Primeline Energy Holdings Inc.
(an exploration stage company)

Interim Consolidated Financial Statements
December 31, 2013
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these consolidated interim financial statements they must be accompanied by a notice indicating that these condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. They have not been reviewed by the Company's auditors.

Primeline Energy Holdings Inc.

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

	Note	Dec 31, 2013 RMB	Mar 31, 2013 RMB	Dec 31, 2013 CAD$ (note 3.3)
Non-current assets				
Exploration and evaluation assets	7	457,750,403	444,002,914	80,377,595
Property, plant and equipment	8	9,721	14,317	1,707
		457,760,124	444,017,231	80,379,302
Current assets				
Cash and cash equivalents		26,155,339	5,038,944	4,592,685
Prepaid expenses and deposit		859,172	1,812,152	150,864
		27,014,511	6,851,096	4,743,549
Total assets		484,774,635	450,868,327	85,122,851
Equity attributable to shareholders				
Share capital	10	1,014,325	858,406	178,108
Reserves		557,297,770	506,752,773	97,857,378
Accumulated deficit		(108,390,581)	(103,464,121)	(19,032,586)
Total equity		449,921,514	404,147,058	79,002,900
Non-current liabilities				
Shareholder loan	13(e)	18,408,623	33,249,513	3,232,418
Advances from a related party	13(f)	8,269,215	9,378,758	1,452,013
Derivative warrant liabilities	9	4,846,552	-	851,019
		31,524,390	42,628,271	5,535,450
Current liabilities				
Accounts payable and accrued liabilities		2,360,616	3,954,528	414,507
Cash calls payable	13 (b)	968,115	138,470	169,994
		3,328,731	4,092,998	584,501
Total liabilities		34,853,121	46,721,269	6,119,951
Total shareholders' equity and liabilities		484,774,635	450,868,327	85,122,851

Nature of operations and going concern (Note 1)

Approved by the Board of Directors

"*Brian Chan*" — Director

"*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 nine months ended December 31, 2013 and December 31, 2012
(In Chinese Yuan Renminbi)

	Notes	Three Months Ended December 31			Nine Months Ended December 31		
		2013 RMB	2012 RMB	2013 CAD$ **(note 3.3)**	2013 RMB	2012 RMB	2013 CAD$ **(note 3.3)**
Expenses							
Auditor's remuneration		-	-	-	-	(45,079)	-
Bank charges		(13,258)	(12,200)	(2,328)	(40,636)	(74,190)	(7,135)
Business promotion		(67,478)	(231,939)	(11,849)	(337,502)	(1,183,250)	(59,263)
Directors remuneration and benefit		(352,656)	(432,437)	(61,924)	(1,148,137)	(1,061,737)	(201,604)
Office expenses		(351,630)	(365,277)	(61,744)	(641,112)	(470,837)	(112,575)
Professional fees		(896,874)	(817,804)	(157,484)	(3,011,274)	(1,224,900)	(528,758)
Salary and benefit		(445,639)	(609,612)	(78,251)	(1,349,790)	(1,526,610)	(237,013)
Travel		(130,717)	(191,732)	(22,953)	(506,666)	(204,730)	(88,967)
Operating Loss		(2,258,252)	(2,661,001)	(396,533)	(7,035,117)	(5,791,333)	(1,235,315)
Finance income	11	551	602	97	1,112,997	857,895	195,434
Finance cost		-	(66,099)	-	-	(183,857)	-
Exchange gain (loss), net		349,602	362,011	61,388	995,660	311,967	174,832
Loss and comprehensive loss		(1,908,099)	(2,364,487)	(335,048)	(4,926,460)	(4,805,328)	(865,049)
Basic and diluted loss per share		(0.019)	(0.025)	(0.003)	(0.051)	(0.051)	(0.009)
Weighted average number of common shares outstanding		99,433,592	94,041,246	99,433,592	95,845,231	94,041,246	95,845,231

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	Shares Purchase Warrants 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
Debt Conversion	86,052	28,871,647	-	-	-	-	28,957,699
Share issue costs		(15,291)					(15,291)
Private placement	69,867	19,094,997	-	-	-	-	19,164,864
Share issue costs	-	(2,292,749)	-	-	-	-	(2,292,749)
Broker warrant issue costs	-	(1,073,652)	-	-	1,073,652	-	-
Loss and comprehensive loss for the period	-	-	-	-	-	(4,926,460)	(4,926,460)
Discount on shareholder loan	-	-	2,621,485	-	-	-	2,621,485
Share based payments	-	-	-	2,264,908	-	-	2,264,908
Balance – December 31, 2013	1,014,325	482,091,177	7,622,967	66,509,974	1,073,652	(108,390,581)	449,921,514
Balance –December 31, 2013, in CAD$ **(note 3.3)**	178,108	84,651,655	1,338,537	1,1678,661	188,525	(19,032,586)	79,002,900

	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	-	-	-	-	(4,805,328)	(4,805,328)
Discount on shareholder loan	-	-	608,191	-	-	608,191
Share based payments	-	-	-	2,413,054	-	2,413,054
Balance – December 31, 2012	858,406	437,506,225	2,906,290	63,321,512	(103,972,357)	400,620,076

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 and nine months ended December 31, 2013 and December 31, 2012
(in Chinese Yuan Renminbi)

