the Petroleum Contract 33/07 and to fund its share of the LS36-1 Development costs commencing 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 year ended March 31, 2013 were a loss of RMB4,297,092 (CAD$702,484). Compared to the loss of RMB6,836,407 last year, the decrease in loss of RMB2,539,315 (CAD$415,124) during the year was largely due to gain on extinguishment of shareholder loan and related party loan of RMB2,978,387 (CAD486,903) and RMB1,416,709 (CAD$231,602) respectively resulted from the changes in loan repayment terms and higher percentage of effective interest rate applied. The result was partly offset by increases in share based payments of RMB939,589 (CAD$153,603) and salary and benefit of RMB301,139 (CAD$49,230) during the year.

Liquidity and Capital Resources

As at March 31, 2013, net current assets of the Company amounted to RMB2,758,098 (CAD$450,891), whereas net current assets of RMB3,558,059 were recorded as at March 31, 2012. The decrease in net current assets of RMB799,961 (CAD$130,777) was mainly due to the decrease of prepaid expenses and deposit of RMB350,255 (CAD$57,259) and increase of accounts payable and accrued liabilities of RMB2,335,786 (CAD$381,852) and partially offset by the increase of cash and cash equivalents of RMB1,275,477 (CAD$208,513) in the current period.

During the year, exploration and evaluation assets of RMB16,824,531(CAD$2,750,455) were incurred and financed mainly by the shareholder's loan. As at March 31, 2013, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB444,002,914(CAD$72,585,076) (March 31, 2012 – RMB427,178,383) and can be broken down as follows:

	Mar 31, 2013 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	40,087,083	37,628,360
Pre-development study	32,583,351	32,583,351
Interests on funding of deferred exploration expenditures	23,763,779	21,057,521
Deferred costs acquired from Primeline Petroleum Corporation	8,485,080	8,485,080
Project administration	27,015,498	24,542,417
Salaries and benefits	42,920,078	35,948,587
Travel and accommodation	18,198,064	15,983,086
Contract signing fee	3,143,202	3,143,202
	44,002,914	427,178,383

As at March 31, 2013, the Company had total assets of RMB450,868,327 (CAD$73,707,426) (March, 2012 – RMB433,117,280) which were financed by net shareholders' equity of RMB404,147,058 (CAD$66,069,488) (March 31, 2012 – RMB402,404,159), shareholder loan of RMB33,249,513 (CAD$5,435,592) (March 31, 2012 – RMB17,966,082) and advance from a related party of RMB9,378,758 (CAD$1,533,228) (March 31, 2012 – RMB10,379,224).

As at March 31, 2013, the Company had net current assets of RMB2,758,098 (CAD$450,891) (March 31, 2012 – RMB3,558,059) and had a accumulated deficit of RMB103,464,121 (CAD$16,914,193) (March 31, 2012 – RMB99,167,029). Following the grant of the loan facility of US$1 million from Mr. Victor Hwang on the March 31, 2013 and the anticipated issuance of US$ 15 million convertible bonds to GEMS the Company will be fully funded to meet the capital requirement for the working capital plus the 3D seismic work for the planned exploration work over the next 12 months. And also as previously mentioned, additional financing will be required in respect of the LS36-1 Development once the ODP is approved. . The Company has already secured an in principle offer for a loan of US$ 300 million from China Development Bank (CDB) to finance its share of the LS36-1 Development costs and the Company is actively investigating other funding options to address further 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, shareholder loan, cash calls payable, and advances from a related party.

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

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

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

(a) Currency risk

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

	Mar 31, 2013	Mar 31, 2012
Cash and cash equivalents of:		
- CAD$	CAD$141,146	CAD$100,315
- US$	US$150,313	US$48,053
- GBP	GBP5,296	GBP1,508
- HK$	HK$3,106,926	HK$2,771,258
Shareholder loan of US$	(US$6,025,641)	(US$2,948,718)
Advance from a related party of CAD$	(CAD$1,700,000)	(CAD$1,700,000)

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:

	Mar 31, 2013	Mar 31, 2012
	RMB	RMB
CAD$	953,551	1,009,241
US$	3,652,104	1,826,259
GBP	4,983	1,520
HK$	248,865	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 and has been informed that the CDB credit committee has approved in principle the granting of the loan of US$300 million substantially on the terms of the Loan Memorandum, subject to concluding arrangements with the Company for security before the Development reaches the design production level specified in the Overall Development Program ("ODP") in addition to that provided for in the Loan Memorandum. In addition, there is a shareholder loan facility available for drawdown of US$624,359 as at March 31, 2013. Subsequently, on June 5, 2013, the Company entered into a term sheet with GEMS, a Hong Kong based manager of private equity funds under which GEMS is to purchase up to US$ 15 million of unsecured Convertible Bonds to be issued by the Company. The issuance of the Convertible Bonds will provide funds for general working capital and the proposed 3D seismic program, over the next 12 months. 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 annual consolidated financial statements as at March 31, 2013.

