Primeline Energy Holdings Inc.

Interim Condensed Consolidated Financial Statements
December 31, 2015
(Unaudited)

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

	Note	December 31, 2015 RMB'000	March 31, 2015 RMB'000 (Restated – Note 3)	December 31, 2015 CAD$'000 (Note 4)
Non-current assets				
Exploration and evaluation assets	7	457,379	306,267	96,616
Property, plant and equipment	8	1,891,593	1,981,224	399,576
Restricted cash	9	22,721	5,660	4,800
Restricted bank deposits	10	150,000	150,000	31,686
		2,521,693	2,443,151	532,678
Current assets				
Cash and cash equivalents		89,183	68,951	18,839
Trade receivables	21	275,591	34,186	58,215
Prepaid expenses and other receivables		9,725	6,796	2,054
Inventories	11	11,707	9,653	2,473
		386,206	119,586	81,581
Total assets		2,907,899	2,562,737	614,259
Equity attributable to shareholders				
Share capital	12	1,231	1,030	260
Reserves		842,931	773,493	178,059
Accumulated deficit		(286,955)	(149,018)	(60,618)
Total equity		557,207	625,505	117,701
Non-current liabilities				
Long term bank loan	10	1,398,984	1,502,578	295,518
Accounts payable	14	19,938	26,480	4,212
Convertible bonds	15	106,577	-	22,513
Decommissioning liabilities	9	151,529	147,777	32,009
		1,677,028	1,676,835	354,252
Current liabilities				
Bank loans	10	329,220	130,389	69,545
Shareholder's loan	13(d)	-	59,335	-
Derivative warrant liabilities	16	-	706	-
Accounts payable and accrued liabilities		192,942	69,967	40,758
Deferred income	21	151,502	-	32,003
		673,664	260,397	142,306
Total liabilities		2,350,692	1,937,232	496,558
Total shareholders' equity and liabilities		2,907,899	2,562,737	614,259

Approved by the Board of Directors

Director Director

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

Primeline Energy Holdings Inc.
Condensed Consolidated Statement of Loss and Comprehensive Loss (Unaudited)
For the three months and nine months ended December 31, 2015 and December 31, 2014
(In RMB)

	Notes	**Three Months Ended December 31**			**Nine Months Ended December 31**		
		2015 RMB'000	**2014 RMB'000 (Restated – Note 3)**	**2015 CAD$'000 (note 4)**	**2015 RMB'000**	**2014 RMB'000 (Restated – Note 3)**	**2015 CAD$'000 (note 4)**
Revenue							
Oil and gas	17	166,114	67,577	35,090	203,802	67,577	43,051
Interest and other income	18	2,292	658	484	7,701	2,324	1,627
Exchange gain (loss), net		(55,304)	(20,436)	(11,682)	(92,182)	(20,149)	(19,472)
Expenses							
Production Costs		35,889	11,228	7,581	77,137	11,228	16,294
General and administrative		1,807	2,206	382	8,220	5,327	1,736
Depletion and depreciation		76,643	41,729	16,190	101,153	41,729	21,367
Bank interest expenses		22,958	8,100	4,850	66,996	8,100	14,152
Accretion	9	1,261	-	266	3,752	-	793
		138,558	63,263	29,269	257,258	66,384	54,342
Loss and comprehensive loss		(25,456)	(15,464)	(5,377)	(137,937)	(16,632)	(29,136)
		RMB	RMB	CAD	RMB	RMB	CAD
Basic and diluted loss per share		(0.142)	(0.098)	(0.030)	(0.794)	(0.106)	(0.168)
Weighted average number of common shares outstanding	3.2	178,920,168	157,460,869	178,920,168	173,821,819	157,427,051	173,821,819

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

Primeline Energy Holdings Inc.
Condensed Consolidated Statement of Changes in Equity (Unaudited)
(In RMB)

	Attributable to equity owners of the company						
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Shares Purchase Warrants Reserve	Deficit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance – April 1, 2014 (Restated – Note 3)	1,028	484,240	202,176	67,167	1,213	(132,009)	623,815
Warrants exercised	2	727	-	-	(263)	-	466
Discount on shareholder loan			5,465	-		-	5,465
Share based payments	-	-	-	2,512	-	-	2,512
Shareholder contribution	-	-	10,256	-	-	-	10,256
Loss and comprehensive loss for the year	-	-	-	-	-	(17,009)	(17,009)
Balance – March 31, 2015 (Restated – Note 3)	1,030	484,967	217,897	69,679	950	(149,018)	625,505
Shareholder loan conversion to shares	193	40,145	18,719	-	-	-	59,057
Share based payments	-	-	-	1,228	-	-	1,228
Convertible bonds options	-	-	-	8,806	-	-	8,806
Issue shares in payment of Bond interest accrued	8		-	-	-	-	8
Issue costs of Convertible bonds	-	178	-	-	-	-	178
Shareholder contribution	-	-	363	-	-	-	363
Loss and comprehensive loss for the period	-	-	-	-	-	(137,937)	(137,937)
Balance – December 31, 2015	1,231	525,289	236,979	79,713	950	(286,955)	557,207
Balance –December 31, 2015, in CAD$'000 (Note 4)	260	110,961	50,059	16,838	201	(60,618)	117,701

	Attributable to equity owners of the company						
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Shares Purchase Warrants Reserve	Deficit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance – April 1, 2014 (Restated)	1,028	484,240	202,176	67,167	1,213	(132,009)	623,815
Warrants exercised	2	727	-	-	(263)	-	466
Discount on shareholder loan	-	-	5,465	-	-	-	5,465
Share based payments	-	-	-	2,086	-	-	2,086
Shareholder contribution	-	-	6,813	-	-	-	6,813
Loss and comprehensive loss for the period	-	-	-	-	-	(16,632)	(16,632)
Balance – December 31, 2014 (Restated)	1,030	484,967	214,454	69,253	950	(148,641)	622,013

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

Primeline Energy Holdings Inc.
Condensed Consolidated Statement of Cash Flows (Unaudited)
For the nine months ended December 31, 2015 and December 31, 2014
(In RMB)

	Note	December 31, 2015 RMB'000	December 31, 2014 RMB'000 (Restated – Note 3)	December 31, 2015 CAD$'000 (Note 4)
Cash flows from operating activities				
Loss for the period		(137,937)	(16,632)	(29,137)
Items not involving cash				
Gain on disposal of property, plant and equipment	8	(150)	-	(32)
Interest income		(7,033)	(53)	(1,486)
By product inventory		(2,053)	(2,051)	(434)
Depletion and depreciation	8	101,153	41,729	21,367
Finance income from fair value adjustment of advance from related company				
Finance income from fair value adjustment of warrant liability		(657)	(2,111)	(139)
Finance costs		70,749	8,099	14,945
Stock-based compensation	12(c)	736	1,137	155
Unrealized foreign exchange loss		93,942	15,265	19,844
		118,750	45,383	25,083
Changes in non-cash working capital items:				
Trade receivables and prepaid expenses		(87,432)	(36,161)	(18,469)
Deferred income included in trade receivables		(151,502)	-	(32,003)
Accounts payable and accrued liabilities		14,914	331	3,151
Deferred income		151,502	-	32,003
		(72,518)	(35,830)	(15,318)
		46,232	9,553	9,765
Cash flows from investing activities				
Oil and gas development assets	8	(8,832)	(1,651,591)	(1,866)
Expenditures on exploration and evaluation assets	7	(30,357)	(56,519)	(6,413)
Disposal of property, plant and equipment	8	150	-	32
Interest received		1,633	5	345
Trial production		-	187,662	-
		(37,406)	(1,520,443)	(7,902)
Cash flows from financing activities				
Gross proceeds of broker warrants exercised		-	466	-
Share issue costs		(146)		(31)
Loan drawdown		135,400	1,614,182	28,601
Loan repayment		(135,450)		(28,612)
Restricted bank deposits		-	(130,000)	-
Restricted cash		(17,062)	-	(3,604)
Interest paid		(87,959)	(5,816)	(18,581)
Shareholder loan advance	13(d)	-	50,335	-
Issuance of convertible bonds		114,740	-	24,237
		9,523	1,529,167	2,010
Increase in cash and cash equivalents		18,349	18,277	3,873
Effect of foreign exchange rate on cash and cash equivalents		1,883	(60)	401
Cash and cash equivalents - Beginning of period		68,951	24,735	14,565
Cash and cash equivalents - End of period		89,183	42,952	18,839

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

1. Nature of Operations

Primeline Energy Holdings Inc. (the Company) was incorporated under the Companies Law of the Cayman Islands on March 31, 1995. The Company is in the business of exploration, development and production of offshore oil and gas properties in the People's Republic of China (PRC).

On August 14, 2015, following receipt of disinterested shareholder approval at its Extraordinary General Meeting held on June 30, 2015, the Company completed the acquisition of the one issued and outstanding share of Primeline Petroleum Corporation (PPC), and the right to be repaid the shareholder loan of RMB 204,408,862 (CAD$ 43,224,453) owing to Primeline International (Holdings) Inc. (PIHI), a private company wholly-owned by Mr. Victor Hwang, the Company's Chairman, President and majority shareholder (the Acquisition). PPC's major assets are its 12.25% interest in the Petroleum Contract relating to Block 25/34 and its 25% interest in the Petroleum Contract relating to Block 33/07 in the East China Sea (Petroleum Contracts). The consideration for the Acquisition was the issuance to PIHI of 44,669,851 ordinary shares of the Company (Shares), representing one third of the number of issued and outstanding Shares as of the Acquisition date. The closing price of the Shares on the TSX –V on August 12, 2015, the last trading day prior to the issuance to PIHI, was CAD$ 0.42.