	Note	Three Months Ended December 31			Nine Months Ended December 31		
		2013	2012	2013	2013	2012	2013
		RMB	RMB	CAD$	RMB	RMB	CAD$
				(note 3.3)			**(note 3.3)**
Cash flows from operating activities							
Loss for the period		(1,908,099)	(2,364,487)	(335,048)	(4,926,460)	(4,805,328)	(865,050)
Items not involving cash							
Depreciation		1,532	1,532	269	4,596	4,242	807
Finance income from fair value adjustment of advance from related company		-	-	-	(1,111,304)	(309,669)	(195,137)
Finance income from fair value adjustment of shareholder loan		-	-	-	-	(546,424)	-
Amortization of imputed interest		-	66,099	-	-	183,857	-
Stock-based compensation	10	443,805	729,335	77,929	1,461,099	1,885,915	256,558
Unrealized foreign exchange gain		(483,577)	(375,392)	(84,913)	(1,081,223)	(317,459)	(189,854)
		(1,946,339)	(1,942,913)	(341,763)	(5,653,292)	(3,904,866)	(992,676)
Changes in non-cash working capital items:							
Prepaid expenses and deposit		60,450	307,222	10,615	952,980	305,174	167,336
Accounts payable and accrued liabilities		93,085	176,624	16,345	(883,519)	(829,392)	(155,138)
		153,535	483,846	26,960	69,461	(524,218)	12,198
		(1,792,804)	(1,459,067)	(314,803)	(5,583,831)	(4,429,084)	(980,478)
Cash flows from investing activities							
Expenditures on exploration and evaluation assets	7	(3,615,532)	(2,393,580)	(634,861)	(11,058,753)	(8,104,903)	(1,941,835)
Purchase of property, plant and equipment	8	-	-	-	-	(7,068)	-
		(3,615,532)	(2,393,580)	(634,861)	(11,058,753)	(8,111,971)	(1,941,835)
Cash flows from financing activities							
Gross proceeds of private placement		24,011,416	-	4,216,228	24,011,416	-	4,216,228
Share issue costs		(1,858,455)	-	(326,331)	(1,858,455)	-	(326,331)
Shareholder loan advance	13(e)	3,899,102	5,196,026	684,654	15,103,142	12,085,705	2,652,000
Cash call from a related party	13(b)	786,000	-	138,016	3,746,120	2,457,000	657,790
Cash utilized for a related party	13(b)	(298,456)	(826,837)	(52,407)	(2,916,475)	(2,479,314)	(512,112)
		26,539,607	4,369,189	4,660,160	38,085,748	12,063,391	6,687,575
Increase (decrease) in cash and cash equivalents		21,131,271	516,542	3,710,496	21,443,164	(477,664)	3,765,262
Effect of foreign exchange rate on cash and cash equivalents		(122,813)	(23,318)	(21,565)	(326,769)	(21,149)	(57,378)
Cash and cash equivalents - Beginning of period		5,146,881	2,771,430	903,754	5,038,944	3,763,467	884,801
Cash and cash equivalents - End of period		26,155,339	3,264,654	4,592,685	26,155,339	3,264,654	4,592,685

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 anticipated cash flow from the LS36-1 gas filed development will not commence in time to fund the planned 3D seismic work which is a commitment under the New Contract. The Company's working capital has been financed by interest free loans from the Chairman and majority shareholder, Mr. Hwang. The Company has continued to explore various possible ways of securing funds for its exploration activities under the New Contract. During the period, the Company secured an additional interest free working capital from Mr. Hwang, who also agreed to convert part of his existing loans into shares. Mr. Hwang agreed to convert US$ 5,000,000 of his existing debt of US$ 7,853,846 into shares at C$ 0.55 per share, which resulted in the issuance of 9,472,272 shares and a new loan facility under which US$ 2,853,846 of the existing loan which was not converted, remained outstanding. The new facility is intended to give the Company time to work with CNOOC to complete the final development work and secure all regulatory approvals for the LS 36-1 gas field development and production intended to supply gas to the Zhejiang provincial grid. At that time, the Board believes that the Company will be in a significant better position to raise equity and bond finance to fund further exploration. In December 2013, the Company entered into an agreement for a brokered private placement (the "Private Placement") of up to 12,727,273 Units at C$0.55 per Unit on a best efforts basis with D&D Securities Inc. (the "Agent"). Each Unit consisted of one common share and one half of one warrant. The Private Placement closed in two tranches on December 30, 2013 and January 23, 2014 respectively. In total, the Company sold 9.17 million Units with gross proceeds of C$5 million. The net proceeds received by the Company, after Agent's commission and expenses, was C$4.5 million. The net proceeds of the Private Placement will be used fund the 3D seismic work under the New Contract.

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 unaudited and have been prepared in accordance with International Accounting Standards 34 ("IAS 34"), Interim Financial Reporting Standards ("IFRS 34") using accounting policies consistent with International Financial Reporting Standard ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Report Interpretations Committee ("IFRIC").

The accounting policies applied in these interim consolidated financial statements are based on IFRS effective for the period ended December 31, 2013 as issued and outstanding as of February 28, 2014, 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 RMB5.695 to Canadian $1, which is the exchange rate published in South China Morning Post as of December 31, 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 Conversion of debt to equity

It is the Company's policy that when there is a conversion of debt to equity and the creditor is a shareholder acting in its capacity as such, then the equity issued is recorded at the carrying amount of the financial liability extinguished.

3.12 Derivative financial instruments

The Company's derivative instruments are the share purchase warrants issued. During the period, the Company issued warrants as part of a Unit offering. These share purchase warrants were issued with an exercise price in Canadian dollars rather than Chinese Yuan (the Functional currency of the Company). Such share purchase warrants are considered to be derivative instruments.

The Company measured its initial warrant liability at its fair value at the date which the warrants were issued. The Company's warrant liability is subsequently revalued by reference to the fair value of the warrants at each reporting date using the Black Scholes model and the exchange rate at the balance sheet date. Valuation of the warrant liability also requires determining the most appropriate inputs to the valuation model and making assumptions about them. Significant assumptions include: price to exercise the warrants, expected life of the warrants, volatility, and dividend yield. A change in the valuation model or related inputs would change the reported amount of the components of the instrument. Adjustments to the fair value of the warrants as at the balance sheet date are recorded to the income (loss) statement.

3.13 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.

Share purchase warrants that are issued for underwriting services are initially accounted for under IFRS 2 as equity instruments (their initial fair value would be recognized as a share issue cost). Subsequent to their issuance, share purchase warrants issued for services that can be tracked (are non-transferable) are considered as equity for their entire life. The fair values of such share purchase warrants are not re-measured. Where these share purchase warrants are ultimately exercised, the applicable amounts of share purchase warrants are credited to share capital.

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 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 Changes in accounting standards

The Company has adopted the following new and revised standards, along with any consequential amendments, effective April 1, 2013. These changes were made in accordance with the applicable transitional provisions:

a) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation — Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of the standard has no impact on the Company’s financial statements.

b) 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 adoption of the standard has no impact on the Company’s financial statements.

c) 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 adoption of the standard has no impact on the Company’s financial statements.

d) 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 adoption of IFRS 13 did not require any adjustment to the valuation technique used by the Company to measure fair value and did not result in any measurement adjustments.

e) 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 adoption of the standard has no impact on the Company's financial statements.

