Primeline Energy Holdings Inc.
Interim Consolidated Financial Statements
September 30, 2016
(Unaudited)

Primeline Energy Holdings Inc.
Interim Consolidated Statement of Financial Position (Unaudited)
As at September 30, 2016 and March 31, 2016
(In RMB)

	Notes	September 30, 2016 RMB'000	March 31, 2016 RMB'000	September 30, 2016 CAD$'000 (Note 4.5)
Non-current assets				
Exploration and evaluation assets	7	471,080	459,222	92,842
Property, plant and equipment	8	1,766,178	1,822,201	348,084
Restricted cash	9	39,832	28,425	7,850
Restricted bank deposits	4.18	150,000	150,000	29,562
		2,427,090	2,459,848	478,338
Current assets				
Cash and cash equivalents		26,182	150,570	5,160
Trade receivables	18	11,160	11,717	2,199
Prepaid expenses and other receivables		13,810	10,517	2,722
Inventories		11,500	13,342	2,266
		62,652	186,146	12,347
Total assets		2,489,742	2,645,994	490,685
Equity attributable to shareholders				
Share capital	10	1,297	1,270	256
Share premium and reserves		848,133	846,516	167,153
Accumulated deficit		(547,449)	(408,075)	(107,893)
Total equity		301,981	439,711	59,515
Non-current liabilities				
Accounts payable	19	12,903	17,647	2,543
Convertible bonds	13	108,561	102,487	21,396
Decommissioning liabilities	9	155,377	152,801	30,622
		276,841	272,935	54,561
Current liabilities				
Bank loans	11	1,691,564	1,743,940	333,379
Accounts payable and accrued liabilities		219,356	189,408	43,230
		1,910,920	1,933,348	376,609
Total liabilities		2,187,761	2,206,283	431,170
Total shareholders' equity and liabilities		2,489,742	2,645,994	490,685

Nature of Operations and Going Concern (Note 1)
Commitments (Note 15)
Subsequent Events (Note 20)

Approved by the Board of Directors

"Brian Chan"
Director

"Ming Wang"
Director

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

Primeline Energy Holdings Inc.
Interim Consolidated Statement of Loss and Comprehensive Loss (Unaudited)
For the three months and six months ended September 30, 2016 and September 30, 2015
(In RMB)

	Notes	Three Months Ended September 30			Six Months Ended September 30		
		2016 RMB'000	2015 RMB'000	2016 CAD$'000 **(Note 4.5)**	2016 RMB'000	2015 RMB'000	2016 CAD$'000 **(Note 4.5)**
Revenue							
Oil and gas	17	44,004	29,584	8,673	87,573	37,688	17,259
Interest and other income	12	1,862	3,123	367	4,068	5,409	802
Exchange gain (loss), net	6	(5,284)	(37,946)	(1,041)	(49,595)	(36,878)	(9,774)
Expenses							
Production Costs		(17,625)	(24,694)	(3,474)	(37,597)	(41,248)	(7,410)
General and administrative		(3,211)	(3,195)	(633)	(7,497)	(6,414)	(1,478)
Depletion and depreciation		(42,703)	(19,463)	(8,416)	(85,378)	(24,510)	(16,826)
Bank interest expenses		(23,191)	(22,677)	(4,571)	(46,941)	(44,038)	(9,251)
Accretion	9	(1,293)	(1,251)	(255)	(2,576)	(2,491)	(508)
Amortization of convertible bonds issuance costs		(708)	-	(140)	(1,432)	-	(282)
		(88,731)	(71,280)	(17,489)	(181,421)	(118,701)	(35,755)
Profit/(Loss) and comprehensive loss		(48,149)	(76,519)	(9,490)	(139,375)	(112,482)	(27,468)
		RMB	RMB	CAD	RMB	RMB	CAD
Basic and diluted profit(loss) per share		(0.259)	(0.428)	(0.051)	(0.751)	(0.657)	(0.148)
Weighted average number of shares outstanding	10	185,592,106	178,679,404	185,592,106	185,592,106	171,258,714	185,592,106

