Primeline Energy Holdings Inc.

(an exploration stage company)

Interim Consolidated Financial Statements
September 30, 2013
(Unaudited)

Primeline Energy Holdings Inc.

(an exploration stage company)
Consolidated Statement of Financial Position (Unaudited)
As at September 30, 2013 and March 31, 2013
(In Chinese Yuan Renminbi)

	Note	Sep 30, 2013 RMB	Mar 31, 2013 RMB	Sep 30, 2013 CAD$ (note 3.3)
Non-current assets				
Exploration and evaluation assets	7	453,735,267	444,002,914	76,412,137
Property, plant and equipment	8	11,253	14,317	1,895
		453,746,520	444,017,231	76,414,032
Current assets				
Cash and cash equivalents		5,146,881	5,038,944	866,770
Prepaid expenses and deposit		919,622	1,812,152	154,871
		6,066,503	6,851,096	1,021,641
Total assets		459,813,023	450,868,327	77,435,673
Equity attributable to shareholders				
Share capital	9	858,406	858,406	144,562
Reserves		510,353,877	506,752,773	85,947,100
Accumulated deficit		(106,482,482)	(103,464,121)	(17,932,382)
Total equity		404,729,801	404,147,058	68,159,280
Non-current liabilities				
Shareholder loan	13(e)	43,682,803	33,249,513	7,356,484
Advances from a related party	13(f)	8,410,046	9,378,758	1,416,310
		52,092,849	42,628,271	8,772,794
Current liabilities				
Accounts payable and accrued liabilities		2,509,802	3,954,528	422,668
Cash calls payable	13 (b)	480,571	138,470	80,931
		2,990,373	4,092,998	503,599
Total liabilities		55,083,222	46,721,269	9,276,393
Total shareholders' equity and liabilities		459,813,023	450,868,327	77,435,673

Nature of operations and going concern (Note 1)

Approved by the Board of Directors

(signed) "*Brian Chan*" — Director

(signed) "*Ming Wang*" — 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 (Unaudited)
For the three months and six months ended September 30, 2013 and September 30, 2012
(In Chinese Yuan Renminbi)

	Notes	Three Months Ended September 30			Six Months Ended September 30		
		2013	2012	2013	2013	2012	2013
		RMB	RMB	CAD$	RMB	RMB	CAD$
				(note 3.3)			**(note 3.3)**
Expenses							
Auditor's remuneration		-	(45,079)	-	-	(45,079)	-
Bank charges		(13,666)	(30,825)	(2,301)	(27,378)	(61,990)	(4,611)
Business promotion		(143,766)	(870,282)	(24,211)	(270,024)	(951,311)	(45,474)
Directors remuneration and benefit		(381,008)	(272,881)	(64,164)	(795,481)	(629,300)	(133,964)
Office expenses		(114,732)	(140,293)	(19,322)	(289,482)	(223,318)	(48,751)
Professional fees		(906,776)	(316,862)	(152,707)	(2,114,400)	(407,096)	(356,079)
Salary and benefit		(414,001)	(407,845)	(69,721)	(904,151)	(916,998)	(152,265)
Travel		(153,660)	(10,509)	(25,877)	(375,949)	(12,998)	(63,312)
Operating Loss		(2,127,609)	(2,094,576)	(358,303)	(4,776,865)	(3,248,090)	(804,456)
Finance income	11	1,111,871	606	187,246	1,112,446	857,293	187,343
Exchange gain (loss), net		(24,112)	2,402	(4,061)	646,058	(50,044)	108,801
Loss and comprehensive loss		(1,039,850)	(2,091,568)	(175,118)	(3,018,361)	(2,440,841)	(508,312)
Basic and diluted loss per share		(0.011)	(0.022)	(0.002)	(0.032)	(0.026)	(0.005)
Weighted average number of common shares outstanding		94,041,246	94,041,246	94,041,246	94,041,246	94,041,246	94,041,246

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

Primeline Energy Holdings Inc.