(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.

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 currently is not subject to externally imposed capital requirements.

Additional information regarding capital management is disclosed in note 1 of annual consolidated financial statements as at March 31, 2013.

Transactions with Related Parties and Directors

During the year ended March 31, 2013, the Company paid or accrued the following:

a) London office rent of RMB 379,408 (CAD$62,025) (2012–RMB391,808) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the majority shareholder, director and officer of the Company .

b) Cash call received from and utilized for, PPC, a company owned by Mr. Hwang, the majority shareholder, director and officer of the Company for its 25% contribution to exploration costs were RMB 3,258,000 (CAD$532,614) (2012: RMB2,432,000) and RMB3,868,603 (CAD$632,435) (2012: RMB3,183,284) respectively The balance is recorded as a cash call payable on the statement of financial position amounting to RMB 138,470 (CAD$22,637) (2012: RMB 749,073).

c) Fees and benefits paid to Key management personnel of the Company were RMB5,474,268 (CAD$894,927) (2012 – RMB 4,766,130) and share based payment of RMB1,048,161 (CAD$171,352) (2012 – RMB1,081,382) were recognized for the 2,260,000 (2012 - 975,000) share options granted to these key management personnel.

d) Fees and benefits paid or accrued to directors were RMB567,644 (CAD$92,798) (2012 – RMB 633,150) and share based payment of RMB890,633 (CAD$145,600) (2012 – RMB 1,109,110) were recognized for the 1,750,000 (2012 – 1,000,000) share options granted to the directors. During the year, one of the non –executive directors ceased to hold office.

e) Shareholder loan of RMB 33,249,513 (CAD$5,435,592) (2012- RMB 17,966,082) represents interest-free loans with a principal balance of RMB 37,455,385 (CAD$6,123,162) (2012 – RMB 18,565,128) due to Mr. Victor Hwang, the majority shareholder, director and officer of the Company, which consists of drawdown from three loan facilities, which were US$ 4 million, US$1.65 million and US$1 million respectively. The first of these loan facilities was issued in May 2011. Mr. Victor Hwang has further agreed not to demand repayment on amounts drawn down on the US$4 million, US$1.65 million and US$1 million facilities prior to April 30, 2014, July 31, 2014 and July 31, 2015 respectively. The principal balance in 2012 was related to the loan facility of US$4 million and the repayment date was not prior to April 31, 2013 as at March 31, 2012. The interest-free non-current shareholder loan has been recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB 2,703,383 (CAD$441,946) (2012: RMB 599,046) and the subsequent capitalized interest of RMB 1,964,535 (CAD$ 321,160) (2012 – nil) were calculated using an effective rate of 10% per annum. RMB2,978,387 (CAD$486,903) (2012 – RMB Nil) has been recognized as a gain on extinguishment during the year. The remaining amount available for drawdown is US$624,359 as at March 31, 2013.

f) Advances from a related party of RMB 9,378,758 (CAD$1,533,228) (2012 – RMB10,379,224) represents an interest-free balance with a principal amount of RMB10,398,900 (CAD$1,700,000) (2012 – RMB 10,725,300) from PPC. The opening balance of the advances payable at April 1, 2011 was RMB 11,463,250. On June 30, 2012, PPC and the Company further agreed that repayment of this amount will not be demanded either in whole or in part from the Company prior to April 30, 2014. The interest-free non-current advance from a related company has been recorded at fair value on inception and carried at amortized cost. The discount on advances from a related party of nil (2012: RMB 346,076) and the subsequent capitalized interest of RMB 744,092 (CAD$ 121,643) (2012: nil) were calculated using an effective rate of 10% per annum. RMB1,416,709 (CAD$231,602) has been recognized as a gain on extinguishment during the year.

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

Subsequent Events

a) On June 5, 2013, the Company entered into a term sheet with GEMS, a Hong Kong based manager of private equity funds, under which GEMS is to purchase up to US$15 million of unsecured Convertible Bonds to be issued by Primeline (the "Bonds"). The term sheet is non-binding and subject to the conclusion of formal documentation.

b) On June 19, 2013, the Company agreed to issue up to US$6.7 million of unsecured Convertible Bonds to its Chairman and President, Mr. Victor Hwang in settlement of the existing interest free working capital loan previously made available by Mr. Hwang to the Company. The issuance of the bonds to Mr. Hwang is conditional on receipt of all necessary regulatory approvals.