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

Primeline Energy Holdings Inc.
Interim 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, 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	-	-	-	1,268	-	-	1,268
Convertible bonds conversion options (Note 13)	-	-	-	8,806	-	-	8,806
Issue shares in payment of Bond interest accrued	18	(18)	-	-	-	-	-
Bond interest accrued		1,447					1,447
Issue shares in payment of share finder fee	29	2,439	-	-	-	-	2,468
Shareholder loan conversion costs		(146)					(146)
Shareholder contribution	-	-	363	-	-	-	363
Loss and comprehensive loss for the year	-	-	-	-	-	(259,057)	(259,057)
Balance – March 31, 2016	1,270	528,834	236,979	79,753	950	(408,075)	439,711
Share based payments	-	-	-	85	-	-	85
Issue shares in payment of Bond interest accrued	27	(27)	-	-	-	-	-
Bond interest accrued	-	1,560	-	-	-	-	1,560
Loss and comprehensive loss for the period	-	-	-	-	-	(139,375)	(139,375)
Balance – September 30, 2016	1,297	530,367	236,979	79,838	950	(547,450)	301,981
Balance – September 30, 2016, in CAD$'000 (Note 4.5(c))	256	104,526	46,705	15,734	187	(107,893)	59,515

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

Primeline Energy Holdings Inc.
Interim Consolidated Statement of Cash Flows (Unaudited)
For the six months ended September 30, 2016 and September 30, 2015
(in RMB)

	Notes	September 30, 2016 RMB'000	September 30, 2015 RMB'000	September 30, 2016 CAD$'000 (Note 4.5)
Cash flows (used in) from operating activities				
Loss for the period		(139,375)	(112,482)	(27,468)
Items not involving cash				
Interest income		(4,068)	(4,752)	(802)
By product inventory		1,903	(466)	375
Depletion and depreciation	8	85,378	24,510	16,826
Finance income from fair value adjustment of warrant liability	4.11	-	(657)	-
Finance costs		49,517	46,529	9,759
Amortization of transaction costs for issuance of convertible bonds		1,432	-	282
Stock-based compensation		25	668	5
Unrealized foreign exchange loss (gain)		50,787	36,022	10,010
		45,599	(10,628)	8,987
Changes in non-cash working capital items:				
Trade receivables and prepaid expenses		864	27,337	170
Accounts payable and accrued liabilities		26,007	10,578	5,126
Inventory		(61)	-	(12)
		26,810	37,915	5,284
		72,409	27,287	14,271
Cash flows (used in) from investing activities				
Oil and gas development assets	8	(28,100)	(1,142)	(5,538)
Expenditures on exploration and evaluation assets	7	(7,081)	(17,041)	(1,395)
Interest received		469	1,152	92
		(34,712)	(17,031)	(6,841)
Cash flows (used in) from financing activities				
Share issue costs		-	(223)	-
Loan drawdown		38,000	68,900	7,489
Loan repayment		(138,390)	-	(27,274)
Restricted cash		(11,407)	(11,348)	(2,248)
Interest paid		(51,786)	(52,213)	(10,206)
Issue of convertible bonds		-	63,022	-
Legal fees for issuance of convertible bonds		(92)	-	(18)
		(163,675)	68,138	(32,257)
(Decrease) Increase in cash and cash equivalents		(125,978)	78,394	(24,827)
Effect of foreign exchange rate on cash and cash equivalents		1,590	725	312
Cash and cash equivalents - Beginning of period		150,570	68,951	29,675
Cash and cash equivalents - End of period		26,182	148,070	5,160

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

1. Nature of Operations and Going Concern

Primeline Energy Holdings Inc. (the Company or Primeline) 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).