The Company owns exploration, development and production rights in the East China Sea in relation to Block 25/34 (Petroleum Contract 25/34) and Block 33/07 (Petroleum Contract 33/07). The Petroleum Contracts were entered into between China National Offshore Oil Corporation (CNOOC), a Chinese State oil company, and the Company's wholly owned subsidiaries, Primeline Energy China Ltd. (PECL), and Primeline Petroleum Corporation (PPC).

Block 25/34 is the development and production area for the LS36-1 gas field (LS36-1). CNOOC is the Operator with a 51% interest, and PECL and PPC hold 36.75% and 12.25% interests respectively. On July 1, 2014, the development of LS36-1 was officially completed and CNOOC and the downstream buyer, Zhejiang Provincial Gas Development Co. (Zhejiang Gas), commenced joint commissioning of the upstream and downstream facilities. Trial gas production from LS36-1 commenced on July 16, 2014. On October 29, 2014, CNOOC, as sales agent, and Zhejiang Gas signed the final Natural Gas Sale Agreement (Gas Sale Contract). This supersedes the Gas Sale Agreement-in principle and subsequent Framework and Amendment Agreements signed between 2008 and 2012 and confirms general commercial terms already negotiated including, inter alia, gas quality, take-or-pay principles, base price and annual quantity.

Prior to revenues from LS36-1, the Company's Chairman, President and majority shareholder (Mr. Hwang) provided the Company with interest free loans for a total of US$ 10.1667 million. These were converted into 21,218,535 ordinary shares of the Company (Shares) in June 2015. On November 17, 2014, the Company and PPC signed contracts for the project finance facility for the financing of the costs to complete LS36-1 (Syndicate Facility) with China Development Bank (CDB), China Export-Import Bank (EXIM) and Shanghai Pudong Development Bank (SPDB). CDB, EXIM and SPDB are collectively referred to as the "Syndicate". The Syndicate Facility is for a total amount of US$274 million and repayable over nine years. The Company has fully drawn down the Syndicate Facility and repaid to CNOOC its share of the costs incurred to date in the development of LS36-1 and is now subject to normal obligations to fund cash calls in relation to operations.

Block 33/07 covers an offshore area enclosing Block 25/34. PECL and PPC are collectively the Contractors with interests of 75% and 25% respectively. The Contractors are responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development. Primeline Energy

Operations International Ltd (PEOIL), a wholly owned subsidiary of the Company, is the Operator for Block 33/07 for the exploration, development and production operations within this contract area. In order to fully fund the exploration work commitment under Petroleum Contract 33/07, the Company entered into a binding subscription agreement dated June 5, 2015 with GRF Prime Limited (GRF Prime), a resources fund managed by GEMS Investment Management Limited (GEMS), a Hong Kong based manager of private equity funds, under which GRF Prime agreed to purchase US$20 million principal amount of unsecured Convertible Bonds to be issued by the Company (the "Bonds"). The first US$10 million principal amount of Tranche A Bonds was drawn down on August 14, 2015 and a second tranche of US$8 million principal amount Tranche B Bonds was drawn down on November 10, 2015.

Zhejiang Gas may not honour the Gas Sale Contract or may negotiate a lower price for gas sold thereunder. If so, the Company's revenues will be lower than anticipated, and there may be a serious consequent adverse effect on the Company's debt repayment obligations under the Syndicate Facility and on impairment, going concern and liquidity test results.

2. Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and follow the same accounting policies and methods of application as the Company's most recent annual audited consolidated financial statements which were prepared in accordance with International Financial Reporting Standard (IFRS) as issued by the International Accounting Standard Board (IASB). These condensed consolidated financial statements were approved for issue on February 29, 2016. The comparative figures have been restated (Note 3) to give effect to the common control acquisition of PPC (Note 1). Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. The condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2015.

3. Continuity of Interest Basis of Accounting

The Acquisition is considered to be a common control transaction under applicable Canadian securities laws. As the acquisition has been determined to be a common control transaction, it has been accounted for on a continuity of interest basis. In accordance with the continuity basis of accounting, these unaudited condensed interim consolidated financial statements reflect the assets, liabilities, operations and cash flows of the Company as if the Company and PPC had always been one entity. There is currently no guidance in IFRS on the accounting treatment for combinations among entities under common control. IAS 8 – Accounting policies, changes in accounting estimates and errors (IAS 8) requires management, if there is no specifically applicable standard of interpretation, to develop a reliable policy that is relevant to the decision making needs of users. US GAAP requires an acquirer in a combination between entities or business under common control to recognize the assets acquired and liabilities assumed in the transaction at their carrying amounts in the accounts of the transferring entities at the date of transfer. A summary of the retrospective accounting is as follows:

3.1 Consolidated Statement of Financial Position as at March 31, 2015

	March 31, 2015 RMB'000 (As previously reported)	**Mar 31, 2015 RMB'000 (PPC)**	**Intercompany adjustments**	**Mar 31, 2015 RMB'000 (As Restated)**	**Mar 31, 2015 CAD$'000 (As Restated)**
Non-current assets					
Exploration and evaluation assets	233,873	75,501	(3,107)	306,267	64,764
Property, plant and equipment	1,478,476	502,748	-	1,981,224	418,952
Restricted cash	4,245	1,415	-	5,660	1,197
Restricted bank deposits	112,500	37,500	-	150,000	31,719
	1,829,094	617,164	(3,107)	2,443,151	516,632
Current assets					
Cash and cash equivalents	53,179	15,772	-	68,951	14,580
Trade receivables	25,639	8,547	-	34,186	7,229
Amount due from a related company	-	3,014	(3,014)	-	-
Prepaid expenses and deposit	5,357	1,439	-	6,796	1,437
Inventories	7,240	2,413	-	9,653	2,041
	91,415	31,185	(3,014)	119,586	25,287
Total assets	1,920,509	648,349	(6,121)	2,562,737	541,919
Equity attributable to shareholders					
Share capital	1,030	-	-	1,030	218
Reserves	569,793	-	203,700	773,493	163,564
Accumulated deficit	(122,168)	(24,089)	(2,761)	(149,018)	(31,512)
Total equity	448,655	(24,089)	200,939	625,505	132,270
Non-current liabilities					
Long term bank loan	1,126,933	375,645	-	1,502,578	317,737
Accounts payable	19,859	6,621	-	26,480	5,600
Decommissioning liabilities	110,834	36,943	-	147,777	31,249
	1,257,626	419,209	-	1,676,835	354,586
Current liabilities					
Bank loan	97,792	32,597	-	130,389	27,572
Shareholder's loan	59,335	-	-	59,335	12,547
Amount due to shareholder and entities controlled by shareholder	-	204,046	(204,046)	-	-
Derivative warrant liabilities	706	-	-	706	149
Accounts payable and accrued liabilities	53,381	16,586	-	69,967	14,795
Cash call payable	3,014	-	(3,014)	-	-
	214,228	253,229	(207,060)	260,397	55,063
Total liabilities	1,471,854	672,438	(207,060)	1,937,232	409,649
Total shareholders' equity and liabilities	1,920,509	648,349	(6,121)	2,562,737	541,919

3.2 Consolidated Statement of Loss and Comprehensive Loss for the three months and nine months ended December 31, 2014

Three Months Ended Nine Months Ended

	December 31				December 31			
	2014	2014	2014	2014	2014	2014	2014	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(As previously reported)	(PPC)	Inter-company Adjustment	**(As restated)**	(As previously reported)	(PPC)	Inter-company Adjustment	**(As restated)**
Revenue								
il and gas	50,683	16,894	-	67,577	50,683	16,894	-	67,577
Interest and other income	605	1,282	(1,229)	658	2,271	1,282	(1,229)	2,324
Exchange gain (loss), net	(15,423)	(5,013)	-	(20,436)	(15,381)	(4,768)	-	(20,149)
Expenses								
Production Costs	8,423	2,805	-	11,228	8,423	2,805	-	11,228
General and administrative	2,201	5	-	2,206	5,322	5	-	5,327
Depletion and depreciation	31,277	10,452	-	41,729	31,277	10,452	-	41,729
Bank interest expenses	6,074	2,026	-	8,100	6,074	2,026	-	8,100
Accretion	-	-	-	-	-	-	-	-
	47,975	15,288	-	63,263	51,096	15,288	-	66,384
Profit/(Loss) and comprehensive loss	(12,110)	(2,125)	(1,229)	(15,464)	(13,523)	(1,880)	(1,229)	(16,632)
	RMB			RMB	RMB			RMB
Basic and diluted profit(loss) per share	(0.077)			(0.137)	(0.120)			(0.148)
Weighted average number of common shares outstanding	157,460,869			157,460,869	157,427,051			157,427,051

4. Convenience Translation into CAD$

The Canadian dollar (CAD$) amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. The financial information presented in CAD$ has been translated from Chinese Yuan Renminbi (RMB) using a convenience translation at the rate of RMB4.734 to CAD$1, which is the exchange rate published in South China Morning Post as of December 31, 2015. Such presentation is not in accordance with IFRS and should not be construed as a representation that the RMB amounts shown could be readily converted, realized or settled in CAD$ at this or at any other rate.

5. Changes in accounting standards

New, Amended and Future IFRS Pronouncements

IFRS 9 – Financial Instruments

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

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

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

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

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

IFRS 15 - Revenue from Contracts with Customers

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

IFRS 16 - Leases

IFRS 16, Leases, establishes that all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after December 31, 2018. The extent of the impact of adoption of the standard has not yet been determined.

6. Financial risk management

6.1 Financial risk factors

The Company's financial instruments consist of the Syndicate Facility, cash and cash equivalents, accounts payable and accrued liabilities, shareholder loan, cash calls payable and derivative warrant liabilities.

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

The fair value of the financial assets and current liabilities approximates their carrying value given the short-term maturity of these instruments.