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

	Attributable to equity owners of the company					
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Deficit	Total
Balance – April 1, 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
Loss and comprehensive loss for the period	-	-	-	-	(3,018,361)	(3,018,361)
Discount on shareholder loan	-	-	2,023,485	-	-	2,023,485
Share based payments	-	-	-	1,577,619	-	1,577,619
Balance – September 30, 2013	858,406	437,506,225	7,024,967	65,822,685	(106,482,482)	404,729,801
Balance –Sep 30, 2013, in CAD$ **(note 3.3)**	144,562	73,679,054	1,183,054	11,084,992	(17,932,382)	68,159,280

	Attributable to equity owners of the company					
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Deficit	Total
Balance – April 1, 2012	858,406	437,506,225	2,298,099	60,908,458	(99,167,029)	402,404,159
Loss and comprehensive loss for the period	-	-	-	-	(2,440,841)	(2,440,841)
Discount on shareholder loan	-	-	364,080	-	-	364,080
Share based payments	-	-	-	1,372,807	-	1,372,807
Balance – September 30, 2012	858,406	437,506,225	2,662,179	62,281,265	(101,607,870)	401,700,205

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 (Unaudited)
For the three months ended and six months ended September 30, 2013 and September 30, 2012
(in Chinese Yuan Renminbi)

	Note	Three Months Ended September 30			Six Months Ended September 30		
		2013	2012	2013	2013	2012	2013
		RMB	RMB	CAD$ **(note 3.3)**	RMB	RMB	CAD$ **(note 3.3)**
Cash flows from operating activities							
Loss for the period		(1,039,850)	(2,091,568)	(175,118)	(3,018,361)	(2,440,841)	(508,312)
Item not involving cash							
Depreciation		1,532	1,532	258	3,064	2,710	516
Finance income from fair value adjustment of advance from related company		(1,111,304)	-	(187,151)	(1,111,304)	(309,669)	(187,151)
Finance income from fair value adjustment of shareholder loan		-	-	-	-	(546,424)	-
Amortization of imputed interest		-	63,130	-	-	117,758	-
Stock-based compensation	10	480,729	874,131	80,958	1,017,294	1,156,580	171,319
Unrealized foreign exchange (gain) loss		5,442	(3,196)	916	(775,955)	43,458	(130,675)
		(1,663,451)	(1,155,971)	(280,137)	(3,885,262)	(1,976,428)	(654,303)
Changes in non-cash working capital items:							
Prepaid expenses and deposit		28,994	(4,165)	4,883	892,530	(2,048)	150,307
Accounts payable and accrued liabilities		(951,262)	(335,576)	(160,199)	(976,604)	(1,006,016)	(164,467)
		(922,268)	(339,741)	(155,316)	(84,074)	(1,008,064)	(14,160)
		(2,585,719)	(1,495,712)	(435,453)	(3,969,336)	(2,984,492)	(668,463)
Cash flows from investing activities							
Expenditures on exploration and evaluation assets	7	(3,009,421)	(2,689,586)	(506,807)	(7,443,221)	(5,711,323)	(1,253,490)
Purchase of property, plant and equipment	8	-	-	-	-	(7,068)	-
		(3,009,421)	(2,689,586)	(506,807)	(7,443,221)	(5,718,391)	(1,253,490)
Cash flows from financing activities							
Shareholder loan	13(e)	7,369,177	2,013,782	1,241,020	11,204,040	6,889,680	1,886,837
Cash call from a related party	13(b)	875,790	1,638,000	147,489	2,960,120	2,457,000	498,505
Cash utilized for a related party	13(b)	(1,444,454)	(674,139)	(243,256)	(2,618,019)	(1,652,477)	(440,892)
		6,800,513	2,977,643	1,145,253	11,546,141	7,694,203	1,944,450
Increase (decrease) in cash and cash equivalents		1,205,373	(1,207,655)	202,993	133,584	(1,008,680)	22,497
Effect of foreign exchange rate on cash and cash equivalents		44,265	173	7,455	(25,647)	16,643	(4,319)
Cash and cash equivalents - Beginning of period		3,897,243	3,978,912	656,322	5,038,944	3,763,467	848,592
Cash and cash equivalents - End of period		5,146,881	2,771,430	866,770	5,146,881	2,771,430	866,770

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 (PEOIL), a wholly owned subsidiary of the Company, is the operator for Block 33/07.

These interim 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$229 million). The Company has 3 months after notification of the ODP approval to finance its obligation for such development costs. To address the need for LS36-1 development funding, the Company has a signed loan memorandum with China Development Bank for a loan facility of US$ 300 Million. This loan is subject to final approvals. The Company had previously entered into a term sheet with GEMS, a Hong Kong based manager of private equity funds, under which GEMS was to purchase up to US$ 15 million of unsecured Convertible Bonds. Subsequent to September 30, 2013 the Company decided not to proceed with the Convertible Bond issue. See Note 15.