The Company has not early adopted the following standards, amendments and interpretations to existing standards that are not yet effective.

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, 2014 or later periods. The standards that are applicable to the Company are as follows:

a) IAS 32, "Financial instruments": Presentation has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard has no impact on the Company.

b) IAS 36, "Impairment of Assets", has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard has no impact on the Company.

c) IFRS 9, 'Financial Instruments', 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.

(in Chinese Yuan Renminbi)

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, advances from a related party and derivative warrant liabilities.

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

The fair value of the financial assets and 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:

	Dec 31, 2013	Mar 31, 2013
Cash and cash equivalents of:		
- CAD$	CAD$102,675	CAD$141,146
- US$	US$3,838,021	US$150,313
- GBP	GBP3,553	GBP5,296
- HK$	HK$2,075,211	HK$3,106,926
Shareholder loan of US$	(US$3,494,871)	(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 of approximately:

	Dec 31, 2013 RMB	Mar 31, 2013 RMB	Dec 31, 2013 CAD$
- CAD$	909,677	953,551	159,733
- US$	208,086	3,652,104	36,538
- GBP	3,553	4,983	624
- HK$	162,282	248,865	28,495

(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 have 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, during the period, the Company secured an additional interest free shareholder loan from Mr. Hwang, the Chairman of the Company (see Note 13(e)) and completed the first tranche of a private placement of units (see Note 10 (a) (ii)). The Company is actively exploring all possible fund-raising possibilities for the planned exploration drilling programme.

Additional information regarding liquidity risk is disclosed in Note 1.

(d) Interest rate risk

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

5.2 Capital management

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

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

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

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

Additional information regarding capital management is disclosed in note 1.

6 Critical judgments and accounting estimates

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

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

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

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

(in Chinese Yuan Renminbi)

7 Exploration and evaluation assets

	Exploration and evaluation assets
	RMB
Balance at March 31, 2012	427,178,383
Additions	16,824,531
Balance at March 31, 2013	444,002,914
Additions	13,747,489
Balance at December 31, 2013	457,750,403
	CAD$
Balance at December 31, 2013 in CAD$ (note 3.3)	80,377,595

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/third 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	2,345
Additions	7,068	1,241
At March 31, 2013	20,425	3,586
Additions	-	-
At December 31, 2013	20,425	3,586
At April 1, 2012	334	59
Charge for the year	5,774	1,014
At March 31, 2013	6,108	1,073
Charge for the year	4,596	807
At December 31, 2013	10,704	1,880
CARRYING VALUES	RMB	CAD$
At April 1, 2012	13,023	2,287
At March 31, 2013	14,317	2,514
At December 31, 2013	**9,721**	**1,707**

9 Derivative warrant liability

The Company issued share purchase warrants in connection with the private placement offering completed on December 30, 2013 (see Note 10 (a) (ii)). These warrants are exercisable in Canadian dollars. As the functional and reporting currency of the Company is RMB, share purchase warrants with an exercise price in a different currency are considered a derivative instrument under IAS 32.

(in Chinese Yuan Renminbi)

The initial fair value on recognition of the share purchase warrants was calculated using the Black-Scholes pricing model, using the assumptions in the following table. Subsequent to their initial recognition, the share purchase warrants liability is re-measured and re-translated each reporting period in accordance with IAS 32.

	As at December 31, 2013	**At date of issue**
Exchange rate at date of fair value (RMB/CAD)	5.695	5.705
Stock price	CAD$0.63	CAD$0.63
Exercise price	CAD$0.90	CAD$0.90
Risk free interest rate	1.09%	1.09%
Expected dividend yield	Nil	Nil
Expected stock price volatility	83%	83%
Expected warrant life	24 months	24 months

The Company's warrant liability for the period/year ended December 31, 2013 and March 31, 2013 is set out below:

	Warrants Outstanding	**Value assigned RMB**	**Value assigned CAD$**	**Average exercise price CAD$**
Balance – as at March 31, 2013	-	-	-	-
Warrants issued	3,826,250	4,846,552	851,0195	0.90
Balance – as at December 31, 2013	3,826,250	4,846,552	851,019	0.90

The share purchase warrants outstanding and exercisable as at December 31, 2013 is set out below:

Exercise Price CAD$	**Expiry date**	**Number**
0.90	30 December, 2015	3,826,250

(in Chinese Yuan Renminbi)

10 Share capital

a) Authorized Share capital

The Company is authorized to issue 500,000,000 ordinary shares with a par value of US$0.001 each. As at March 31, 2013 the total issued share capital of the Company was 94,041,246 common shares.

A summary of the changes in the Company's issued share capital for the period ended December 31, 2013 and March 31, 2013 are set out below:

	Number of shares	Share Capital RMB	Share Premium RMB	Total RMB	Total CAD$
Balance as at March 31, 2013	94,041,246	858,406	437,506,225	438,364,631	76,973,596
Shareholder loan converted to ordinary shares (Note i)	9,427,272	86,052	28,871,647	28,957,699	5,084,758
Share issue costs in relation to shareholder loan conversion (Note iii)			(15,291)	(15,291)	(2,685)
Gross proceeds from private placement (Note ii)	7,652,500	69,867	19,094,997	19,164,864	3,365,209
Share issue costs incurred in relation to private placement (Note iii)	-		(2,292,749)	(2,292,749)	(402,590)
Share issue costs - Broker warrants (iv)	-	-	(1,073,652)	(1,073,652)	(188,525)
Balance – as at December 31, 2013	111,121,018	1,014,325	482,091,177	483,105,502	84,829,763

Notes

i) On October 10, 2013, Mr. Victor Hwang, the majority shareholder, director and officer of the Company agreed to convert US$5,000,000 of the shareholder loans payable to him into 9,427,272 common shares. This transaction was approved by TSX on November 7, 2013. The carrying amount of the loan payable to Mr. Hwang on November 7, 2013 is RMB28,957,699 (CAD$5,084,758). The Company recorded the shares issued to Mr. Hwang at the carrying amount of the financial liability extinguished.

ii) On December 30, 2013, the Company completed the first tranche of a private placement ("Private Placement") offering led by D&D Securities Inc. (the "Agent") as Agent. The Company issued a total of 7,652,500 units ("Units") at a price of $0.55 per Unit for gross proceeds of $4,208,875. Each Unit consists of one ordinary share (a "Common Share") and one half of one warrant (a "Warrant"). Each Warrant is exercisable to purchase a further Common Share at a price of $0.90 per share for period of two years following the closing date of the

(in Chinese Yuan Renminbi)

Private Placement. The company has the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX Venture Exchange (the "TSX-V") exceeds $1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Common Shares comprised in the Units, the Warrants, and any Common Shares issued on exercise of the Warrants, are subject to a hold period of four months plus one day from the closing date.