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

(a) Currency risk

The Company held financial instruments in different currencies during the period/year ended as follows:

	December 31, 2015	March 31, 2015 (Restated)
Cash and cash equivalents of:		
- CAD$ ‘000	102	103
- US$ ‘000	7,489	619
- GBP ‘000	12	12
- HK$ ‘000	533	1,720
Shareholder loan of US$ ‘000	-	(10,167)
Bank loans and interest of US$ ‘000	(253,425)	(265,714)

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

	December 31, 2015	March 31, 2015 (Restated)	December 31, 2015
	RMB’000	RMB’000	CAD$’000
- CAD$	48	50	10
- US$	171,368	170,910	36,200
- GBP	12	11	3
- HK$	45	138	10

(b) Credit and trade receivables risk

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

The Company’s cash and cash equivalents outside China are principally held at a large international financial institution in interest bearing accounts. The majority of current cash balances are held at a Chinese financial institution in RMB, primarily for the purpose of debt servicing requirements relating to the Syndicate Facility.

The Company currently sells its natural gas to a single customer, Zhejiang Gas through CNOOC (China) Limited (CCL) and receives sales proceeds on a weekly basis. The Company is exposed to significant risk with regard to its trade receivables position. See Note 21.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Financing may be required in relation to any future exploration and development work.

The Company issued US$10 million principal amount of Tranche A Bonds to GRF Prime on August 14, 2015 and US$8 million principal amount Tranche B Bonds on November 10, 2015 to fund the operation and exploration work relating to Block 33/07. See Note 20 (a).

(d) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk relating to the Syndicate Facility.

7. Exploration and evaluation assets

	Exploration and evaluation assets
	RMB'000
Balance at April 1, 2014 (Restated – Note 3))	623,556
Transfer to property, plant and equipment	(388,979)
Additions	71,690
Balance at March 31, 2015 (Restated – Note 3)	306,267
Additions	151,112
Balance at December 31, 2015	457,379
	CAD$'000
Balance at December 31, 2015 in CAD$ (Note 4)	96,616

Petroleum Contract 33/07 covers an offshore area enclosing Block 25/34. The Company is the Contractor and responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development. It provides for an exploration period of 7.5 consecutive years divided into 3 exploration periods of 3.5, 2 and 2 years each with a minimum work commitment in the first phase of two wells plus 600 sq. kms of 3D seismic surveys. The commitment for each of the second and third phases is one well (See Note 20(a)). At the end of phase one, the Company has the option to enter into phase two or terminate. Exploration and evaluation assets additions incurred during the period to December 31, 2015 are mainly attributed to the drilling of the LS23-1-1 and LS30-3-1 wells spudded in September and November 2015 respectively.

8. Property, plant and equipment

In accordance with Petroleum Contract 25/34 entered into with CNOOC, the production period for LS36-1 is for a minimum of 15 years from the commencement of commercial production and may be extended by agreement between the parties in the event that additional gas resources are discovered which can be conveniently tied into, transported and processed using the production facility. The Company has performed an assessment that the recoverable amount of the LS36-1 CGU at period-end exceeds the carrying value. Key inputs from the Gas Sale Agreement include gas base price and quality, take-or-pay principles and annual quantity and any change in these inputs may have a material impact on the result of the assessment. Assumptions by management included liquids and by-products yields, the oil price forecast from the independent engineer, estimates of reserves and resources comprising proved, probable and certain prospective resources, consistent with the independent engineer's reserve report and a discount rate of 12%.

	Oil & Gas Properties	**Computer & Office Equipment**	**Total**	**Total**
	RMB'000	RMB'000	RMB'000	CAD$'000
				(Note 4)
COST				
At April 1, 2014 (Restated – Note 3)	-	20	20	4
Additions	1,878,540	-	1,878,540	396,819
Transfer from exploration and evaluation assets	388,979	-	388,979	82,167
Less: Trial production revenue	(187,661)	-	(187,661)	(39,641)
At March 31, 2015 (Restated – Note 3)	2,079,858	20	2,079,878	439,349
Additions	11,522	-	11,522	2,434
Disposal	(458)	-	(458)	(97)
At December 31, 2015	2,090,922	20	2,090,942	441,686
DEPRECIATION				
At April 1, 2014 (Restated- Note 3)	-	12	12	3
Charge for the period	98,636	6	98,642	20,837
At March 31, 2015 (Restated – Note 3)	98,636	18	98,654	20,840
Charge for the period	101,153	-	101,153	21,367
Disposal	(458)	-	(458)	(97)
At December 31, 2015	199,331	18	199,349	42,110
CARRYING VALUES	RMB'000	RMB'000	RMB'000	CAD$000
At April 1, 2014 (Restated)	-	8	8	1
At March 31, 2015 (Restated)	1,889,550	2	1,981,224	418,509
At December 31, 2015	**1,891,591**	**2**	**1,891,593**	**399,576**

On December 1, 2015, the Company disposed of a company van for RMB 150,000. It was bought at a cost of RMB 458,000 and fully depreciated at disposal.

9. Decommissioning Liabilities

	December 31, 2015 RMB'000	**March 31, 2015** RMB'000 (Restated)	**December 31, 2015** CAD$'000 (Note 4)
Balance, beginning of year (Restated – Note 3)	147,777	-	31,216
Additions	-	146,547	-
Accretion	3,752	1,230	793
Balance, end of year/period	151,529	147,777	32,009

The total undiscounted future decommissioning liabilities, including costs to reclaim and abandon wells and facilities in the years in which such costs are expected to be incurred is derived from estimates received from CNOOC per the Overall Development Plan (ODP) for LS36-1 to be RMB 417,820,000. The Company's share of the liability is RMB204,731,800 in total.

At December 31, 2015, PECL and PPC's share of the liability is the principal amount of RMB204,731,800(CAD$43,247,106), which has a net present value of RMB151,529,307 (CAD$32,008,726) (assuming the liability is settled in 10 years and using an estimated risk-free nominal interest rate of 3.4% which equates to the long term yield on PRC government bonds). The decommissioning liability has been determined to be non–current. Financing costs relating to the accretion of the decommissioning liabilities are RMB3,752,516(CAD$792,674).

Cash held as security for the decommissioning costs is reported in the balance sheet as restricted cash of RMB22,721,300 (CAD$4,800,000).

10. Bank Loans

	December 31, 2015 RMB'000	**March 31, 2015** RMB'000 (Restated – Note 3)	**December 31, 2015** CAD$'000
Within one year	329,220	130,389	69,545
More than one year	1,398,984	1,502,578	295,518
Secured floating-rate bank loan	1,728,204	1,632,967	365,063

On November 17, 2014, the PECL and PPC signed the Syndicate Facility as joint and several borrowers. The Syndicate Facility is secured on their respective interests in LS36-1. The principal amount of the Syndicate Facility is US$274 million which is repayable over 9 years at an all-in interest rate of 6 month LIBOR+4.7% with interest and principal repayments made bi-annually (except the first year which is annually).

On December 9 and 24, 2015, PECL signed a short term RMB banking facility with SPDB (the RMB Banking Facility) reserved for LS36-1 operations. The principal amount of the facility is RMB66.5 million which is repayable on December 9, 2016 at 4.0455% interest rate per annum.

The principal repayment amounts outstanding under the Syndicate Facility are as follows:

	December 31, 2015	**December 31, 2015**
	RMB'000	CAD$ '000
Within 1 year	262,720	55,498
More than 1 year, but not more than 5 years	1,037,744	219,210
More than 5 years	361,240	76,308
Total	1,661,704	351,016

The estimated interest amounts outstanding under the Syndicate Facility are as follows:

	December 31, 2015	**December 31, 2015**
	RMB'000	CAD$ '000
Within 1 year	45,196	9,547
More than 1 year, but not more than 5 years	190,949	40,336
More than 5 years	20,331	4,295
Total	256,476	54,178

The principal repayment amounts outstanding under the RMB Banking Facility are as follows:

	December 31, 2015	**December 31, 2015**
	RMB'000	CAD$ '000
Within 1 year	66,500	14,047
More than 1 year, but not more than 5 years	-	-
More than 5 years	-	-
Total	66,500	14,047

The estimated interest amounts outstanding under the RMB Banking facility are as follows:

	December 31, 2015	**December 31, 2015**
	RMB'000	CAD$ '000
Within 1 year	2,607	551
More than 1 year, but not more than 5 years	-	-
More than 5 years	-	-
Total	2,607	551

Under the Syndicate Facility, the Company is also required to fund a Debt Service Reserve Account in no less than the aggregate amount of the next principal payment, next interest payment and any other expenses payable to the lenders. Restricted cash on deposit of RMB150,000,000 (CAD$31,685,678) is cash held in the DSRA on a 3-year term for the purpose of servicing the Syndicate Facility, which can be accessed with penalty loss of interest and/or permission of the Syndicate. The first principal repayment of US$21 million was paid on November 20, 2015. The next principal payment of US$21 million will be due on May 20, 2016. As at December 31, 2015 the Company was in compliance with all its covenants under the Syndicate Facility, including, inter alia, a debt coverage ratio and an asset indebtedness ratio.