If the going concern assumption were not appropriate for these interim 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

These interim 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 interim consolidated financial statements are based on IFRS issued and outstanding as of November 28, 2013, the date the Board of Directors approved the statements.

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

3.1 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the 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 interim 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 interim 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 interim consolidated financial statements are presented in Chinese Yuan Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

(b) Transactions and balances

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

(c) Convenience Translation into Canadian Dollar Amounts

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

The interim financial statements are translated into Canadian dollars using a convenience translation at the rate of RMB5.938 to Canadian dollar $1, which is the exchange rate published in South China Morning Post as of September 30, 2013.

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

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 discharged, 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 the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for circumstances where the timing of the reversal of the temporary difference is controlled by the 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.

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 period/years ended as follows:

	Sep 30, 2013	Mar 31, 2013
Cash and cash equivalents of:		
- CAD$	CAD$102,610	CAD$141,146
- US$	US$202,015	US$150,313
- GBP	GBP130,074	GBP5,296
- HK$	HK$2,344,383	HK$3,106,926
Shareholder loan of US$	(US$7,853,846)	(US$6,025,641)
Advance from a related party of CAD$	(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:

	Sep 30, 2013 RMB	Mar 31, 2013 RMB	Sep 30, 2013 CAD$
- CAD$	948,530	953,551	159,739
- US$	4,682,921	3,652,104	788,636
- GBP	128,513	4,983	21,642
- HK$	184,972	248,865	31,151

(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, subsequent to September 30, 2013 the Company secured an additional interest free shareholder loan from Mr. Hwang, the Chairman of the Company. See Note 15. 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.

7 Exploration and evaluation assets

	Exploration and evaluation assets
	RMB
Balance at March 31, 2012	427,178,383
Additions	16,824,531
Balance at March 31, 2013	444,002,914
Additions	9,732,353
Balance at September 30, 2013	453,735,267
	CAD$
Balance at September 30, 2013 in CAD$ (note 3.3)	76,412,137

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.

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.

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.

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 period 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 continued with the final development operations, particularly the final connection to the Zhejiang Provincial Grid with anticipated first gas by the second quarter of 2014.

8 Property, plant and equipment

	Computer & Office Equipment	**Computer & Office Equipment**
	RMB	CAD$ **(note 3.3)**
COST		
At April 1, 2012	13,357	2,249
Additions	7,068	1,190
At March 31, 2013	20,425	3,440
Additions	-	-
At September 30, 2013	20,425	3,440
DEPRECIATION AND IMPAIRMENT		
At April 1, 2012	334	56
Charge for the year	5,774	972
At March 31, 2013	6,108	1,029
Charge for the year	3,064	516
At September 30, 2013	9,172	1,545

CARRYING VALUES	RMB	CAD$
At April 1, 2012	13,023	2,193
At March 31, 2013	14,317	2,411
At September 30, 2013	**11,253**	**1,895**

9 Share capital

Ordinary equity share capital

	Number
Authorized	
Ordinary shares with a par value of US$0.001 each as at April 1, 2012, March 31, 2013 and September 30, 2013	500,000,000

Allotted and fully paid	**Number**	**Share capital RMB**
At April 1, 2012, March 31, 2013 and September 30, 2013	94,041,246	858,406

	Number	**Share capital CAD$**
At September 30, 2013	94,041,246	144,562

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
As at Apri1, 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	0.36
Granted	-	-		
As at September 30, 2013	5,505,000	0.49	2,400,000	0.36

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 will expire on July 27, 2016. Share based payments of RMB67,570 (CAD$11,379) and RMB34,630(CAD$5,832) (2012 – RMB313,375 and RMB128,483) were recognized as Directors remuneration & benefit and Salary & benefit respectively in the interim consolidated statement of loss and comprehensive loss. Share based payment of RMB58,277(CAD$9,814) (2012 – RMB216,227) was capitalized as exploration and evaluation assets.

The share options vested according to the following schedule:

Vesting date	Number of Share options
July 27, 2011	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.