The Company first calculated the fair value of the derivative warrant liabilities (see Note 9) that were issued using the Black Scholes model, and the remaining cash proceeds were allocated between share capital and share premium.

iii) In relation to the shareholder loan conversion and Private Placement, the Company incurred share issue costs of RMB2,308,040 (CAD$405,285) in total as follows:

The Company incurred legal and professional fees of RMB 15,291 (CAD$2,685) for the Shareholder loan conversion.

In connection with the Private Placement, the Company incurred RMB2,292,749 (CAD$402,590) share issuance costs which comprised of Agent's fee of RMB1,680,799 (CAD$295,136) and legal and professional costs of RMB611,950 (CAD$107,454).

iv) The Company issued 612,200 warrants ("Broker Warrants") exercisable to purchase a number of Common Shares equal to 8% of the number of Units sold to the Agent at an exercise price of CAD$0.55 per share. The Broker's Warrants are subject to a hold period of four months plus one day from the closing date.

The fair value of the Broker Warrants issued is RMB1,073,653 (CAD$ 188,526). The Company calculated the fair value of the Broker Warrants, using the Black Scholes model.

b) Broker Warrants

	Warrants outstandi ng	**Value assigned RMB**	**Value assigned CAD$**	**Average exercise price CAD$**
Balance as at March 31, 2013	-	-	-	-
Broker Warrants issued (see note 10 (a)(iv))	612,200	1,073,652	188,525	0.55
Balance as at December 31, 2013	612,200	1,073,652	188,525	0.55

(in Chinese Yuan Renminbi)

The number of Broker Warrants outstanding and exercisable as at December 31, 2013 is set out below:

Exercise Price CAD$	Expiry date	Number
0.55	December 30, 2015	612,200

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

	Broker Warrants issued in December 2013
Risk free interest rate	1.09%
Expected dividend yield	Nil
Expected stock price volatility	83%
Expected warrant life	24 Months

c) Share Purchase Options

The Company has a stock option plan (the Plan), pursuant to which the directors are authorized to grant options to purchase up to 10% of the issued and outstanding Common Shares from time to time. The options enable the directors, officers, consultants and employees 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	0.37
Granted	-	-		
As at December 31, 2013	5,505,000	0.49	2,400,000	0.36

(in Chinese Yuan Renminbi)

On July 27, 2011, the Company granted 2,100,000 options at an exercise price of CAD$0.32 per share to directors, officers, employees and consultants, of which 200,000 options have expired and 1,900,000 options will expire on July 27, 2016. Share based payments of RMB67,570 (CAD$11,896) and RMB34,630 (CAD$6,081) (2012 – RMB379,935 and RMB155,773) 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$10,233) (2012 – RMB262,157) 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 options 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 services on corporate marketing and investor relations. The options expire on June 25, 2017. Share based payments of RMB *nil* (2012 – RMB867,212) were recognized as business promotion in the interim consolidated statement of loss and comprehensive loss.

The share options vested according to the following schedule:

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

On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD$0.60 per share to directors, officers, employees and consultants. Such options will expire on September 26, 2017. Share based payments of RMB643,867 (CAD$113,058), RMB338,877 (CAD$59,504) and RMB376,155 (CAD$66,050) (2012 – RMB228,852, RMB120,447 and RMB133,697) 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 RMB745,532 (CAD$130,910) (2012 – RMB264,985) was capitalized as exploration and evaluation assets.

(in Chinese Yuan Renminbi)

The share options shall vest according to the following schedule:

Vesting date	Number of Share options
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 February 28, 2014, there are 112,641,018 Common Shares; 5,505,000 stock options and 5,320,050 warrants outstanding.

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**

(in Chinese Yuan Renminbi)

As at December 31, 2013

CAD$0.32	1,900,000	2.57 years	1,900,000
CAD$0.50	500,000	3.48 years	500,000
CAD$0.60	3,105,000	3.74 years	-
	5,505,000	**3.31 years**	**2,400,000**

11 Finance Income

	For the nine months ended		
	Dec 31, 2013 RMB	Dec 31, 2012 RMB	Dec 31, 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	195,137
Bank interest income	1,693	1,802	297
	1,112,997	**857,895**	**195,434**

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 the 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 nine months period ended December 31, 2013, the Company paid or accrued the following:

a) London office rent of RMB276,388 (CAD$48,532) (2012 – RMB287,991) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the majority shareholder, director and officer of the Company.

b) Cash call received from and utilized for, PPC, a company owned by Mr. Hwang, the majority shareholder, director and officer of the Company for its 25% contribution to exploration costs were RMB 3,746,120 (CAD$657,791) (2012 – RMB2,457,000) and RMB2,916,475 (CAD$512,112) (2012 – RMB2,479,314) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB968,115 (CAD$169,994) (2012 – RMB726,759).

c) Fees and benefits paid to key management personnel of the Company were RMB3,398,066 (CAD$596,675) (2012 – RMB4,070,545) and share based payment of RMB953,266 (CAD$167,386) (2012 – RMB755,973) were recognized for the 2,260,000 (2012 – 2,925,000) share options granted to these key management personnel.

d) Fees and benefits paid or accrued to directors were RMB436,700 (CAD$76,558) (2012 – RMB452,944) and share based payment of RMB711,438 (CAD$124,923) (2012 – RMB412,350) were recognized for the 1,750,000 (2012 – 1,250,000) share options granted to the directors.

e) The Company signed a debt settlement agreement with Mr. Victor Hwang on October 10, 2013. The 9,427,272 Common Shares were issued to Mr. Hwang in settlement of US$5,000,000 of the existing debt owed by the Company to Mr. Hwang (CAD$5,185,000 at the agreed exchange rate of US $1/CAD$1.037) at a deemed price of CAD$0.55 per share.