11. Inventories

	December 31, 2015 RMB'000	March 31, 2015 RMB'000 (Restated – Note 3)	December 31, 2015 CAD'000
Condensate	220	131	47
Light oil	43	64	9
CO2	23	22	4
LPG	267	-	57
Drilling materials and supplies	11,154	9,436	2,356
	11,707	**9,653**	**2,473**

12. Share Capital and Share Options

a) Share Capital

	Number of shares	**Share Capital RMB'000**	**Share Premium RMB'000**	**Total RMB'000**	**Total CAD$'000**
Balance – as at April 1, 2014	112,641,018	1,028	484,240	485,268	102,507
Shares issued to acquire PPC (ii)	44,669,851	-	-	-	-
Balance – as at April 1, 2014 (Restated – Note 3)	157,310,869	1,028	484,240	485,268	102,507
Broker Warrants exercised	150,000	2	727	729	154
Balance – as at March 31, 2015 (Restated – Note 3)	157,460,869	1,030	484,967	485,997	102,661
Shareholder loan converted to Shares (i)	21,218,535	193	40,145	40,338	8,521
Issue of shares in payment of interest accrued	892,528	8	(8)	-	-
Issue of Bonds (iii)	-	-	185	185	39
Balance – as at December 31, 2015	179,571,932	1,231	525,289	526,520	111,221

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

(ii) On August 14, 2015, the Company completed the acquisition of PPC by the issuance of 44,669,851 Shares to PIHI representing one third of the number of issued and outstanding Shares as of June 26, 2015, the date of the Sale and Purchase Agreement relating to the acquisition. The closing price of the Shares on the TSX-V on August 12, 2015, the last trading day prior to the issuance to PIHI, was CAD$0.42. Following the completion of the acquisition, Mr. Hwang had ownership and control of 125,213,470 Shares representing approximately 70.08% of the issued and outstanding Shares on a non-diluted basis. Under continuity of interests accounting, the share issuance is treated as if it had occurred by April 1, 2014.

(iii) According to the Subscription Agreement dated June 5, 2015, interest is payable on the Bonds quarterly at 7% per annum, of which 4.5% is to be paid in cash and 2.5% in Shares. In the period, 131,647 and 760,881 Shares were issued to GRF Prime at a deemed price per Share of $0.21 and $0.1479 respectively, equal to the higher of the closing price of the Shares on the day before, and the volume-weighted average TSX-V trading price of the Shares for the 10 days preceding, on the interest payment dates of September 15 and December 15, 2015 (Note 15).

b) *Broker Warrants*

	Warrants outstanding	Value assigned RMB'000	Value assigned CAD$'000	Average exercise price CAD$
As at April 1, 2014	733,800	1,213	257	0.55
Broker Warrants exercised (see Note 12(a)	(150,000)	(263)	(56)	0.55
Broker Warrants expired Dec 30, 2015	(462,200)			0.55
As at December 31, 2015	121,600	950	201	0.55

The number of Broker Warrants outstanding and exercisable as at December 31, 2015 (See Note 22(a)) is set out below:

Exercise Price CAD$	Expiry date	Number
0.55	January 23, 2016	121,600

(In RMB)

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 on January 23, 2014
Risk free interest rate	0.97%
Expected dividend yield	Nil
Expected stock price volatility	73%
Expected warrant life	24 Months

c) Share Purchase Options

The Company has a stock option plan (Plan), pursuant to which the directors are authorized to grant options to purchase up to 10% of the issued and outstanding Shares from time to time. The options enable the directors, officers, consultants and employees of the Company to acquire Shares. The board of directors, subject to TSX-V policy, sets the exercise price of a share option. Options granted under the Plan may have a maximum term of ten years and, subject to any vesting restrictions imposed by the TSX-V, shall vest over such period as is determined by the board of directors at the grant date.

The following table summarizes the stock option activity under the Plan:

	Options outstanding	**Weighted Average exercise price CAD$**	**Options exercisable**	**Weighted Average exercise price CAD$**
As at April 1, 2014	5,505,000	0.49	2,400,000	0.37
Granted	450,000	0.68	150,000	0.68
Expired	(20,000)	0.60	-	-
As at March 31, 2015	5,935,000	0.51	2,550,000	0.38
Vested	-	-	3,085,000	0.60
Expired	(275,000)	(0.47)	(275,000)	(0.47)
As at December 31, 2015	5,660,000	0.51	5,510,000	0.51

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, 2015			
CAD$0.32	1,900,000	1.33 years	1,900,000
CAD$0.50	500,000	2.24 years	500,000
CAD$0.60	3,085,000	2.49 years	-
CAD$0.68	450,000	4.37 years	150,000
	5,935,000	**1.99 years**	**2,550,000**
As at December 31, 2015			
CAD$0.32	1,775,000	0.57 years	1,775,000
CAD$0.50	500,000	1.48 years	500,000
CAD$0.60	2,935,000	1.74 years	2,935,000
CAD$0.68	450,000	3.61 years	300,000
	5,660,000	**1.29 years**	**5,510,000**

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 325,000 options have expired and 1,775,000 options expire on July 27, 2016.

On July 9, 2012, the Company granted 500,000 options at an exercise price of CAD$0.50 per share to D&D Securities Inc. in consideration of ongoing investor relations services. The options expire 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 of which 170,000 options expired and 2,935,000 expire on September 26, 2017. Share based payments of RMB331,150 (CAD$69,951), RMB115,901 (CAD$24,483) and RMB150,521 (CAD$31,796), (2014 – RMB528,778, RMB179,283 and RMB240,354) and RMB46,661(CAD$9.857) (2014 – RMB 5,641) were recognized as Directors remuneration and benefit, salary & benefit, professional fees and production costs respectively in the consolidated statement of loss and comprehensive loss. Share based payment of RMB284,488 (CAD$60,095) (2014 – RMB454,269 and Nil (2014 – RMB68,869), were capitalized as exploration and evaluation assets and property, plant and equipment. 3,085,000 options vested on June 5, 2015 upon the conversion of shareholder loan. (Note 12(a))

On August 11, 2014, the Company granted 450,000 options at an exercise price of CAD$0.68 per share to an officer. Such options will expire on August 11, 2019. Share based payments of RMB89,808 (CAD$18,971) (2014 – RMB91,381) were recognized as salary and benefit respectively in the consolidated statement of loss and comprehensive loss. Share based payment of RMB209,553 (CAD$44,266) (2014 – RMB213,220) was capitalized as exploration and evaluation assets.

At December 31, 2015, there are 179,571,932 Shares, 5,660,000 stock options and 881,600 Warrants/Broker Warrants.

13. Transactions with related parties and directors

During the period ended December 31, 2015, the Company paid or accrued the following:

a) London office rent of RMB122,485 (CAD$25,873) (December 31, 2014 – RMB291,242) was paid or accrued to Falkenberg Investment Limited, a comppany beneficially owned by Mr. Hwang.

b) Fees and benefits paid or accrued to key management personnel of the Company being Dr. Ming Wang, Mr. Andrew Biggs, Mr. Stuart Joyner and Mr. Mark Norman were RMB4,837,897 (CAD$1,021,947) (December 31, 2014 – RMB4,671,386) and share based payment of RMB641,046 (CAD$135,413) (December 31, 2014 – RMB1,154,063) was recognized for the 2,360,000 (December 31, 2014 – 2,360,000) share options granted to these key management personnel.

c) Fees and benefits paid or accrued to directors being Mr. Brian Chan, Mr. Peter Kelty, Mr.Yunshi Cao, Mr. Alan Johnson, Mr. Vincent Lien and Mr. Timothy Baldwin were RMB379,171 (CAD$80,095) (December 31, 2014 – RMB418,000) and share based payment of RMB331,150 (CAD$69,951) (December 31, 2014 – RMB528,778) was recognized for the 2,100,000 (December 31, 2014 – 2,100,000) share options granted to the directors.

d) Shareholder loan of RMB Nil (CAD$ Nil) (March 31, 2015 – RMB59,335,376) represents interest-free loans with a principal balance of RMB Nil (CAD$ Nil) (March 31, 2015 – RMB63,124,835). On June 5, 2015, the Company's shareholder loan of US$10.1667 million from Mr. Hwang was converted into 21,218,535 Shares at a conversion price of CAD$0.58 per share with TSX-V approval. The shareholder loan was recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB Nil (CAD$ Nil) (December 31, 2014 – RMB5,464,982) and the capitalized interest of RMB874,194 (CAD$184,663) (December 31, 2014 – RMB2,887,859) were calculated using an effective rate of 10% per annum during the period ended December 31, 2015.

14. Long term accounts payable

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

15. Convertible bonds

On August 14, 2015 the Company completed the first tranche of its private placement of Bonds in the aggregate principal amount of US$20 million. Primeline issued US$10 million principal amount Tranche A Bonds to GRF Prime. The term of the Tranche A Bonds is three years extendable for two one-year periods. Interest is payable quarterly at 7% per annum, of which 4.5% will be paid in cash and 2.5% in Shares issued at a deemed price per Share equal to the volume-weighted average trading price of the Shares on the TSX-V for the 10 days preceding the interest payment date. The Tranche A Bonds are convertible, at the option of GRF Prime, at any time during the period commencing four months and a day following the date of issuance of the Tranche A Bonds up to the date that is 10 days prior to the date of maturity of the Tranche A Bonds, into Shares at a conversion price of CAD$0.70 per Share.

The Tranche A Bonds had a total nominal value of RMB63,940,000 (CAD$13,506,548) at August 14, 2015. The value of the liability component of RMB59,026,215 (CAD$12,48,571) and the equity conversion component of RMB4,913,785 (CAD$1,037,977), net of transaction cost of RMB5,738,241 (CAD$1,212,134), were determined at the date of issuance of the Bonds.

On November 10, 2015, the Company completed the second tranche of its private placement of Bonds in the aggregate principal amount of US$20 million. Primeline issued US$8 million principal amount Tranche B Bonds to GRF Prime. The term of the Tranche B Bonds is three years extendable for two one-year periods. Interest is payable quarterly at 7% per annum, of which 4.5% will be paid in cash and 2.5% in Shares issued at a deemed price per Share equal to the volume-weighted average trading price of the Shares on the TSX-V for the 10 days preceding the interest payment date. The Tranche B Bonds will be convertible, at the option of GRF Prime, at any time during the period commencing four months and a day following the date of issuance of the Tranche B Bonds up to the date that is 10 days prior to the date of maturity of the Tranche B Bonds, into Shares at a conversion price of CAD$0.85 per Share.