The share options vested according to the following schedule:

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

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD$0.60 per share to directors, officers, employees and consultants. Such options will expire on September 26, 2017. Share based payments of RMB433,586 (CAD$73,019), RMB228,203 (CAD$38,431) and RMB253,305 (CAD$42,658) were recognized as Directors remuneration and benefit, professional fees and salary & benefit respectively in the interim consolidated statement of loss and comprehensive loss. Share based payment of RMB502,048 (CAD$84,548) was capitalized as exploration and evaluation assets.

The share options 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 November 28, 2013 there are 103,468,518 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 quarter ended September 30	
	2013	2012
Risk-free interest rate	1.34%	1.34%
Expected life	5 years	5 years
Expected volatility	98%	98%
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, 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**

As at September 30, 2013

CAD$0.32	1,900,000	2.82 years	1,900,000
CAD$0.50	500,000	3.74 years	500,000
CAD$0.60	3,105,000	3.99 years	-
	5,505,000	**3.57 years**	**2,400,000**

11 Finance Income

	For the six months ended		
	Sep 30, 2013 RMB	Sep 30, 2012 RMB	Sep 30, 2013 CAD$
Gain on extinguishment of Shareholder loan under revised loan facility	-	309,669	-
Gain on extinguishment of Related Party's loan under revised loan facility	1,111,304	546,424	187,151
Bank interest income	1,142	1,200	192
	1,112,446	**857,293**	**187,343**

Mr. Victor Hwang and PPC agreed with the Company not to demand repayment on the amount drawn down from the Shareholder's loan and the balance due to related party within 12 months. The Company recalculated the fair value of the financial liabilities under the revised terms. The difference in the fair value of the financial liabilities was recognized in Consolidated Statement of Loss and Comprehensive Loss as finance income during the period.

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 Transactions with related parties and directors

During the six months period ended September 30, 2013, the Company paid or accrued the following:

a) London office rent of RMB181,528 (CAD$30,571) (2012 – RMB192,079) 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 2,960,120 (CAD$498,505) (2012 – RMB2,457,000) and RMB2,618,019 (CAD$440,892) (2012 – RMB1,652,477) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB480,571 (CAD$80,931) (2012 – RMB1,553,596).

c) Fees and benefits paid to key management personnel of the Company were RMB2,232,124 (CAD$375,905) (2012 – RMB1,910,056) and share based payment of RMB668,831 (CAD$112,636)

(2012 – RMB305,539) were recognized for the 2,260,000 (2012 – 2,650,000) share options granted to these key management personnel.

d) Fees and benefits paid or accrued to directors were RMB294,325 (CAD$49,566) (2012 – RMB315,925) and share based payment of RMB501,156 (CAD$84,398) (2012 – RMB313,374) were recognized for the 1,750,000 (2012 – 2,050,000) share options granted to the directors.

e) Shareholder loan of RMB 43,682,803 (CAD$7,356,484) (2012 – RMB24,184,640) represents interest-free loans with a principal balance of RMB48,065,538 (CAD$8,094,567) (2012 – RMB25,373,657) 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, US$1 million and US$1.3 million respectively. The first of these loan facilities was issued in May 2011. 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 RMB2,023,485 (CAD$340,769) (2012 – RMB364,080) and the capitalized interest of RMB1,782,892 (CAD$300,251) (2012 – RMB233,979) were calculated using an effective rate of 10% per annum. RMB546,424 was recognized as a gain on extinguishment during six months period ended September 30, 2012 (see Note 11).

f) Advances from a related party of RMB8,410,046 (CAD$1,416,310) (2012 – RMB10,361,306) represents an interest-free balance with a principal amount of RMB10,094,600 (CAD$1,700,000) (2012 – RMB10,868,100) from PPC. The opening balance of the advances payable at April 1, 2012 was RMB 10,379,224. The interest-free non-current advance from a related company has been recorded at fair value on inception and carried at amortized cost. The capitalized interest of RMB414,037 (CAD$69,727) (2012 – RMB119,295) were calculated using an effective rate of 10% per annum. RMB1,111,304 (CAD$187,151) (2012 – RMB546,424) was recognized as a gain on extinguishment as a result of the revision of the facility terms during six months period ended September 30, 2013 (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 September 30, 2013, 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

On October 11, 2013, the Company announced that it had decided not to proceed with the previously announced Convertible Bonds issue, and that Mr. Victor Hwang had agreed to convert US$5,000,000 (equivalent to C$5,185,000 at the agreed exchange rate of $1US/$1.037C$) of his existing debt of US$7.853,846 into shares at C$0.55 per share, and grant a new loan facility under which US$2,853,536 of the existing loan which was not converted remains outstanding.