The Company owns exploration, development and production rights in the East China Sea in relation to Petroleum Contract 25/34 and Petroleum Contract 33/07. The Petroleum Contracts were entered between China National Offshore Oil Corporation (CNOOC) 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) and CNOOC China Ltd. (CCL) is the Operator with a 51% interest, and PECL and PPC hold 36.75% and 12.25% interests respectively. The development of LS36-1 commenced in 2010 and was completed in July 2014 with trial gas production commenced on July 16, 2014. On October 29, 2014, CNOOC China Ltd. (CCL), on behalf of itself and as sales agent for Primeline, and Zhejiang Natural Gas Development Company Limited (Zhejiang Gas) signed the Gas Sales Contract which superseded the Gas Sale Agreement-in principle and subsequent Framework and Amendment Agreements signed between 2008, 2010 and 2011 and confirmed the general commercial terms already negotiated including, inter alia, gas quality, take-or-pay principles, base price and annual quantity. The formal delivery period of the Gas Sales Contract commenced on January 1, 2015.

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 CCL 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.

The Company commenced arbitration against Zhejiang Gas (the Zhejiang Gas Arbitration) for its failure to comply with both the base price and minimum quantities required under the Gas Sales Contract. (Note 17). Additionally, the Company is also entitled to its share of the take or pay amount due from Zhejiang Gas because of Zhejiang Gas having only taken 117 million cubic metric metres (mmcm) of the agreed upon 195 mmmcm minimum take or pay quantity of natural gas deliveries for the contract year to December 31, 2015 (Note 18). The Company has also commenced arbitration against CNOOC and CCL, a subsidiary of CNOOC, in respect of claims in respect of CCL's mismanagement in relation to the failure of enforcing the Gas Sale Contract and breach of fiduciary duties as agent under the Gas Sales Contract and for failures to comply with its responsibilities as Operator of Petroleum Contract 25/34.

The Company's interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least September 30, 2017 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, to continue as a going concern, the Company may need to successfully conclude the ongoing arbitrations (as described above), generate sufficient operating cash flows, secure additional capital, obtain continued financial support or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If it fails to do so, then the Company is unlikely to have sufficient capital resources or cash flows from operations to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on the Syndicate Facility. Thus, it may not be able to continue as a going concern. Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. As at September 30, 2016, the Company had a working capital deficiency of RMB 1,848 million (CAD$364 million) due to prudent re-classification of the its capital loan from China Development Bank, the Export-Import Bank of China and Shanghai Pudong Development Bank (the Syndicate Facility) as current following the breach of certain covenants (the Syndicate Facility) (Note 11). Therefore, the Company is actively seeking to successfully resolve the disputes related to the arbitration cases and has reached agreement to restructure the Syndicate Facility (Note 11), while remaining focused on minimizing uncommitted capital and exploration expenditures and preserving the Company's growth options. Even after the restructuring of the Syndicate Facility, the Company's normal cash flow may be insufficient to meet the interest payment under the Syndicate Facility due on December 20, 2016. The Company is currently in discussions with CNOOC to agree a mechanism that would allow the Company to have sufficient cash flow. In addition, the Company is in discussions with its Chairman and majority

shareholder, Mr. Victor Hwang, to secure his financial support if agreement with CNOOC cannot be reached or is insufficient. Management and the directors are confident arrangements will be reached to allow the Company to make the interest payment in December 2016, and therefore consider the going concern basis of preparation to be appropriate. If the Company does not have sufficient funds to meet the December interest payment, the Company would face default under the Syndicate Facility and the directors believe the Syndicate may require repayment of the Syndicate Facility. The Company would have insufficient funds to repay the Syndicate Facility promptly. This would result in the restatement of these interim consolidated financial statements on a 'breakup' basis, which could result in adjustments to the amounts and classifications of assets and liabilities in the Company's interim consolidated financial statements and such adjustments could be material. However, while in the past the Company has been successful in closing financing agreements, there can be no assurance it will be able to do so again. Factors that could affect the availability of financing include the state of debt and equity markets, investor perceptions and expectations, and the natural gas markets. Further, there can be no assurance that the Company will prevail in its commercial arbitration actions or on the timing of the completion of those actions and collections of amounts owing as compared to the timing of future cash outflows.

2. Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective as of September 30, 2016. The Board of Directors authorized these interim consolidated financial statements for issue on November 29, 2016. 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, 2016.

These interim consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB using the accrual basis except for the revaluation of the derivative warrant liability, which is re-measured and re-translated each reporting period in accordance with IAS 32. The comparative information has also been prepared on this basis.

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

The preparation of interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Further information on management's judgments, estimates and assumptions and how they impact the various accounting policies are described below and in the relevant notes to the consolidated financial statements.

Zhejiang Gas may not honour the Gas Sales Contract or may renegotiate a lower price for gas sold thereunder. If so, the Company's future revenues will be lower than anticipated, and there may be a material adverse effect on the Company's debt repayment obligations under the Syndicate Facility.

3. Continuity of Interest Basis of Accounting

The acquisition of PPC in 2015 is 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 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.

4. Summary of Significant Accounting Policies

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

4.1 Property, Plant and Equipment (PP&E)

PP&E is recorded at cost less accumulated depletion and depreciation and accumulated impairment losses, net of recovered impairment losses.

PP&E may include the costs of oil and gas development and production wells and costs for the associated plant and for general corporate assets. All development costs incurred after the technical feasibility and commercial viability of producing oil and gas have been demonstrated are capitalized within PP&E. Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development of oil and natural gas reserves. These costs may include expenditures on the construction, installation and completion of infrastructure facilities such as platforms, pipelines, and development wells drilling (including delineation wells), decommissioning costs, amounts transferred from exploration and evaluation assets and directly attributable internal costs.

The Block 25/34 Joint Management Committee (JMC) declared that the 15-year production period for LS36-1 would commence from December 1, 2014. Per the Supplemental Development Agreement between CNOOC, PECL and PPC relating to the development of LS36-1 (the SDA), the production period may be extended by agreement between the parties if additional gas resources are discovered which can be conveniently tied into, transported and processed using the production facility.

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

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

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

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

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

4.2 Depletion, Depreciation, Amortization (DD&A)

Property, plant and equipment related to the oil and gas production activities is depreciated on a unit of production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Computer and office equipment is depreciated at a straight–line basis at the rate of 30% per annum.

4.3 Asset Retirement Obligations (ARO)

The Company records the present value of legal obligations associated with the retirement of long-term tangible assets, such as producing well sites and processing plants, in the period in which they are incurred with a corresponding increase in the carrying amount of the related long-term asset. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. In subsequent periods, the asset is adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The carrying amounts of the associated assets are depleted using the unit of production method, in accordance with the depreciation policy for development and production assets. Actual costs to retire tangible assets are deducted from the liability as incurred.

4.4 Exploration and evaluation (E&E) *assets*

Once the legal right to explore has been acquired, costs directly associated with an exploration project are capitalized as either tangible or intangible exploration and evaluation assets per the nature of the asset acquired. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic modelling, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting an oil and gas resource is determined.

The technical feasibility and commercial viability of an oil and gas resource is considered to be established when all the following conditions are met - proved and/or probable reserves are determined to exist, the decision to proceed with development has been approved by the Board of Directors, regulatory approval to develop the project has been received and the Company has sufficient funds to complete or participate in the project.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, the impairment costs are charged to exploration and evaluation expense.

Upon determination that the technical feasibility and commercial viability of an oil and gas resource is established, E&E assets attributed to those reserves are first tested for impairment and then reclassified to oil and gas development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

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

4.5 Foreign currency translation

(a) Functional and presentation currency
Items included in the interim consolidated financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The interim consolidated financial statements are presented in RMB, which is also the functional currency of the Company and its subsidiaries.