The Tranche B Bonds had a total nominal value of RMB50,800,000 (CAD$10,730,883) at November 10, 2015. The value of the liability component of RMB46,907,627 (CAD$9,908,666) and the equity conversion component of RMB3,892,213 (CAD$822,183), net of transaction cost of RMB220,709 (CAD$46,622), were determined at the date of issuance of the Bonds.

The fair value of the liability component included in the Bonds was calculated using a market interest rate for an equivalent non-convertible Bond. The liability component is subsequently stated at amortised cost until extinguished on conversion or maturity of the Bond. The residual amount, representing the value of the equity conversion component, is included in shareholder’s equity in convertible bonds reserves.

16. Derivative Warrant Liability

The Company issued Warrants in connection with the private placement offering completed January 23, 2014. These Warrants are exercisable in CAD$. As the functional and reporting currency of the Company is RMB, share purchase warrants with an exercise price in a different currency are considered a derivative instrument under IAS 32.

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

:

	As at December 31, 2015	As at March 31, 2015	At date of issue January 23, 2014
Exchange rate at date of fair value (RMB/CAD$)	4.734	4.899	5.55
Stock price	CAD$0.14	CAD$0.47	CAD$0.53
Exercise price	CAD$0.90	CAD$0.90	CAD$0.90
Risk free interest rate	0.48%	0.5%	0.97%
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	50%	61%	73%
Expected Warrant life	0.07 years	0.82 years	2 years

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

	Warrants Outstanding	Value assigned RMB'000	Value assigned CAD$'000	Average exercise price CAD$
As at April 1, 2014	4,586,250	3,408	681	0.90
Warrants issued				
Fair value re-measurement in the year	-	(2,492)	(527)	-
Foreign exchange gain	-	(210)	(44)	-
As at March 31, 2015	4,586,250	706	149	0.90
Fair value re-measurement in the year	-	(668)	(141)	-
Foreign exchange loss	-	(38)	(8)	-
Expired as at December 30, 2015	(3,826,250)	-	-	0.90
As at December 31, 2015	760,000	-	-	0.90

The number of Warrants outstanding and exercisable as at December 31, 2015 (Note 22(a)) is set out below:

Exercise Price CAD$	Expiry date	Number
0.90	January 23, 2016	760,000

17. Revenue

	For three month period Ended December 31,			For nine month period Ended December 31,		
	2015 RMB'000	2014 RMB'000 (Restated)	2015 CAD'000	2015 RMB'000	2014 RMB'000 (Restated)	2015 CAD$'000
Natural gas - Billed	3,652	54,519	771	37,250	54,520	7,869
Natural gas - Take or Pay (see Note 21)	151,502	-	32,003	151,502	-	32,003
Condensate	9,649	11,012	2,038	13,439	11,011	2,839
Light Oil	1,311	2,046	278	1,611	2,046	340
	166,114	67,577	35,090	203,802	67,577	43,051

18. Finance Income

	For three month period Ended December 31,			For nine month period Ended December 31,		
	2015 RMB'000	2014 RMB'000 (Restated)	2015 RMB'000	2015 RMB'000	2014 RMB'000 (Restated)	2015 CAD$'000
Bank interest income	2,281	-	482	6,883	213	1,454
Gain on disposal of property, plant and equipment	-	-	-	150	-	32
Gain on fair value of re-measurement of warrant liability	11	658	2	668	2,111	141
	2,292	658	484	7,701	2,324	1,627

19. Fair value measurement

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

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

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

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

2) *Level 2 – Significant Other Observable Inputs*

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

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

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

A 1% change in the USD/RMB rate would cause (from RMB6.568 to RMB6.634) a 1% change in interest payable.

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

3) *Level 3 – Significant Unobservable Inputs*

Unobservable (supported by little or no market activity) prices.

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

20. Commitments

a) Petroleum Contract 33/07 granted the Company a 7 year 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 drilling for the first phase commenced on September 22, 2015 by the Company's drilling contractor China Oilfield Service Ltd. (COSL). On October 9, 2015, CNOOC and Primeline agreed to a 6-month extension to Block 33/07's first exploration period from October 31, 2015 to April 30, 2016. The amendment agreement extends the exploration period to 7.5 years with the first phase extended to 3.5 years with the other phases remaining at two years each. At the end of phase one, the Company has the option to enter into phase two or terminate the contract.

b) The Company entered into a lease agreement for the rental of its Shanghai office in the PRC. The lease is for a period of one year from September 1, 2014 to August 31, 2015 with a monthly rental fee of RMB58,450 (CAD$12,347). The Company signed a new lease agreement in June 2015 for new premises for its Shanghai office in the PRC covers the period from September 15, 2015 to 2018 for three years for a monthly rental fee of RMB111,437.00 (CAD$23,540).

21. Trade receivables

	December 31, 2015	March 31, 2015	December 31, 2015
	RMB'000	RMB'000	CAD$ '000
Not yet due or less than 30 days past due	263,325	34,186	55,624
More than 30 days past due	12,266	-	2591
Total	275,591	34,186	58,215

CCL and the Company have invoiced Zhejiang Gas for RMB 257,742,921 (CAD$54,445,061) to reflect the cost of 78 million cubic metres (mmcm) being the balance of gas such that the 2015 annual volume of gas sold is in line with the annual "take-or-pay" contractual volume. This level of 195 mmcm for 2015 is in accordance with the Gas Sale Contract. Per the take or pay arrangements of the Gas Sale Contract, Zhejiang Gas has the right to make up the take or pay quantity that may have been incurred by offtaking in future contract years (Make-Up Gas). The restrictions on this are:

Zhejiang Gas must offtake Make-Up Gas within three years following the end of the contract year in which the right to offtake it arises, although the GSC states that parties may agree to extend this period and CCL and Primeline may not unreasonably refuse to extend. The period can also be extended if CCL and Primeline are unable to supply the make-up quantity.

Zhejiang Gas may only start to off-take Make-Up Gas in any contract year after the delivery of the annual contract quantity (ACQ) for the contract year that has been completed, so during the first seven years it cannot start to off-take Make-Up Gas unless and until it has off-taken and paid for 300 mmcm.

The cumulative total of the gas off-taken in any contract year cannot exceed the maximum by more than 10% (= 330 mmcm) so in each year the maximum make-up Zhejiang Gas can offtake is 30 mmcm.

In 2016, based on the annual off-take plan of 225 mmcm and current offtake rates of circa 800,000 m3 per day it is extremely unlikely that the Zhejiang Gas will be able to off-take any Make-Up Gas. Of the 78 mmcm trade receivable equivalent to RMB196,952,561, 18mmcm of gas equivalent to RMB45,450,591 has been recorded as revenue as the Company is not of the view that Zhejiang Gas will physically offtake these volumes during 2016 and the remaining 60mmcm equivalent to RMB 151,501,970, which could be physically offtaken from 2017 as Make-Up Gas has been recorded as deferred revenue.

Trade receivables that were past due but not impaired because the Company believes that no provision for impairment or doubtful debts is necessary as these balances are still considered fully recoverable.

22. **Subsequent events**

a) On January 23, 2016, 760,000 Warrants with an exercise price of $0.90 per share and 121,600 Broker Warrants with an exercise price of $0.55 per share expired.

b) As consideration for the Bonds, the Company agreed to pay GRF Prime a share finder's fee of US$376,000 (equal to 1.88% of the principal amount of the Bonds), and issued 3,140,775 Shares to GRF Prime, calculated at a price per share equal to the arithmetic mean of the volume weighted average trading price for the shares for the 15 trading days prior to December 5, 2015, the date of payment, with US$ translated to CAD$ at the Bank of Canada noon rate on the day before the date of payment.

Primeline Energy Holdings Inc. (TSX Venture-PEH) (the "Company")
Management Discussion and Analysis for the Period Ended December 31, 2015

INTRODUCTION

This Management Discussion and Analysis is dated February 29, 2016 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, 2015 and interim consolidated financial statements for the quarter ended December 31, 2015 ("Financial Q3"). All monetary amounts in this discussion and analysis are expressed in Chinese Yuan Renminbi ("RMB") unless otherwise noted. Canadian dollar ("CAD$") equivalents are provided for information only. Such presentation in CAD$ is not in accordance with IFRS and should not be construed as representations that the RMB amounts shown could be readily converted, realized or settled in CAD$ at December 31, 2015 or any other date. The exchange rate of CAD$ to RMB used is the rate published in the South China Morning Post on December 31, 2015 of RMB4.734 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. Some of these statements relate to the results of the Company's exploration. Exploration for oil and gas is subject to the inherent risk that it may not result in a commercial discovery. Other forward looking statements are based on assumptions, among other things, that sale of production from the LS36-1 gas field ("LS36-1") will proceed in accordance with the LS36-1 Gas Field Natural Gas Sale and Purchase Contract (the "Gas Sale Contract" or "GSC") between CNOOC China Ltd ("CCL"), a subsidiary of China National Offshore Oil Corp ("CNOOC"), and Zhejiang Gas Provincial Development Co. ("Zhejiang Gas") and other relevant agreements. Actual results may vary from those anticipated. Zhejiang Gas may not honour the Gas Sale Contract or may renegotiate a lower price for gas sold thereunder. If so, the Company's revenues will be lower than anticipated, and there may be a serious consequent adverse effect on the Company's debt repayment obligations under the project finance facility ("Syndicate Facility") which it secured in November 2014 from a syndicate jointly led by China Development Bank and China Export-Import Bank with Shanghai Pudong Development Bank as participant and agent bank (together the "Syndicate"), and on results of impairment, going concern and liquidity tests.

The Company assumes no obligation to update forward-looking information, except as required by law.

COMPANY AND PROJECT OVERVIEW

The Company is focused exclusively on upstream oil and gas opportunities in the People's Republic of China ("PRC"). 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 CNOOC, Primeline Energy China Ltd. ("PECL") and Primeline Petroleum Corporation ("PPC"), wholly owned subsidiaries of the Company. 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 LS36-1 for which CNOOC is the Operator holding a 51% interest and the Company owns a 49% interest.