The conversion of the US$5,000,000 into 9,472,272 shares was completed on November 8, 2013. The conversion price represents a 22% premium to the 12 month trailing volume weighted average price, and 10% premium to the share price on the day prior to this announcement.

There is an undrawn amount of US$2,146,154 under the new facility. The facility is available for drawdown at any time up to July 31, 2015, is interest free and is repayable on demand given after July 31, 2015. This facility is intended to give the Company sufficient time to work with CNOOC to complete the final development work for its LS36-1 gas field and secure all regulatory approvals for development and production in order to supply gas to the Zhejiang provincial grid. At that time the Board believes the Company will be in a significantly better position to raise equity or bond finance to fund further exploration.

Primeline Energy Holdings Inc. (TSX Venture-PEH) ("the Company")
Management Discussion and Analysis for the Quarter Ended September 30, 2013

INTRODUCTION

This management discussion and analysis is dated November 28, 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 and unaudited interim quarterly consolidated financial statements for the quarter ended September 30, 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 September 30, 2013 was RMB5.938 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 and 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 completion of most of the development work having been achieved, but as noted below, due to the delay in the final connection with the provincial gas grid, the first gas is now expected in Q2 2014. Once production starts, it will bring cash inflow to the Company and establish 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 PROGRESS REVIEW

The main work carried out during the quarter under review was to continue the LS36-1 Development and prepare for the connection to the Zhejiang Provincial gas grid. At the time of the writing, the development work is circa 95% completed. However, there is delay in the final connection to the provincial gas grid, and the planned first gas production is now in Q2 2014, instead of the previously anticipated late 2013/early 2014.

DEVELOPMENT OF LS 36-1 GAS FIELD

Overall Development Program (ODP) Approval

The LS 36-1 Development's safety assessment, occupational hazard assessment, pipeline route approval, environmental impact assessment and preliminary ocean area usage approval have all been granted by the relevant government departments of the Chinese government.

The ODP requires a final approval from the NDRC and under the increasingly stricter regime adopted by the government, the approval has been delayed which has had a knock-on effect on the completion of the development and particularly, the final connection to the Provincial Grid. The final ODP was filed with NDRC for confirmation in June 2012 and passed the review by the expert group appointed by the NDRC in August 2012. NDRC subsequently requested additional information in relation to planning approval for the terminal site which was required before issue of the ODP approval. CNOOC supplied part of the documentation required in July 2013 and the land planning permit was finally obtained from the Ministry of Land and Resource in October 2013 and immediately provided to the NDRC. CNOOC and Primeline are now waiting for the confirmation of approval of the ODP.

Development Engineering Design, Procurement, Fabrication and Construction

During the quarter under review, CNOOC, as the operator, continued with the final development operations, particularly the final connection to the Zhejiang Provincial Grid. CNOOC has in the past 2 years carried out the following work on the LS36-1 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. 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. This pipeline needs to be laid with other pipelines in Wenzhou, including part of the provincial gas grid pipeline and thus a great deal of coordination is required. Furthermore, there was a change of the route of this pipeline due to a municipality planning change and Primeline has requested CNOOC as operator to

mitigate the delay by working closely with the local government and utilities companies to ensure the pipeline is completed ASAP.

- 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

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.

EXPLORATION

Primeline has a 737 sq km of 3D seismic data by which several prospects have been identified and mapped. Primeline's first step in exploration under Block 33/07 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.

Primeline has been working closely with CNOOC in trying to secure a 3D seismic boat for the new 3D seismic acquisition work. The seismic work will be implemented as soon as the boat is secured. Exploration drilling is planned for 2014 after establishing production from LS36-1.

EXPLORATION AND WORKING CAPITAL FINANCING

The anticipated cash flow from the LS36-1 Development may not commence in time to fund the planned 3D seismic work, which is 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. The Company is exploring various possible ways of securing funds for the exploration activities.

In June 2013 the Company entered into a term sheet with GEMS with regard to a $15 million Convertible Bonds issue to fund working capital and the planned 3D seismic acquisition. The Convertible Bonds were intended to bridge the funding gap to first gas production from the LS36-1 gas field. At that time, Victor Hwang, Chairman, President and majority shareholder, also agreed to convert his interest free loan to the Company, which had been accumulated since 2011 into bonds having substantially the same terms as the GEMS' Convertible Bonds.