(b) Transactions and balances

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

(c) Convenience Translation into CAD$

The CAD$ amounts provided in the interim consolidated financial statements represent supplementary information solely for the convenience of the reader. The financial information presented in CAD$ has been translated from RMB using a convenience translation at the rate of RMB 5.074 to CAD$1, which is the exchange rate published in South China Morning Post as of September 30, 2016. Such presentation is not in accordance with IFRS and should not be construed as a representation that the RMB amounts shown could be readily converted, realized or settled in CAD$ at this or at any other rate.

4.6 Impairment of non-current assets

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

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

4.7 Financial assets and liabilities

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. It is the Company's policy that when there is a change to the contractual terms of a financial liability, the Company will use quantitative criteria to establish if the change in the contractual terms resulted in an extinguishment of the financial liability. The Company will also consider qualitative criteria to assess if the change in the contractual terms were to be substantially different and accordingly will account for the change in the contractual terms as an extinguishment even if the quantitative criteria are not met.

The Company classifies its financial assets as loans and receivables. The Company classifies its financial liabilities as other financial liabilities. Loans and receivables and other financial liabilities are recognized initially at fair value and subsequently at amortized cost using the effective interest method. Financial assets and liabilities are classified as current if the assets are realized / liabilities are settled within 12 months. Otherwise, they are presented as non-current.

4.8 Cash and cash equivalents

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

4.9 Trade payables

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

4.10 Conversion of debt to equity

When there is a conversion of debt to equity and the creditor is a shareholder acting in its capacity as such, then the equity issued is recorded at the carrying amount of the financial liability extinguished. No gain or loss arises from such conversions of debt to equity.

4.11 Derivative financial instruments

The Company's derivative instruments are the share purchase warrants issued. The Company has issued warrants as part of a Unit offering with an exercise price in CAD$ rather than RMB, the functional currency of the Company. Such share purchase warrants are considered to be derivative instruments.

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

4.12 Share capital

The Company's ordinary shares ("Shares") are classified as equity. Incremental costs directly attributable to the issue of new Shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

4.13 Current and deferred income tax

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

The income tax charge is calculated based on the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company and its subsidiaries operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities. As the Company and its subsidiaries are domiciled in an

income tax-exempt jurisdiction and are in a taxable loss position in the PRC, there is no current income tax.

Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for circumstances where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4.14 Share-based payments

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

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

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

4.15 Revenue recognition

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

Revenues from the sale of natural gas, petroleum, CO2 and other related products are recorded when title passes to the customer.

Under take or pay contracts, the Company makes a long-term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether the customer takes delivery. If a buyer has a right to get a "make-up" delivery later, revenue is deferred and recognized only when the product is delivered or the make-up product can no longer be taken. If no such option exists within the contractual terms, revenue is recognized when the take-or-pay penalty is triggered.

4.16 Per share amounts

Basic earnings (loss) per share are computed per IAS 33 by dividing the net earnings or loss for the period by the weighted average number of Shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if the Company's stock options and warrants outstanding are exercised into Shares. Diluted Shares are calculated using the treasury stock method, which assumes that any proceeds received from "in-the-money" stock options, would be used to buy back Shares at the average market price for the period. No adjustment is made to the weighted average number of Shares if the result of these calculations is anti-dilutive.

4.17 Borrowing costs

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

4.18 Restricted Cash/Restricted Bank Deposit

Restricted Cash is held as for security for decommissioning costs and is reported in the balance sheet and statement of cash flow separately. If the expected duration of the restriction is less than twelve months, then it is shown in current assets.

Restricted Bank Deposit is cash held on deposit of RMB150,000,000 (CAD$29,562,475), which is held in a debt service reserve account on a 3-year term for servicing the Syndicate Facility and RMB Banking Facility (Note 11), and can be accessed with penalty loss of interest and/or permission of the Syndicate.

4.19 Trade receivables

Trade receivables are recognized and carried at the original invoiced amount less any provision for estimated unrecoverable amounts.