- Block 33/07 covers an offshore area of 5,877 sq. km (1.45 million acres) enclosing Block 25/34 and the Company holds the Contractor's interest 100%. A wholly owned subsidiary of the Company, Primeline Energy Operations International Ltd. (PEOIL), is the operator for Block 33/07. The Contractor is 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, PPC and PEOIL and references to the Company include its subsidiaries PECL, PPC and PEOIL.

Primeline and CNOOC are implementing a rolling development and exploration strategy in the Lishui Basin with CNOOC operating LS36-1's development and production under Petroleum Contract 25/34 and Primeline leading the effort on exploration under Petroleum Contract 33/07. LS36-1's production infrastructure is the first gas facility in the southern part of the East China Sea and could become a hub for successful exploration and development work in the remainder of the petroliferous Lishui Basin.

LS36-1 has been in production and selling gas to Zhejiang Gas since July 16, 2014. Management believes access to the Zhejiang provincial gas grid in Eastern China, and the production infrastructure, means that LS36-1's incremental reserves and prospective resources, and any additional resources that may be discovered in Block 33/07, can be monetized quickly and cost effectively. Significantly, the East China gas market has one of the highest prices globally due to its demand and distance from supply sources.

CONTINUITY OF INTEREST ACCOUNTING AND THE PPC ACQUISITION

On August 14, 2015, following receipt of disinterested shareholder approval at its Extraordinary General Meeting held on June 30, 2015, the Company completed the acquisition of the one issued and outstanding share of PPC and the right to be repaid the shareholder loan of RMB204,408,862 (CAD$43,178,889) owing to Primeline International (Holdings) Inc. ("PIHI"), a private company wholly-owned by Mr. Victor Hwang, the Chairman, President and majority shareholder of the Company. PPC's major assets are its 12.25% interest in Petroleum Contract 25/34 and its 25% interest in Petroleum Contract 33/07 in the East China Sea. The consideration for the acquisition was the issuance to PIHI of 44,669,851 ordinary shares of the

Company ("Shares"), representing one third of the number of issued and outstanding Shares as of the acquisition date. The closing price of the Shares on the TSX –V on August 12, 2015, the last trading day prior to the issuance to PIHI was CAD$ 0.42.

The acquisition is considered to be a common control transaction under applicable Canadian securities laws. As the acquisition has been determined to be a common control transaction, it has been accounted for on a continuity of interest basis. In accordance with the continuity basis of accounting, these unaudited condensed interim consolidated financial statements reflect the assets, liabilities, operations and cash flows of the Company as if the Company and PPC had always been one entity.

There is currently no guidance in IFRS on the accounting treatment for combinations among entities under common control. IAS 8 – Accounting policies, changes in accounting estimates and errors (IAS 8) requires management, if there is no specifically applicable standard of interpretation, to develop a reliable policy that is relevant to the decision making needs of users. The Company has determined to apply the concept of continuity of interest basis of accounting for transactions under common control as detailed under United States generally accepted accounting principles (US GAAP). US GAAP requires an acquirer in a combination between entities or business under common control to recognize the assets acquired and liabilities assumed in the transaction at their carrying amounts in the accounts of the transferring entities at the date of transfer.

A summary of the retrospective accounting for the acquisition is disclosed in Note 3 to the interim financial statements as at and for the period ended December 31, 2015.

QUARTERLY PROGRESS REVIEW

During the period under review, LS36-1 continued in production and Primeline completed the two well exploration drilling campaign in Block 33/07.

LS36-1 Production and Revenues Increase

During the quarter under review, the LS36-1 gas field was in steady production from the middle of October to December 31, 2015, and hence the volume sold to Zhejiang Gas during the Financial Q3 was approximately 56 million cubic metres or an average of circa 21million cubic feet/day (mmcfpd). This is significantly higher than the previous two quarters.

These better operational results were the main contributor of an improvement in the Company's revenue to RMB166,114,205 (CAD$35,089,608) from RMB 29,583,588 (CAD$6,249,174) in the previous period resulting a gross operational profit of RMB 130,225,261 (CAD$27,508,505) versus RMB4,890,005 (CAD$1,032,954) in Financial Q2.

Financial Q3 saw the Company report a loss of RMB 25,455,442 (CAD$5,377,149) primarily reflecting translation losses of RMB55,303,872 (CAD$11,682,271) resulting from depreciation of the RMB against US$ on the Syndicate Facility and interest charges.

In addition, due to the reduced offtake of gas during the middle of 2015, there was a shortfall in the total amount of gas offtaken during the year as against the take or pay quantity in 2015 and, as a result, on January 29, 2016, Zhejiang Gas was invoiced in respect of this shortfall in accordance with the terms of the GSC. 18 mmcm of the shortfall has been booked as revenue of RMB 45,450,591 (CAD$9,600,885) for the Financial Q3 and the balance of 60 mmcm has been booked as deferred income of RMB 151,501,970 (CAD$32,002,951) and both entries have been recorded as trade receivables. The Company's trade receivables increased to RMB275,590,858 (CAD$58,215,221) from RMB5,939,825 (CAD$1,254,716) in the previous period.

Gas Sale Contract Negotiations

As reported in previous quarters, the substantial build out of long distance pipelines and LNG terminals along China's East Coast, the general slowdown of China's economy and the decline in the oil price since 2014 have led to an oversupply of gas in the region and lower gas prices. This has led to pressure from Zhejiang Gas for a reduction of the basic price payable under the Gas Sale Contract and for a long term adjustment mechanism to follow market prices. CCL and Primeline have been in negotiations with Zhejiang Gas since February 2015 to try to settle the issues but, at the present time, no agreement has been reached in relation to any price adjustment and there has been no agreement for any long term price adjustment mechanism to replace the current fixed price arrangement.

As a result of the continuing negotiations, Zhejiang Gas has made only partial payment of invoices rendered since June 2015, pending resolution of the price adjustment issue, and the recent take or pay shortfall invoice has not yet been paid. Primeline has accrued these accounts receivable, given it anticipates full collection and where applicable, a deferred income liability has been recorded. As a result, the Company's trade receivables increased in Financial Q3 to RMB275,590,858 (CAD$58,215,221) from RMB5,939,825 (CAD$1,254,716) in Financial Q2.

Primeline has demanded in the strongest terms that CCL, Primeline's partner and sales agent, ensures that Zhejiang Gas pays the balance remaining of the partially paid invoices, pays the take-or-pay invoice in full and otherwise complies with all its obligations under the GSC. The Company notes that CCL's parent company, CNOOC, owns 30% of Zhejiang Gas and CNOOC with its partners (including Primeline) supplies approximately 40% of the natural gas market in Zhejiang. Primeline understands that there are others supplying natural gas to the Zhejiang gas market at lower prices and has responded to Zhejiang Gas's request, and participated with CCL in the negotiations for a reasonable adjustment. However, the Company maintains that the agreed base price of gas in the GSC should still apply during the initial stage of production as the GSC formal delivery period only started on January 1, 2015 and that any compromise pricing has to allow the Company to be able to service the Syndicate Facility at a minimum.

The Company requires the substantive part of the cash flow from LS36-1 for the service of the Syndicate Facility and general corporate operations. During Financial Q3, the Company made a principal repayment of US$21 million equivalent to RMB135,450,000

(CAD$28,612,167) and interest payment of RMB45,972,340 (CAD$9,711,098) for the period from May – November 2015. A resolution of these issues will be required before the next principal and interest payments of approximately US$20 million and US$6.9 million due in May and June 2016 respectively.

Exploration Drilling in Block 33/07

As part of the rolling development plan, Primeline completed the drilling of two exploration wells in Block 33/07, thus fulfilling the minimum work programme commitment under Phase 1 exploration of Petroleum Contract 33/07. In the previous quarters, Primeline completed the evaluation of the 3D seismic data in Block 33/07, selected the drilling locations, designed the wells, signed the drilling contract, and conducted the site surveys.

In order to allow Primeline to conduct the 2015 two well programme and subsequent evaluation work, on October 9, 2015, CNOOC and Primeline signed an amendment agreement relating to Petroleum Contract 33/07 to extend phase one of the exploration period from three years to 3.5 years so that it now expires on April 30, 2016. Petroleum Contract 33/07 originally had a seven-year exploration period split into three phases of three, two and two years. The amendment agreement extends the exploration period to 7.5 years with the first phase extended to 3.5 years, with the other phases remaining at two years each.

During Financial Q3 Primeline completed the drilling of two exploration wells, LS23-1-1 and LS30-3-1.

The LS23-1-1 well is located approximately 26 km to the NW of LS36-1 gas field, was spudded on September 23 and reached total depth (TD) of 2,666m on October 21, 2015. Wireline logging data was subsequently acquired. The well encountered sandstone units of Paleocene and early Cretaceous age, drilling through the geological sequence as anticipated and finished in basement rock. It discovered several sandstone reservoir zones with good gas shows however the evaluation of logging data indicated that the zones were substantially water bearing. LS 23-1 is not likely to be a commercial discovery.

The second well, LS30-3-1, located approximately 20km northwest of the LS36-1 gas field platform, was spudded on November 13 targeting a large channel sand prospect. When the well reached the planned total depth of 1800m, Primeline decided to deepen the well, drilling to a total depth of 2000m on November 27 with electronic log data being collected during November 27-30. The analysis of the results shows that whilst the well encountered three sets of very good sandstone reservoir sequences as predicted, unfortunately there was no oil or gas accumulation in those sandstones. LS30-3-1 was thus declared as a dry well.

Since then, Primeline has engaged in post well evaluation starting from analysis of the data collected from the LS23-1-1 and LS30-3-1 wells. This post well evaluation work will continue until March 2016 to allow Primeline to fully evaluate the hydrocarbon prospectivity in the remainder of Block 33/07 and to plan for the next phase of exploration work in the Block.