In October the Company decided not to proceed with the previously announced Convertible Bonds issue and instead secured an additional interest free working capital loan from its Chairman, who also agreed to convert part of his existing loan into shares. Mr Hwang agreed to convert US$5,000,000 (equivalent to C$5,185,000 at the agreed exchange rate of $1US/$1.037C$) of his existing debt of US$7.853,846 into shares at C$0.55 per share, which resulted in the issue of 9,427,272 shares, and granted a new loan facility under which US$2,853,846 of the existing loan which was not converted remained outstanding.

The conversion of the US$5,000,000 into shares was approved by the TSX Venture Exchange and has now been completed. The conversion price, represented a 22% premium to

the 12 month trailing volume weighted average price, and 10% premium to the share price on the day prior to the announcement of the issue.

There is an undrawn amount of US$2,146,154 under the new facility. The facility is available for drawdown at any time up to July 31, 2015, is interest free and is repayable on demand given after July 31, 2015. This facility is intended to give the Company time to work with CNOOC to complete the final development work for its LS36-1 gas field and secure all regulatory approvals for development and production in order to supply gas to the Zhejiang provincial grid. At that time the Board believes the Company will be in a significantly better position to raise equity or bond finance to fund further exploration.

GENERAL FINANCIAL OUTLOOK

As at September 30, 2013, the Company held cash resources of RMB5,146,881 (CAD$866,770), and loans in principal amount from Victor Hwang, its Chairman, President and majority shareholder, and PPC in the order of RMB48,065,538 (CAD$8,094,567) and RMB10,094,600 (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.

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

The 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 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 quarter ended September 30, 2013 were a loss of RMB1,039,850 (CAD$175,118). Compared to the loss of RMB2,091,568 for the same quarter last year, the decrease in loss of RMB1,051,718 (CAD$177,117) was mainly due to the increase of finance income of RMB1,111,265 (CAD$187,145) relating to the fair value adjustment of the advances from a related party resulted from the revision of repayment terms and the decrease of business promotion of RMB726,516 (CAD$122,350), and the result was partially set off by the increase of professional fees of RMB589,914 (CAD$99,346) and travel expenses of RMB143,151 (CAD$24,108) .

Liquidity and Capital Resources

As at September 30, 2013, net current assets of the Company amounted to RMB3,076,130 (CAD$518,041), whereas net current assets of RMB2,758,098 were recorded as at March 31, 2013. The increase in net current assets of RMB318,032 (CAD$53,559) was mainly due to the increase of cash and cash equivalents of RMB107,937 (CAD$18,177) and the decrease of accounts payable and accrued liabilities of RMB 1,444,726 (CAD$243,302) and the result was partially set off by the decrease of prepaid expenses and deposit of RMB892,530 (CAD$150,308).

During the quarter, exploration and evaluation assets of RMB4,455,447 (CAD$750,328) were incurred and financed mainly by the shareholder's loan. As at September 30, 2013, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB453,735,267 (CAD$76,412,137) (March 31, 2013 – RMB444,002,914) and can be broken down as follows:

	Sep 30, 2013	Mar 31, 2013	Sep 30, 2013
	RMB	RMB	CAD$
Exploration Drilling Related Services			
Drilling services	178,263,638	178,263,638	30,020,821
Drilling technical supervision and evaluation	4,650,259	4,650,259	783,136
Exploration Geological&Geophysical Surveys& Work			
Geological&geophysical survey acquisition& processing	64,892,882	64,892,882	10,928,407
Technical evaluations&management	42,496,075	40,087,083	7,156,631
Pre-development study	32,583,351	32,583,351	5,487,260
Interests on funding of deferred exploration expenditures	25,959,911	23,763,779	4,371,827
Deferred costs acquired from Primeline Petroleum Corporation	8,485,080	8,485,080	1,428,946
Project administration	28,036,339	27,015,498	4,721,513
Salaries and benefits	46,437,597	42,920,078	7,820,410
Travel and accommodation	18,786,933	18,198,064	3,163,849
Contract signing fee	3,143,202	3,143,202	529,337
	453,735,267	444,002,914	76,412,137

As at September 30, 2013, the Company had total assets of RMB459,813,023 (CAD$77,435,673) (March, 2013 – RMB450,868,327) which were financed by net shareholders' equity of RMB404,729,801 (CAD$68,159,280) (March 31, 2013 – RMB404,147,058), shareholder loan of RMB43,682,803 (CAD$7,356,484) (March 31, 2013 – RMB33,249,513) and advance from a related party of RMB8,410,046 (CAD$1,416,310) (March 31, 2013 – RMB9,378,758).