Shareholder loan of RMB 18,408,623 (CAD$3,232,418) (2012 – RMB29,132,909) represents interest-free loans with a principal balance of RMB21,192,898(CAD$3,721,317) (2012 – RMB30,370,770) 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$0.65 million, US$1.05 million and US$3.3 million respectively. 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 RMB2,784,275 (CAD$488,898) (2012 – RMB1,237,861) and the capitalized interest of RMB2,621,485 (CAD$460,313) (2012 – RMB608,191) were calculated using an effective rate of 10% per annum. RMB309,669 was recognized as a gain on extinguishment during nine months period ended December 31, 2012 (see Note 11).

f) Advances from a related party of RMB8,269,215(CAD$1,452,013) (2012 – RMB10,230,639) represents an interest-free balance with a principal amount of RMB9,681,500 (CAD$1,700,000) (2012 – RMB10,648,800) 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 RMB619,416(CAD$108,765) (2012 – RMB178,100) were calculated using an effective rate of 10% per annum. RMB1,111,304 (CAD$195,137) (2012 – RMB546,424) was recognized as a gain on extinguishment as a result of the revision of the facility terms during nine months period ended December 31, 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.

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 .

d) On December 13, 2013, PEOIL entered into an agreement (the "Turnkey Contract") with China Oilfield Services Ltd. ("COSL") under which COSL agreed to carry out the acquisition and processing of seismic data on a turnkey basis for part of Primeline rolling development and exploration program. Under the Turnkey Contract, COSL will gather the 3D seismic data over 600sq km. in Block 33/07 using 3D seismic survey vessel, Hai Yang Shiyan 718. The seismic survey will commence once the vessel is released from its annual maintenance, which is expected to be sometime around the end of February 2014. The survey is expected to be completed by end April 2014. Based on the Turnkey Contract, the cost of the survey is expected to be approximately US$7.6 million and the cost of processing the data is expected to be US$580,000. The cost of the survey will be borne by the Company and Primeline Petroleum Corporation in the proportions 75/25, representing their respective interests in Petroleum Contract 33/07. Accordingly, the net cost to the Company is expected to be US$5.7 million for the survey and US$435,000 for the data processing.

15 Fair value measurement

Certain financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and valuation techniques used to value the Company's financial assets and liabilities are described below:

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

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

(in Chinese Yuan Renminbi)

The Company does not have any financial assets and liabilities that are included in Level 1 of the fair value hierarchy.

2) Level 2 – Significant Other Observable Inputs

Quoted prices in market that are not active, quote prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

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

3) Level 3 – Significant Unobservable Inputs

Unobservable (supported by little or no market activity) prices

The Company does not have any financial assets and liabilities that are included in Level 3 of the fair value hierarchy.

	As at December 31, 2013				March 31, 2013			
	Level1	Level2	Level3	**Total**	Level1	Level2	Level3	**Total**
Warrant liability	-	4,846,552	-	**4,846,552**	-	-	-	-
	-	4,846,552	-	**4,846,552**	-	-	-	-

16 Subsequent Events

On January 23, 2014, the company closed the second and final tranche of the Private Placement. The Company issued a total of 1,520,000 Units at a price of CAD$0.55 per Unit for gross proceeds of CAD$836,000. Each Unit consists of one ordinary share (a "Common Share") and one half of one warrant (a "Warrant"). Each Warrant is exercisable to purchase a further Common Share at a price of CAD$0.90 per share for 24 months. The Company will have the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX Venture Exchange (the "TSX-V") exceeds CAD$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Agent was paid a cash commission of 7% of the gross proceeds and, together with members of its selling group, was issued 121,600 warrants ("Broker Warrants") each exercisable to purchase a Common Share at CAD$ 0.55 per share for two years from the date of closing, equal to 8% of the number of Units sold.

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

INTRODUCTION

This management discussion and analysis is dated February 28, 2014 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 December 31, 2013 which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in this discussion and analysis are expressed in Chinese Yuan Renminbi ("RMB") unless otherwise noted. Canadian dollar equivalents are provided for information only. Such presentation in Canadian dollars is not in accordance with IFRS and should not be construed as a representations that the RMB amounts shown could be readily converted, realized or settled in Canadian dollars at the date of these interim financial statements or any other date. The exchange rate of one Canadian dollar for RMB published in the South China Morning Post on December 31, 2013 was RMB5.695 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/Q3 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 has been delay in the final connection to the provincial gas grid, and the planned first gas production is now in Q2/Q3 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, as a result of the increasingly strict 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 3 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 flow test of the 4 production wells commenced in December 2013 and is currently ongoing.

The remainder of the development construction work, which will be carried out in next few months, consists of:

- completion of the last 3km (onshore section) of the sales gas pipeline in order to connect to the Zhejiang Provincial Gas Pipeline and gas distribution facility in Wenzhou. The majority of this section of pipeline needs to be laid together with other pipelines, 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. 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 as soon as possible;

- completion of a small jetty next to the terminal for the transportation of CO2 and hydrocarbon liquid products;
- completion of production well flow testing;
- completion of joint commissioning of the production facility including the platform, terminal and pipeline and the wells; and
- trial production

The tender for the last 3km of the onshore section of the sale gas pipeline was sent out on January 17, 2014 and bids were received on February 11, 2014. The review and evaluation of the bids is ongoing with the intention of awarding the contract shortly. The work in relation to the by-product dock is progressing with design and planning currently ongoing. Although completion of the dock is not critical to the commencement of production. Commissioning of the terminal and platform is currently near completion.

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 to the provincial gas grid.

EXPLORATION

Primeline has 737 sq km of 3D seismic data with 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 and, on December 13, 2103, Primeline entered into a turnkey contract (the "Turnkey Contract") with China Oilfield Services Ltd. ("COSL") for a 600sq km 3D seismic survey (the "Survey").

Under the Turnkey Contract, COSL will complete the acquisition of 3D seismic data over 600sq km. in Block 33/07 using 3D seismic survey vessel, Hai Yang Shiyan 718. The Survey will commence in March 2014 and is expected to be completed by end April 2014. Following completion of the Survey, COSL will also be responsible for processing the data acquired. COSL will supply all necessary equipment, services and personnel for the Survey.

COSL is the leading integrated oilfield services provider in offshore China and is listed on the Hong Kong (2883:HK) and Shanghai Stock Exchanges.