These two wells drilled fulfilled the exploration commitment of Phase 1 of Petroleum Contract 33/07. At the end of each of the first and second exploration phases, Primeline has the right to either enter into the next phase or terminate Petroleum Contract 33/07. The minimum work programme for each of the second and third phases is one exploration well. Primeline will make a decision on how to proceed with Petroleum Contact 33/07 after the completion of the post well evaluation in March/April 2016.

Financing of the Exploration Work Commitment

In order to fully fund the exploration work commitment under Petroleum Contract 33/07 (See "Exploration Drilling in Block 33/07"), on June 5, 2015 the Company entered into a subscription agreement ("Subscription Agreement") with GRF Prime Limited ("GRF Prime"), a resources fund managed by GEMS Investment Management Limited ("GEMS"), a Hong Kong based manager of private equity funds, under which GRF Prime agreed to purchase up to US$20 million principal amount of unsecured Convertible Bonds to be issued by the Company (the "Bonds").

- The first US$10 million principal amount of Tranche A Bonds was drawn down on August 14, 2015; and
- A second tranche of US$8 million principal amount Tranche B Bonds was drawn down on November 10, 2015.

The Bonds are for a term of three years extendable for two one-year periods at the option of the Bondholders if the average of the volume weighted average trading price of the Shares for the 30 days prior to the maturity date of the Bonds is less than 115% of the conversion price in respect of the first extension and 125% in respect of the second extension. Interest is payable quarterly at 7% per annum, of which 4.5% is payable in cash and 2.5% in Shares issued at a deemed price per share equal to the volume weighted average trading price of the Shares on the TSX-V for the 10 days preceding the interest payment date. The Tranche A Bonds are convertible at the option of the holder 4 months from the date of issue to maturity into Shares at a conversion price of CAD$0.70 per share, and the Tranche B Bonds are convertible at the option of the holder 4 months from the date of issue to maturity at a conversion price CAD$0.85 per share. The Company will have the right to require conversion of a portion of the Tranche A Bonds and the Tranche B Bonds at any time after one year following their respective dates of issue if the volume-weighted average trading price of the Shares exceeds 175% of the applicable conversion price for 30 consecutive trading days subject to a liquidity test. GRF Prime has the right to call for redemption of the Bonds at maturity, on a change of control of the Company and upon occurrence of an event of default. On redemption, the Company will be required to pay such amount as results in an aggregate return to GRF Prime of 10% per annum as of the date of redemption, with an additional premium in the event of a change of control of the Company.

As consideration for entry into the Subscription Agreement, the Company paid GRF Prime a cash finder's fee of US$376,000 (equal to 1.88% of the principal amount of the Bonds), and on February 16, 2016 issued 3,140,775 Shares to GRF Prime with a value of US$376,000, calculated at a price per share equal to the arithmetic mean of the volume weighted average trading price for the Shares for the 15 trading days prior to the December 5, 2015 date of payment, with US$ translated to CAD$ at the Bank of Canada noon rate on the day before the date of payment.

FINANCIAL INFORMATION

Results of Operations

The Company's result for the quarter was a loss of RMB25,455,422 (CAD$5,377,149).

Financial Q3 saw an increase in sales to Zhejiang Gas, the sole customer for the LS36-1 gas, versus the prior quarter. Revenue from oil and gas sales increased to RMB166,114,205 (CAD$35,089,608) in Financial Q3 from RMB 29,583,588 (CAD$6,249,174) in the previous period reflecting higher offtake and 18 mmcm of take or pay shortfall which has been booked as revenue of RMB 45,150,591 (CAD$9,600,885). The balance of 60 mmcm of RMB151,501,970 (CAD$32,002,951) has been booked as deferred income in the quarter's balance sheet.

Gross profit in Financial Q3 compared with 130,225,261 (CAD$27,508,505) versus RMB4,890,005 (CAD$1,032,954) in the previous period.

Financial Q3's results included production costs of RMB35,888,944 (CAD$7,581,104) and G&A expenses of RMB1,806,756 (CAD$381,655). There was an increase in finance expenses to RMB24,219,287 (CAD$5,116,030) mainly due to interest paid and accrued under the Syndicate Facility. There was a depletion and depreciation charge of RMB76,643,060 (CAD$16,189,916) relating to the amortization of the oil and gas properties booked under Property, Plant and Equipment based on the units-of-production method.

There was a decrease of loss of RMB51,062,844 (CAD$10,786,406) compared to the loss of RMB 76,518,266 (CAD$16,163,554) for the previous quarter relating to the increase of revenue from oil and gas, the revenue recognized on the gas shortfall under the terms of the GSC and translation effects on the Company's US dollar denominated bank loan as a result of the weaker Chinese currency.

The Company estimates that the realization of income tax benefits related to its deferred income tax assets is uncertain and cannot be considered to be more likely than not.

Liquidity and Capital Resources

As at December 31, 2015, the Company's working capital deficiency (current assets less current liabilities) increased to RMB300,594,418 (CAD$63,496,920) from RMB 140,812,649 (CAD$29,744,962) as at March 31, 2015. The increase of RMB159,781,769 (CAD$33,751,958) was mainly due to the increase in bank loans of RMB211,967,000 (CAD$44,775,454) being reclassified from a long-term liability in the previous period to a current liability partially offset by the increase in cash and cash equivalents of

RMB20,232,358 (CAD$4,273,840) and conversion of the shareholder loan of RMB61,915,002 (CAD$13,078,792) into the Company's shares in June 2015.

As of December 31, 2015, Primeline held cash resources of RMB261,904,332 (CAD$55,324,109) of which RMB 150,000,000 (CAD$31,685,678) is held in a long-term bank deposit account classified as a non-current asset. This deposit has been accessed with the permission of the Syndicate. The Company made its scheduled capital repayment of US$21 million in November 2015, and an interest payment of approximately US$7 million on December 21, 2015.

The next interest and capital payments on the Syndicate Facility are due in May-June 2016. The Company's cash and cash equivalents balance and the cash expected to be generated during 2016, subject to Zhejiang Gas honouring its obligations under the GSC, are anticipated to be sufficient to meet debt repayments and the planned development and operating activities of the Company for the next 12 months

The Company's results are highly dependent on the price of gas and the results of the continuing negotiations with Zhejiang Gas on any long term price adjustment mechanism and accordingly any future changes in the price of gas will therefore impact performance. Readers are encouraged to read "Risk Factors" contained in the Company's 2015 Annual Information Form, which is available on SEDAR under the Company's profile at www.sedar.com.

The profitability and operating cash flow of the Company are affected by various factors, including the amount of gas produced, the base price of gas, the timing of offtake purchases, whether payment in full is received from Zhejiang Gas, operating costs, interest rates, regulatory and environmental compliance, the level of exploration activity and capital expenditures, general and administrative costs, and other discretionary costs and activities. The Company is also exposed to fluctuations in currency exchange rates, interest rates, regulatory, licensing and political risks and varying levels of taxation that can impact profitability and cash flow. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control.

The Company's financial performance, including its profitability and cash flow from operations, is tied to the price of gas sold and cost of operations. The price of gas itself is the greatest factor in profitability and cash flow from operations. The price of gas payable under the GSC is subject to resolution of the current negotiations with Zhejiang Gas and the terms of any long-term price adjustment mechanism that may be agreed, the difficulty of such negotiations, in turn, will be impacted by market factors. The market price of gas is volatile and subject to price movements which can take place over short periods of time and are affected by multiple macroeconomic and industry factors that are beyond the control of the Company. Some of the major recent factors influencing the price of gas include currency exchange rates, the relative value of the US dollar, supply and demand for gas and more general economic results and projections such as interest rate and inflation projections and assumptions.

Commodity prices in general continue to see volatility as economies around the world continue their cautious recovery from the economic difficulties experienced over the last several years. Volatility in the price of gas will impact the Company's revenue, while volatility in the price of other commodities, such as oil, may have an impact on the Company's operating costs and capital expenditure deployment.

As of December 31, 2015, the Company had total assets of RMB2,907,898,302 (CAD$614,258,196) (March 31, 2015 – RMB2,562,736,595) which were financed by net shareholders' equity of RMB557,206,892 (CAD$117,703,188) (March 31, 2015 – RMB625,504,673), shareholders loan of RMB Nil (March 31, 2015 – RMB59,335,376) ,Syndicate Facility bank loan of RMB1,661,704,002 (CAD$351,014,787) (March 31, 2015 – RMB1,632,966,998) and short term RMB Bank Facility of RMB 66,500,000 (CAD$14,047,317) (March 31, 2015 – Nil) from Shang Hai Pudong Development Bank.

As of December 31, 2015, the Company had an accumulated deficit of RMB286,955,082 (CAD$60,615,776) (March 31, 2015 – RMB149, 018,251).

During the nine-months ended December 31, 2015, the Company capitalized exploration and evaluation assets of RMB151,112,026 (CAD$31,920,580) financed mainly by the convertible Bonds issued to GRF Prime. As of December 31, 2015, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB457,379,111 (CAD$96,615,782) (March 31, 2015 – RMB306, 267,085) and can be broken down as follows:

	Dec 31, 2015 RMB	Mar 31, 2015 RMB (Restated)	Dec 31, 2015 CAD$
Exploration Drilling Related Services			
Drilling services	312,408,904	192,854,260	65,992,586
Drilling technical supervision and evaluation	3,245,906	3,245,906	685,658
Exploration Geological & Geophysical Surveys & Work			
Geological & geophysical survey acquisition & processing	52,085,011	51,710,808	11,002,326
Technical evaluations & management	21,375,916	8,615,326	4,515,403
Interest on funding of deferred exploration expenditures	13,531,122	9,567,142	2,858,285
Project administration	21,936,660	13,423,418	4,633,853
Salaries and benefits	24,894,907	20,598,975	5,258,747
Travel and accommodation	7,900,685	6,251,250	1,668,924
	457,379,111	306,267,085	96,615,782

Financial Instruments

The Company's financial instruments consist of the Syndicate Facility, cash and cash equivalents, accounts payable and accrued liabilities, the Bonds, cash calls payable, and derivative warrant and deferred income liabilities.