As at September 30, 2013, the Company had net current assets of RMB3,076,130 (CAD$518,041) (March 31, 2013 – RMB2,758,098) and had a accumulated deficit of RMB106,482,482 (CAD$17,932,382) (March 31, 2013 – RMB103,464,121). The loan facility of US$5,000,000 (remaining available for drawdown as at September 30, 2013 is US$2,146,154) from Mr. Victor Hwang in October 2013 is intended to give the Company time to work with CNOOC to complete the final development work for its LS36-1 gas field and secure all regulatory approvals for development and production in order to supply gas to the Zhejiang provincial grid. As previously mentioned, additional financing will be required in respect of the LS36-1 Development once the ODP is approved. The Company has already secured an in principle offer for a loan of US$ 300 million from China Development Bank (CDB) to finance its share of the LS36-1 Development costs. 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:

	Sep 30, 2013	Mar 31, 2013
Cash and cash equivalents of:		
- CAD$	CAD$102,610	CAD$141,146
- US$	US$202,015	US$150,313
- GBP	GBP130,074	GBP5,296
- HK$	HK$2,344,383	HK$3,106,926
Shareholder loan of US$	(US$7,853,846)	(US$6,025,641)
Advance from a related party of CAD$	(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:

	Sep 30, 2013	Mar 31, 2013	Sep 30, 2013
	RMB	RMB	CAD$
CAD$	948,530	953,551	159,739
US$	4,682,921	3,652,104	788,636
GBP	128,513	4,983	21,642
HK$	184,972	248,865	31,151

(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 LS36-1 Development reaches the design production level specified in the ODP in addition to that provided for in the Loan Memorandum. In addition, the Company has secured an additional interest free shareholder loan from Mr. Hwang, the Chairman of the Company. There is an undrawn amount of US$2,146,154 under

the new facility. The Company is actively exploring all possible fund-raising possibilities for the planned exploration drilling programme.

Additional information regarding liquidity risk is disclosed in Note 1 of the interim consolidated financial statements as at September 30, 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 the interim consolidated financial statements as at September 30, 2013.

Transactions with Related Parties and Directors

During the six months period ended September 30, 2013, the Company paid or accrued the following:

a) London office rent of RMB181,528 (CAD$30,571) (2012 – RMB192,079) 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 2,960,120 (CAD$498,505) (2012 – RMB2,457,000) and RMB2,618,019 (CAD$440,892) (2012 – RMB1,652,477) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB480,571 (CAD$80,931) (2012 – RMB1,553,596).

c) Fees and benefits paid to key management personnel of the Company were RMB2,232,124 (CAD$375,905) (2012 – RMB1,910,056) and share based payment of RMB668,831 (CAD$112,636) (2012 – RMB305,539) were recognized for the 2,260,000 (2012 – 2,650,000) share options granted to these key management personnel.

d) Fees and benefits paid or accrued to directors were RMB294,325 (CAD$49,566) (2012 – RMB315,925) and share based payment of RMB501,156 (CAD$84,398) (2012 – RMB313,374) were recognized for the 1,750,000 (2012 – 2,050,000) share options granted to the directors.

e) Shareholder loan of RMB43,682,803 (CAD$7,356,484) (2012 – RMB24,184,640) represents interest-free loans with a principal balance of RMB48,065,538 (CAD$8,094,567) (2012 – RMB25,373,657) 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, US$1 million and US$1.3 million respectively. The first of these loan facilities was issued in May 2011. 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 RMB2,023,485 (CAD$340,769) (2012 – RMB364,080) and the capitalized interest of RMB1,782,892 (CAD$300,251) (2012 – RMB233,979) were calculated using an effective rate of 10% per annum. RMB546,424 was recognized as a gain on extinguishment during six months period ended September 30, 2012 (see Note 11 of the interim consolidated financial statements as at September 30, 2013).