Based on the Turnkey Contract, the cost of the Survey is expected to be approximately US$7.6 million and the cost of processing the data is expected to be US$580,000. The cost of the Survey will be borne by the Company and Primeline Petroleum Corporation, a company 100% owned by the Company's Chairman and majority shareholder Mr. Victor Hwang, in the proportions of 75/25, representing their respective interests in Petroleum Contract 33/07. Accordingly, the net cost to Primeline is expected to be US$5.7 million for the Survey and US$435,000 for the data processing.

Prior to its execution, Primeline obtained confirmation from Mr. Hwang that he would underwrite the cost of the Survey in order to enable Primeline to enter into the Turnkey Contract. Subsequently, the Company raised the funds which will be used for part of its share of the costs of the Survey pursuant to the private placement referred to below.

Exploration drilling is planned for late 2014/2015 after production from LS36-1 is presently anticipated to be established.

EXPLORATION AND WORKING CAPITAL FINANCING

The anticipated cash flow from the LS36-1 Development will not commence in time to fund the planned 3D seismic work, which is a commitment under Petroleum Contract 33/07. In the meantime, as a result of poor capital market conditions, the Company has been supported in the past three years by its Chairman's provision of interest free loans for working capital. Whilst it is anticipated that Primeline's share of the cost of the LS36-1 Development will be financed by China Development Bank ("CDB"), see below, the Company has continued to explore various possible ways of securing funds for its exploration activities.

In October 2013 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 was completed in November 2013.

There is currently an undrawn amount of US$1,505,129 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.

On December 13, 2013, the Company announced that it had entered into an engagement letter for a brokered private placement (the "Private Placement") of up to C$7m of units ("Units") at C$0.55 per Unit on a best efforts basis with D&D Securities Inc. (the "Agent"), which placement has subsequently been completed. Each Unit consisted of one common share and one-half of one warrant (a "Warrant"). One whole Warrant is exercisable to purchase a common share at a price of C$0.90 per share for two years from the date of issue. The Company has the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX Venture Exchange exceeds C$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Agent was paid a cash commission of 7% of the gross proceeds of the Private Placement and was issued Agents' Warrants exercisable to purchase a number of common shares equal to 8% of the number of Units sold at a price of C$0.55 per share for two years from the date of issue.

The Private Placement was closed in two tranches on December 30, 2013 and January 23, 2014 respectively. In total, the Company sold 9.17m Units with gross proceeds of circa C$5m. The net proceeds received by the Company, after Agent's commission and expenses, was circa C$4.5m.

GENERAL FINANCIAL OUTLOOK

As at December 31, 2013, the Company held cash resources of RMB26,155,339 (CAD$4,592,685), and loans in principal amount from Victor Hwang, its Chairman, President and majority shareholder, and PPC in the order of RMB21,192,898 (CAD$3,721,317) and RMB9,681,500 (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 majority 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 December 31, 2013 were a loss of RMB1,908,099 (CAD$335,048). Compared to the loss of RMB2,364,487 for the same quarter last year, the decrease in loss of RMB456,388 (CAD$80,138) was mainly due to the decrease of businiess promotion of RMB164,461 (CAD$28,878), decrease of directors remuneration of RMB79,781 (CAD$14,009) and decrease of salary and benefit of RMB163,973 (CAD$28,792), and the result was partially set off by the increase of professional fees of RMB79,070 (CAD$13,884).

Liquidity and Capital Resources

As at December 31, 2013, net current assets of the Company amounted to RMB23,685,780 (CAD$4,159,048), whereas net current assets of RMB2,758,098 were recorded as at March 31, 2013. The increase in net current assets of RMB20,927,682 (CAD$3,674,747) was mainly due to the increase of cash and cash equivalents of RMB21,116,395 (CAD$3,707,883) mainly from the private placement and the decrease of accounts payable and accrued liabilities of RMB 1,593,912 (CAD$279,879) and the result was partially set off by the decrease of prepaid expenses and deposit of RMB952,980 (CAD$167,336) and increase of cash call payable of RMB829,645 (CAD$145,680).

During the quarter, exploration and evaluation assets of RMB4,015,136 (CAD$705,028) were incurred and financed mainly by the shareholder's loans. As at December 31, 2013, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB457,750,403 (CAD$80,377,595) (March 31, 2013 – RMB444,002,914) and can be broken down as follows:

	Dec 31, 2013	Mar 31, 2013	Dec 31, 2013
	RMB	RMB	CAD$
Exploration Drilling Related Services			
Drilling services	178,263,638	178,263,638	31,301,780
Drilling technical supervision and evaluation	4,650,259	4,650,259	816,551
Exploration Geological&Geophysical Surveys& Work			
Geological&geophysical survey acquisition& processing	64,892,882	64,892,882	11,394,712
Technical evaluations&management	43,119,978	40,087,083	7,571,550
Pre-development study	32,583,351	32,583,351	5,721,396
Interests on funding of deferred exploration expenditures	26,807,405	23,763,779	4,707,183
Deferred costs acquired from Primeline Petroleum Corporation	8,485,080	8,485,080	1,489,918
Project administration	28,533,095	27,015,498	5,010,201
Salaries and benefits	48,139,341	42,920,078	8,452,913
Travel and accommodation	19,132,172	18,198,064	3,359,468
Contract signing fee	3,143,202	3,143,202	551,923
	457,750,403	444,002,914	80,377,595

As at December 31, 2013, the Company had total assets of RMB484,774,635 (CAD$85,122,851) (March, 2013 – RMB450,868,327) which were financed by net shareholders' equity of RMB449,921,514(CAD$79,002,900) (March 31, 2013 – RMB404,147,058), shareholder loan of RMB18,408,623 (CAD$3,232,418) (March 31, 2013 – RMB33,249,513) and advance from a related party of RMB8,269,215 (CAD$1,452,013) (March 31, 2013 – RMB9,378,758).

As at December 31, 2013, the Company had net current assets of RMB23,685,780 (CAD$4,159,048) (March 31, 2013 – RMB2,758,098) and had a accumulated deficit of RMB108,390,581 (CAD$19,032,586) (March 31, 2013 – RMB103,464,121). The loan facility of US$5,000,000 (remaining available for drawdown as at December 31, 2013 is US$1,505,129) from Mr. Victor Hwang arranged in October 2013 is intended to give the Company time to work with CNOOC to complete the final development work for its LS36-1 gas field and secure all regulatory approvals for development and production in order to supply gas to the Zhejiang provincial grid. As previously mentioned, additional financing will be required in respect of the LS36-1 Development once the ODP is approved. The Company has already secured an in principle offer for a loan of US$ 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, advances from a related party and derivative warrant liabilities.