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. The Company is still assessing the impact of this standard. 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. This standard has no impact on the Company.

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. This standard has no impact on the Company.

Outstanding Share Data

On July 27, 2011, the Company granted 2,100,000 options at an exercise price of CAD$0.32 per share to directors, officers, employees and consultants, of which 200,000 options expired and 1,900,000 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 CAD$0.50 per share. The option expires on June 25, 2017.

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD$0.60 per share to directors, officers, employees and consultants. Such options expire on September 26, 2017.

As at July 29, 2013 there are 94,021,246 shares and 5,505,000 stock options outstanding.

Quarter ended March 31, 2013

The Company's results for the quarter ended March 31, 2013 were a gain of RMB508,236 (CAD$83,086), compared to a loss of RMB2,010,881 for the same quarter last year and the difference of RMB2,519,117 (CAD$411,822) was mainly due to the gain recognized from extinguishment of shareholder loan and related party loan of RMB2,431,963 (CAD397,574) and of RMB1,107,040 (CAD180,978) under the revised terms and the revised effectively interest rate of 10% The calculation showed significant differences of more than 10% change to the present value of the loans under the revised terms when comparing to the old terms. Therefore, in compliance with the relevant standard, the changes are accounted for as extinguishment of the liabilities and have been recognized as financial income in the consolidated statement of loss and comprehensive loss for the period.

During the quarter exploration expenditures of RMB6,909,434 (CAD$1,129,546) were incurred, comprised mainly of travel and accommodation of RMB525,719 (CAD$85,944), project administration of RMB630,982 (CAD$103,152), Technical evaluations & management of RMB1,446,111 (CAD$236,409), interest on funding of deferred exploration expenditures of RMB2,156,518 (CAD$352,545) and salaries and benefits of RMB2,150,104 (CAD$351,496). These amounts were capitalized as exploration and evaluation assets.

Selected Annual Information

The following information was extracted from the Company's consolidated audited financial statements:

Years Ended March 31,	2013 RMB	2012 RMB	2011 RMB	2013 CAD
Net (loss) income	(4,297,092)	(6,836,407)	(7,966,322)	(702,484)
Per basic share	(0.05)	(0.07)	(0.09)	(0.007)
Per diluted share	(0.05)	(0.07)	(0.09)	(0.007)
Total assets	450,868,327	433,117,280	422,119,283	73,707,426
Total long-term financial liabilities	42,628,271	28,345,306	11,463,250	6,968,820

The decrease in loss of RMB2,539,315 (CAD$415,124) between 2013 and 2012 was mainly due to the gain recognized from the extinguishment of shareholder loan and related party loan under the revised terms and effective interest rate for the amount of RMB2,978,387 (CAD$486,903) and RMB1,416,709 (CAD$231,602) respectively, and which was partially offset by increased business promotion of RMB922,390 (CAD$150,791) which was the stock based compensation relating to the share options of 500,000 granted to D&D security consideration of D&D Securities Inc. during this year for its ongoing service on corporate marketing and investor relations for the Company.

The increase in long - term liabilities from year to year was due to the increases in Shareholder' s loan granted to the Company by Mr. Victor Hwang, the majority shareholder, director and officer of the Company.

Summary of Quarterly Results (Unaudited)

Quarter Ended	2013 Mar 31 CAD	2013 Mar 31 RMB	2012 Dec 31 RMB	2012 Sep 30 RMB	2012 Jun 30 RMB
Net loss	83,086	508,236	(2,364,487)	(2,091,568)	(349,273)
Per basic share	(0.0056)	(0.034)	(0.025)	(0.022)	(0.004)
Per diluted share	(0.0056)	(0.034)	(0.025)	(0.022)	(0.004)

Quarter Ended	2012 Mar 31	2011 Dec 31	2011 Sep 30	2011 Jun 30
Net loss	(2,010,881)	(1,730,711)	(1,672,001)	(1,422,814)
Per basic share	(0.002)	(0.018)	(0.018)	(0.015)
Per diluted share	(0.002)	(0.018)	(0.018)	(0.015)

The gain for the quarter ended March 31, 2013 of RMB508,236(CAD$83,086) was mainly attributable to gain from extinguishment of shareholder loan and related party loan under revised loan facility of RMB2,431,963 (CAD397,574) and of RMB1,107,040 (CAD180,978) respectively and partially offset by auditor's remuneration of RMB717,524 (CAD$117,300), salary and benefit of RMB554,547 (CAD$90,657) and professional fees of

RMB1,348,031(CAD$220,375).

The loss for the quarter ended March 31, 2012 of RMB2,010,881 was mainly attributable to office expenses of RMB478,961, professional fees of RMB292,982 and auditors' remuneration of RMB599,355.

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.