f) Advances from a related party of RMB8,410,046 (CAD$1,416,310) (2012 – RMB10,361,306) represents an interest-free balance with a principal amount of RMB10,094,600 (CAD$1,700,000) (2012 – RMB10,868,100) from PPC. The opening balance of the advances payable at April 1, 2012 was RMB 10,379,224. The interest-free non-current advance from a related company has been recorded at fair value on inception and carried at amortized cost. The capitalized interest of RMB414,037 (CAD$69,727) (2012 – RMB119,295) were calculated using an effective rate of 10% per annum. RMB1,111,304 (CAD$187,151) (2012 – RMB546,424) was recognized as a gain on extinguishment as a result of the revision of the facility terms during six months period ended September 30, 2013 (see Note 11 of the interim consolidated financial statements as at September 30, 2013).

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

Subsequent Events

On October 11, 2013, the Company announced that it had decided not to proceed with the previously announced Convertible Bonds issue, and that Mr. Victor Hwang had agreed to convert US$5,000,000 (equivalent to C$5,185,000 at the agreed exchange rate of

$1US/$1.037C$) of his existing debt of US$7.853,846 into shares at C$0.55 per share, and grant a new loan facility under which US$2,853,536 of the existing loan which was not converted remains outstanding.

The conversion of the US$5,000,000 into 9,472,272 shares was completed on November 8, 2013. The conversion price represents a 22% premium to the 12 month trailing volume weighted average price, and 10% premium to the share price on the day prior to this announcement.

There is an undrawn amount of US$2,146,154 under the new facility. The facility is available for drawdown at any time up to July 31, 2015, is interest free and is repayable on demand given after July 31, 2015. This facility is intended to give the Company sufficient time to work with CNOOC to complete the final development work for its LS36-1 gas field and secure all regulatory approvals for development and production in order to supply gas to the Zhejiang provincial grid. At that time the Board believes the Company will be in a significantly better position to raise equity or bond finance to fund further exploration.

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 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 27, 2016.

On July 9, 2012, the Company granted to D&D Securities Inc. an option to purchase a total of 500,000 common shares at an exercise price of 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 November 28, 2013 there are 103,468,518 shares and 5,505,000 stock options outstanding.

Quarter ended September 30, 2013

The Company’s results for the quarter ended September 30, 2013 was a loss of RMB1,039,850 (CAD$175,118), compared to the loss of RMB2,091,568 for the same quarter last year, the decrease in loss of RMB1,051,718 (CAD$177,117) was mainly due to the increase of finance income of RMB1,111,265 (CAD$187,145) relating to the fair value adjustment of the advances from a related party resulted from the revision of repayment terms; the decrease of business promotion of RMB726,516 (CAD$122,350) and the result was partially set off by the increase of professional fees of RMB589,914 (CAD$99,346) and travel expenses of RMB143,151 (CAD$24,108).

During the quarter exploration expenditures of RMB4,455,447 (CAD$750,328) were incurred, comprised mainly of technical evaluations & management of RMB739,134 (CAD$124,475), interest on funding of deferred exploration expenditures of RMB1,140,429 (CAD$192,056), project administration of RMB522,041 (CAD$87,915) and salaries and benefits of RMB1,849,573 (CAD$311,481). These amounts were capitalized as exploration and evaluation assets.

Summary of Quarterly Results (Unaudited)

Quarter Ended	2013 Sep 30 CAD$	2013 Sep 30 RMB	2013 Jun 30 RMB	2013 Mar 31 RMB	2012 Dec 31 RMB
Net (loss) gain	(175,118)	(1,039,850)	(1,978,511)	508,236	(2,364,487)
Per basic share	(0.002)	(0.011)	(0.020)	0.034	(0.025)
Per diluted share	(0.002)	(0.011)	(0.020)	0.034	(0.025)

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

The loss for the quarter ended September 30, 2013 of RMB1,039,850 (CAD$175,118) was mainly attributable to professional fees of RMB906,776 (CAD$152,707), salary and benefit of RMB414,001 (CAD$69,721) and directors remuneration and benefit of RMB381,008 (CAD$64,164) and partially set off by finance income of RMB1,111,871 (CAD$187,246).

The loss for the quarter ended September 30, 2012 of RMB2,091,568 was mainly attributable to business promotion of RMB870,282, professional fees of RMB316,862, salary and benefit of RMB407,845.

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.