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

The fair value of the financial assets and 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:

	Dec 31, 2013	Mar 31, 2013
Cash and cash equivalents of:		
- CAD$	CAD$102,675	CAD$141,146
- US$	US$3,838,021	US$150,313
- GBP	GBP3,553	GBP5,296
- HK$	HK$2,075,211	HK$3,106,926
Shareholder loan of US$	(US$3,494,871)	(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 of approximately:

	Dec 31, 2013	Mar 31, 2013	Dec 31, 2013
	RMB	RMB	CAD$
- CAD$	909,677	953,551	159,733
- US$	208,086	3,652,104	36,538
- GBP	3,553	4,983	624
- HK$	162,282	248,865	28,495

(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 have 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, during the period, the Company secured an additional interest free shareholder loan from Mr. Hwang, the Chairman of the Company and completed the first tranche of a private placement of units (see note 10(a)(ii)). 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 December 31, 2013.

(d) Interest rate risk

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

Derivative warrant liability

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

The Company measured its initial warrant liability at its fair value at the date on which the warrants were issued. The Company's warrant liability is subsequently revalued by reference to the fair value of the warrants at each reporting date using the Black Scholes model and the exchange rate at the balance sheet date. Valuation of the warrant liability also requires determining the most appropriate inputs to the valuation model and making assumptions about them. Significant assumptions include: price to exercise the warrants, expected life of the warrants, volatility, and dividend yield. A change in the valuation model or related inputs would change the reported amount of the components of the instrument. Adjustments to the fair value of the warrant liability as at the balance sheet date are recorded to the income (loss) statement.

The initial fair value on recognition of the Share Purchase Warrants was calculated using the Black-Scholes pricing model, using the assumptions in the following table. Subsequent to their initial recognition, the warrant liability is re-measured and re-translated each reporting period in accordance with IAS 32.

	As at December 31, 2013	**At date of issue**
Exchange rate at date of fair value (RMB/CAD)	5.695	5.705
Stock price	CAD$0.63	CAD$0.63
Exercise price	CAD$0.90	CAD$0.90
Risk free interest rate	1.09%	1.09%
Expected dividend yield	Nil	Nil
Expected stock price volatility	83%	83%
Expected warrant life	24 months	24 months

The Company's warrant liability for the period/year ended December 31, 2013 and Mach 31, 2013 is set out below:

	Warrants Outstanding	**Value assigned RMB**	**Value assigned CAD$**	**Average exercise price CAD$**
Balance – as at March 31, 2013	-	-	-	-
Warrants issued	3,826,250	4,846,552	851,0195	0.90
Balance – as at December, 2013	3,826,250	4,846,552	851,019	0.90

The share purchase warrants outstanding and exercisable as at December 31, 2013 is set out below:

Exercise Price CAD$	Expiry date	Number
0.90	30 December, 2015	3,826,250

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 December 31, 2013.

Transactions with related parties and directors

During the nine months period ended December 31, 2013, the Company paid or accrued the following:

a) London office rent of RMB276,388 (CAD$48,532) (2012 – RMB287,991) was paid or accrued to a company beneficially owned by Mr. Victor Hwang, the majority shareholder, director and officer of the Company.

b) Cash call received from and utilized for, PPC, a company owned by Mr. Hwang, the majority shareholder, director and officer of the Company for its 25% contribution to exploration costs were RMB 3,746,120 (CAD$657,791) (2012 – RMB2,457,000) and RMB2,916,475 (CAD$512,112) (2012 – RMB2,479,314) respectively. The balance is recorded as a cash call payable on the statement of financial position amounting to RMB968,115 (CAD$169,994) (2012 – RMB726,759).

c) Fees and benefits paid to key management personnel of the Company were RMB3,398,066 (CAD$596,675) (2012 – RMB4,070,545) and share based payments of RMB953,266 (CAD$167,386) (2012 – RMB755,973) were recognized for the 2,260,000 (2012 – 2,925,000) share options granted to these key management personnel.

d) Fees and benefits paid or accrued to directors were RMB436,700 (CAD$76,558) (2012 – RMB452,944) and share based payment of RMB711,438 (CAD$124,923) (2012 – RMB412,350) were recognized for the 1,750,000 (2012 – 1,250,000) share options granted to the directors.

e) The Company signed a debt settlement agreement with Mr. Victor Hwang on October 10, 2013. 9,427,742 Common Shares were issued to Mr. Hwang in settlement of US$5,000,000 of the existing debt owed by the Company to Mr. Hwang (CAD$5,185,000 at the agreed exchange rate of US $1/CAD$1.037) at a deemed price of CAD$0.55 per share.

   Shareholder loan of RMB 18,408,623 (CAD$3,232,418) (2012 – RMB29,132,909) represents interest-free loans with a principal balance of RMB21,192,898(CAD$3,721,317) (2012 – RMB30,370,770) 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$0.65 million, US$1.05 million and US$3.3 million respectively. 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 RMB2,784,275 (CAD$488,898) (2012 – RMB1,237,861) and the capitalized interest of RMB2,621,485 (CAD$460,313) (2012 – RMB608,191) were calculated using an effective rate of 10% per annum. RMB309,669 was recognized as a gain on extinguishment during nine months period ended December 31, 2012 (see Note 11 of the interim consolidated financial statements as at December 31, 2013).

f) Advances from a related party of RMB8,269,215(CAD$1,452,013) (2012 – RMB10,230,639) represents an interest-free balance with a principal amount of RMB9,681,500 (CAD$1,700,000) (2012 – RMB10,648,800) 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 RMB619,416(CAD$108,765) (2012 – RMB178,100) were calculated using an effective rate of 10% per annum. RMB1,111,304 (CAD$195,137) (2012 – RMB546,424) was recognized as a gain on extinguishment as a result of the revision of the facility terms during nine months period ended December 31, 2013 (see Note 11 of the interim consolidated financial statements as at December 31, 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 January 23, 2014, the Company closed the second and final tranche of the Private Placement. The Company issued a total of 1,520,000 units ("Units") at a price of CAD$0.55 per Unit for gross proceeds of C$836,000. Each Unit consists of one ordinary share (a "Common Share") and one half of one warrant (a "Warrant"). Each Warrant is exercisable to purchase a further Common Share at a price of C$0.90 per share for 24 months. The Company will have the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX Venture Exchange (the "TSX-V") exceeds C$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Agent was paid a cash commission of 7% of the gross proceeds and, together with members of its selling group, was issued 121,600 warrants ("Broker Warrants"), each exercisable to purchase a Common Share at C$0.55 per share for two years from the date of closing, equal to 8% of the number of Units sold.