4.20 Inventories

Inventories of materials, product inventory supplies and natural gas by-products are stated at the lower of cost and net realizable value. Cost is determined on the first–in, first-out method.

4.21 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and can affect that return through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All subsidiaries, as listed below, have been consolidated into the Company's interim consolidated financial statements.

Name of subsidiary	Place of Incorporation	Paid up issued share capital	Percentage of issued capital held by the Company	Functional currency
Primeline Petroleum Corp	British Virgin Islands	US$1	100%	RMB
Primeline Energy China Limited	Cayman Islands	US$2	100%	RMB
Primeline Energy Operations International Limited	Cayman Islands	US$2	100%	RMB

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

PPC became a subsidiary on August 14, 2015 – for the retroactive effect of such consolidation refer to Note 3.

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

Interests in Joint Operations

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties.

The Company's interests in joint operations are accounted by recognizing its shares of the assets held jointly, liability held jointly, its revenue from the sale of its share of the output arising from the joint operation and expenses incurred jointly.

The Company and CNOOC's participation in the development and production activities of LS36-1 is through a joint operation without establishing a separate legal entity for this arrangement. The joint operation has engaged CNOOC China Lishui Operating Company (LOC), wholly owned by CCL, as the Operator for the project. LOC is accountable to the JMC, in which both CCL and the Company have equal voting rights and decision-making power. The JMC's executive decisions are to be made jointly by chief representatives from both partners.

The Company's share of the results, assets and liabilities from LS36-1 under the joint operation are incorporated in these interim consolidated financial statements. The Company recognizes, on a line –by – line basis in the interim consolidated financial statements, its share of the assets, liabilities, revenues and expenses of this joint operation incurred jointly with other parties.

4.22 Segmental reporting

The Company has one operating segment, which is the exploration of oil and gas properties located in the PRC.

Primeline's consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. Significant accounting policies are disclosed above for the period ended September 30, 2016. Certain of the Company's accounting policies require subjective judgement and estimation in uncertain circumstances.

4.23 Accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and on a prospective basis. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the consolidated financial statements. These underlying assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances, and are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained and as the Company's operating environment changes. Specifically, amounts recorded for depletion, depreciation, amortization and impairment, asset retirement obligations (ARO), assets and liabilities measured at fair value, employee future benefits, income taxes and contingencies are based on estimates.

4.23.1. Depletion, Depreciation, Amortization (DD&A) and Impairment

Eligible costs associated with oil and gas activities are capitalized on a unit of measure basis. Depletion expense is subject to estimates including petroleum and natural gas reserves, future petroleum and natural gas prices, estimated future remediation costs, future interest rates as well as other fair value assumptions. The aggregate of capitalized costs, net of accumulated DD&A, less estimated salvage values, is charged to DD&A over the life of the proved developed reserves using the unit of production method, except in the case of assets whose useful life is shorter or longer than the lifetime of the proved developed reserves of that field, in which case the straight-line method or a unit-of-production method based on total proved plus probable reserves is applied.

4.23.2. Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. Determining whether there are any indications of impairment requires significant judgment of external factors, such as an extended decrease in prices or margins for oil and gas commodities or products, a significant decline in an asset's market value, a significant downward revision of estimated volumes, an upward revision of future development costs, a decline in the entity's market capitalization or significant changes in the technological, market, economic or legal environment that would have an adverse impact on the entity. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to net earnings.

The determination of the recoverable amount for impairment purposes involves the use of numerous assumptions and estimates. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices, operating costs and future capital expenditures, marketing supply and demand, forecasted crack spreads, growth rate, discount rate and, in the case of oil and gas properties, expected production volumes. Expected production volumes take into account assessments of field reservoir performance and include expectations about proved and probable volumes and where applicable economically recoverable resources associated with interests which are risk-weighted utilizing geological, production, recovery, market price and economic projections. Either the cash flow estimates or the discount rate is risk- adjusted to reflect local conditions as appropriate. Future revisions to these assumptions will impact the recoverable amount. As a result of the ongoing arbitrations over the price of gas in the Gas Sales Contract, we have had to make certain judgments around future prices based on our estimate of success in having our rights under the contract upheld or otherwise agreeing to accept a market related approach. We have used the Henry Hub and an oil based forward price curve to estimate such potential future market prices.