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

The fair value of the financial assets and current liabilities approximates their carrying value given the short term maturity of these instruments.
The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

(a) Currency risk

The Company held financial instruments in different currencies during the period/year ended as follows:

	Dec 31, 2015	Mar 31, 2015 (Restated)
Cash and cash equivalents of:		
- CAD$ '000	102	103
- US$ '000	7,489	619
- GBP '000	12	12
- HK$ '000	533	1,720
Shareholder loan of US$ '000	-	(10,167)
Bank loans and interest of US$ '000	253,424,794	(265,714)

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

	Dec 31, 2015	Mar 31, 2015 (Restated)	Dec 31, 2015
	RMB'000	RMB'000	CAD$'000
CAD$	48	50	10
US$	171,368	170,910	36,199
GBP	12	11	2
HK$	45	138	10

(b) Credit and trade receivables risk

Credit and trades receivables risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents outside China are principally held at a large international financial institution in interest bearing accounts. The majority of current cash balances are held at a Chinese financial institution in RMB, primarily for the purpose of debt servicing requirements relating to the Syndicate Facility.

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

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Financing may be required in relation to any future exploration and development work.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk relating to the Syndicate Facility and the Bonds.

Derivative Warrant Liability

The Company issued warrants ("Warrants") and broker warrants ("Broker Warrants") in connection with the private placement offering completed on January 23, 2014. The number of Warrants and Broker Warrants outstanding and exercisable in CAD$ as at December 31, 2015 is set out below. The Warrants and Broker Warrants have subsequently expired.

Exercise Price CAD$	Expiry date	Number
0.90	January 23, 2016	760,000 Warrants and 121,600 Broker Warrants

As the functional and reporting currency of the Company is RMB, share purchase warrants with an exercise price in a different currency are considered a derivative instrument under IAS 32.

The initial fair value on recognition of the Warrants and Broker 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, 2015	As at March 31, 2015	At date of issue January 23, 2014
Exchange rate at date of fair value (RMB/CAD$)	4.734	4.899	5.55
Stock price	CAD$0.14	CAD$0.47	CAD$0.53
Exercise price	CAD$0.90	CAD$0.90	CAD$0.90
Risk free interest rate	0.48%	0.5%	0.97%
Expected dividend yield Expected stock price	Nil	Nil	Nil
volatility	50%	61%	73%
Expected Warrant life	0.07 years	0.82 years	2 years

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

	Warrants Outstanding	Value assigned RMB'000	Value assigned CAD'000	Average exercise price
As at April 1, 2014 Warrants issued	4,586,250	3,408	681	0.90
Fair value re-measurement in the year	-	(2,492)	(527)	-
Foreign exchange gain	-	(210)	(44)	-
As at March 31, 2015	4,586,250	706	149	0.90
Fair value re-measurement in the year	-	(668)	(141)	-
Warrants expired	(3,826,250)	-	-	-
Foreign exchange loss	-	(38)	(8)	-
As at December 31, 2015	760,000	-	-	0.90

Transactions with related parties and directors

During the period ended December 31, 2015, the Company paid or accrued the following:

a) London office rent of RMB122,485 (CAD$25,873) (December 31, 2014 – RMB291,242) was paid or accrued to Falkenberg Investment Ltd., a company beneficially owned by Mr. Hwang.

b) Fees and benefits paid or accrued to key management personnel of the Company being Dr. Ming Wang Mr. Andrew Biggs, Mr. Stuart Joyner and Mr. Mark Norman were RMB4,837,897 (CAD$1,021,947) (December 31, 2014 – RMB4,671,386) and share based payment of RMB641,046 (CAD$135,413) (December 31, 2014 – RMB1,154,063) was recognized for the 2,360,000 (December 31, 2014 – 2,360,000) share options granted to these key management personnel.

c) Fees and benefits paid or accrued to directors being Mr. Brian Chan, Mr. Peter Kelty, Mr. Yunshi Cao, Mr, Alan Johnson, Mr Vincent Lien and Mr. Timothy Baldwin were RMB379,171 (CAD$80,095) (December 31, 2014 – RMB418,000) and share based payment of RMB331,150 (CAD$69,951) (December 31, 2014 – RMB528,778) was recognized for the 2,100,000 (December 31, 2014 – 2,100,000) share options granted to the directors.

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

   The shareholder loan was recorded at fair value on inception and carried at amortized cost. The discount on shareholder loan of RMB Nil (CAD$ Nil) (December 31, 2014 – RMB5,464,982) and the capitalized interest of RMB874,194 (CAD$184,663) (December 31, 2014 – RMB2,887,859) were calculated using an effective rate of 10% per annum during the period ended December 31, 2015.

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

Changes in Accounting Standards

New, Amended and Future IFRS Pronouncements

IFRS 9 – Financial Instruments

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

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

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

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

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

IFRS 15 - Revenue from Contracts with Customers

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

IFRS 16 - Leases

IFRS 16, Leases, establishes that all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after December 31, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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 325,000 options expired and 1,775,000 options expire on July 27, 2016.

On July 9, 2012, the Company granted 500,000 options at an exercise price of CAD$0.50 per share to D&D Securities Inc. The options expire 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, of which 170,000 options expired and 2,935,000 options expire on September 26, 2017.

On August 11, 2014, the Company granted 450,000 options at an exercise price of CAD$0.68 per share to an officer. The options will expire on August 11, 2019.

On January 24, 2016, 760,000 Warrants and 121,600 Broker Warrants issued in connection with the private placement completed on January 23, 2014 expired. Each Warrant had been exercisable to purchase a further Share at a price of CAD$0.90 per share for 24 months from the date of issue. Each Broker Warrant had been exercisable to purchase a further Share at a price of CAD$0.55 per share for 24 months from the date of issue.

On October 23 and December 15, 2015, the Company issued 131,647 Shares and 760,881 Shares to GRF Prime in payment of a portion of interest accrued on US$10,000,000 principal amount Tranche A Bonds and on US$8,000,000 principal amount Tranche B Bonds issued on August 14 and November 10, respectively to GRF Prime. GRF Prime is a resources fund managed by GEMS Investment Management Limited of Hong Kong.

On February 16, 2015, the Company issued 3,140,775 Shares to GRF Prime in payment of the US$376,000 Share Finder's Fee on US$10,000,000 principal amount Tranche A Bonds and on US$8,000,000 principal amount Tranche B Bonds issued on August 14 and November 10, respectively to GRF Prime. GRF Prime is a resources fund managed by GEMS Investment Management Limited of Hong Kong.

As at February 29, 2016, there are 182,712,707 Shares and 5,660,000 stock options outstanding.

Summary of Quarterly Results (Unaudited)

The Company's financial statements are reported under IFRS issued by the IASB. The following tables provide highlights from the Company's financial statements of quarterly results for the past eight quarters, as restated for the common control acquisition of PPC (See Notes 1 and 3 to the interim condensed consolidated financial statements for Financial Q3):

Quarter Ended	Dec 31, 2015 CAD$	Dec 31,2015 RMB	Sep 30, 2015 RMB	Jun 30, 2015 RMB (Restated)	Mar 31, 2015 RMB (Restated)
Revenue	35,089,608	166,114,205	29,583,588	8,104,288	91,450,721
Net loss	(5,377,149)	(25,455,422)	(76,518,266)	(35,963,143)	(17,273,183)
Per basic share	(0.03)	(0.14)	(0.43)	(0.22)	(0.11)
Per diluted share	(0.03)	(0.14)	(0.43)	(0.22)	(0.11)

Quarter Ended		Dec 31, 2014 RMB (Restated)	Sep 30,2014 RMB (Restated	Jun 30, 2014 RMB (Restated)	Mar 31, 2014 RMB (Restated)
Revenue		67,576,663	-	-	-
Net income (loss)		(15,464,038)	289,419	(1,457,842)	(575,052)
Per basic share		(0.14)	0.002	(0.009)	(0.004)
Per diluted share		(0.14)	0.002	(0.009)	(0.004)

The Company's results for the quarter ended December 31, 2015 were a loss of RMB25,455,422 (CAD$5,377,149) compared to the loss of RMB15,464,038 for the same quarter last year. Financial Q3's results included revenue of RMB166,114,205 (CAD$35,089,608), production costs of RMB35,888,944 (CAD$7,581,104) and G&A expenses were RMB1,806,756 (CAD$381,655).

There was an increase of interest of RMB14,859,114 (CAD$3,138,807), which was mainly due to interest paid and accrued under the Syndicate Facility.

Exploration expenditures of RMB131,717,123 (CAD$27,823,642) were incurred, which comprised mainly of drilling costs of RMB119,554,644 (CAD$25,254,466), technical evaluations & management of RMB6,482,544 (CAD$1,369,359), interest on funding of deferred exploration expenditures of RMB2,121,808 (CAD$448,206), project administration of RMB1,382,710 (CAD$292,081) and salaries and benefits of RMB1,338,624 (CAD$282,768). These amounts were capitalized as exploration and evaluation assets.

The loss for the quarter ended December 31, 2015 of RMB25,455,422 (CAD$5,377,149) was mainly attributable to exchange loss of RMB55,303,872 (CAD$11,682,271) and bank interest of RMB22,957,979 (CAD$4,849,594) and depletion & depreciation of RMB76,643,060 (CAD$16,189,916).

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.

Additional information related to the Company, including the Company’s AIF, is available on SEDAR under the Company’s profile at www.sedar.com