Change in accounting standards

The Company has adopted the following new and revised standards, along with any consequential amendments, effective April 1, 2013. These changes were made in accordance with the applicable transitional provisions:

a) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation — Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of the standard has no impact on the Company's financial statements.

b) 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 adoption of the standard has no impact on the Company's financial statements.

(c) 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 adoption of the standard has no impact on the Company's financial statements.

(d)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 adoption of IFRS 13 did not require any adjustment to the valuation technique used by the Company to measure fair value and did not result in any measurement adjustments.

(e) 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 adoption of the standard has no impact on the Company’s financial statements.

The Company has not early adopted the following standards, amendments and interpretations to existing standards that are not yet effective.

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, 2014 or later periods. The standards that are applicable to the Company are as follows:

(a) IAS 32, “Financial instruments”: Presentation has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard has no impact on the Company.

(b) IAS 36, “Impairment of Assets”, has been amended to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard has no impact on the Company.

(c) IFRS 9, 'Financial Instruments’, 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.

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.

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

On January 24, 2014, the Company closed the second and final tranche of its previously announced private placement offering ("Placing") led by D&D Securities Inc (the "Agent") as Agent. In this second tranche Primeline issued a total of 1,520,000 units ("Units") at a price of $0.55 per Unit for gross proceeds of CAD$836,000. Each Unit consists of one ordinary share (a "Common Share") and one half of one warrant (a "Warrant"). Each Warrant is exercisable to purchase a further Common Share at a price of CAD$0.90 per share for 24 months from today. Primeline will have the right to accelerate expiry of the Warrants if the volume weighted average closing price of the common shares on the TSX Venture Exchange (the "TSX-V") exceeds CAD$1.35 per share for 10 consecutive trading days by giving notice, whereupon the Warrants will expire 30 days from the date of notice. The Agent was paid a cash commission of 7% of the gross proceeds and, together with members of its selling group, will be issued a number of warrants ("Broker Warrants") equal to 8% of the number of Units sold. Each Broker Warrant will be exercisable for 24 months to purchase a Common Share at CAD$0.55 per share.

As at February 28, 2014 there are 112,641,018 shares, 5,505,000 stock options and 5,320,050 warrants outstanding.

Quarter ended December 31, 2013

The Company's results for the quarter ended December 31, 2013 was a loss of RMB1,908,099 (CAD$335,048), compared to the loss of RMB2,364,487 for the same quarter last year, the decrease in loss of RMB456,388 (CAD$80,138) was mainly due to the decrease of businiess promotion of RMB164,461 (CAD$28,878), decrease of directors remuneration of RMB79,781 (CAD$14,009) and decrease of salary and benefit of RMB163,973 (CAD$28,792), and the result was partially set off by the increase of professional fees of RMB79,070 (CAD$13,884).

During the quarter exploration expenditures of RMB4,015,136 (CAD$705,028) were incurred, comprised mainly of technical evaluations & management of RMB623,903 (CAD$109,553), interest on funding of deferred exploration expenditures of RMB847,494 (CAD$148,814), project administration of RMB496,756 (CAD$87,227) and salaries and benefits of RMB1,701,744 (CAD$298,814). These amounts were capitalized as exploration and evaluation assets.

Nine months ended December 31, 2013

The Company's results for the nine months period to December 31, 2013 was a loss of RMB 4,926,460 (CAD$865,049), compared to the loss of RMB 4,805,328 (CAD$843,780) for the same period in 2012. The increase in the loss of RMB121,132 (CAD$21,270) was mainly due to the increase in professional and legal fee of RMB1,786,374 (CAD$ 313,674) and set off by the decrease in business promotion of RMB845,748 (CAD$148,507) and exchange gain of RMB 683,693 (CAD$120,051).

During the period, exploration expenditures of RMB13,747,489 (CAD$2,413,958) were incurred, comprised mainly of technical evaluations & management of RMB3,032,895 (CAD$532,554), interest on funding of deferred exploration expenditures of RMB3,043,626 (CAD$534,438), project administration of RMB1,517,597 (CAD$266,479) and salaries and benefits of RMB5,219,263 (CAD$916,464). These amounts were capitalized as exploration and evaluation assets.

Summary of Quarterly Results (Unaudited)

Quarter Ended	2013 Dec 31 CAD$	2013 Dec 31 RMB	2013 Sep 30 RMB	2013 Jun 30 RMB	2013 Mar 31 RMB
Net (loss) gain	(335,048)	(1,098,099)	(1,039,850)	(1,978,511)	508,236
Per basic share	(0.003)	(0.019)	(0.011)	(0.020)	0.034
Per diluted share	(0.003)	(0.019)	(0.011)	(0.020)	0.034

Quarter Ended	2012 Dec 31 RMB	2012 Sep 30 RMB	2012 Jun 30 RMB	2012 Mar 31 RMB
Net loss	(2,364,487)	(2,091,568)	(349,273)	(2,010,881)
Per basic share	(0.025)	(0.022)	(0.004)	(0.002)
Per diluted share	(0.025)	(0.022)	(0.004)	(0.002)

The loss for the quarter ended December 31, 2013 of RMB1,908,099 (CAD$335,048) was mainly attributable to professional fees of RMB896,874 (CAD$157,484), salary and benefit of RMB445,639 (CAD$78,251) and directors remuneration and benefit of RMB352,656 (CAD$61,924) and partially set off by exchange gain of RMB349,602 (CAD$61,388).

The loss for the quarter ended December 31, 2012 of RMB2,364,487 was mainly attributable to professional fees of RMB817,804, salary and benefit of RMB609,612 and directors remuneration and benefit of RMB432,437.

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.