4.23.3. ARO

Estimating ARO requires that Primeline estimate costs many years in the future. Restoration technologies and costs are constantly changing, as are regulatory, political, environment, safety and public relations considerations. Inherent in the calculation of ARO are numerous assumptions and estimates, including the ultimate settlement amounts, future third-party pricing, inflation factors, credit- adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. Future revisions to these assumptions may result in changes to the ARO.

4.23.4. Fair Value of Financial Instruments

The fair values of derivatives are determined using valuation models, which require assumptions concerning the amount and timing of future cash flows and discount rates. These estimates are also subject to change with fluctuations in commodity prices, interest rates, foreign currency exchange rates and estimates of non-performance. The actual settlement of a derivative instrument could differ materially from the fair value recorded and could impact future results.

The payments overdue in respect of gas for which Zhejiang Gas has only made partial payment have not been recognized in the accounts, given revenue recognition has not yet been established. Full recovery of these amounts will be dependent on successful resolution of the Zhejiang Gas Arbitration and CNOOC Arbitration or an alternative settlement.

4.23.5 Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. Estimates that require significant judgments are also are made with respect to the timing of temporary difference reversals, how realizable tax assets are, and in circumstances where the transaction and calculations for which the ultimate tax determination are uncertain. All tax filings are subject to audit and potential reassessment, often after the passage of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

4.23.6 Legal, Environmental Remediation and Other Contingent Matters

Primeline is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can be reasonably estimated. When a loss is determined, it is charged to net earnings. Primeline must continually monitor known and potential contingent matters and make appropriate provisions by charges to net earnings when warranted by circumstances.

4.24 Key Judgements

Management makes judgments regarding the application of IFRS for each accounting policy. Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include successful efforts and impairment assessments, the determination of cash generating units (CGUs), the determination of a joint arrangement and the designation of the Company's functional currency.

4.24.1. Impairment of Financial Assets

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

A financial asset is assessed at the end of each reporting period to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence used by the Company to assess impairment of financial assets includes quoted market prices for similar financial assets and historical collection rates for loans and receivables. The calculations for the net present value of estimated future cash flows related to derivative financial assets requires the use of estimates and assumptions, including forecasts of commodity prices, marketing supply and demand, product margins and expected production volumes, and it is possible that the assumptions may change, which may require a material adjustment to the carrying value of financial assets.

4.24.2. CGUs

The Company's assets are grouped into CGUs, which is the smallest identifiable group of assets, liabilities and associated goodwill that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of the Company's CGUs is subject to management's judgment.

4.24.3. Joint Arrangements

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. A joint arrangement is either a joint operation whereby the parties have rights to the assets and obligations for the liabilities or a joint venture whereby the parties have rights to the net assets.

Determining the type of joint arrangement as either joint operation or joint venture is based on management's assumptions of whether it has joint control over another entity. The considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Management also assesses the entity's rights to the economic benefits, other facts and circumstances and its involvement and responsibility for settling liabilities associated with the arrangement.

4.24.4. RMB as Functional Currency

Functional currency is the currency of the primary economic environment in which the Company and its subsidiaries operate and is normally the currency in which the entity primarily generates and expends cash. The designation of RMB as the Company's functional currency is a management judgment based on the composition of revenues and costs in the locations in which it operates.

4.24.5. Exploration and evaluation (E&E) costs

Costs directly associated with an exploration project are initially capitalized as exploration and evaluation assets. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic modelling, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs.

Expenditures related to wells that do not contain reserves or where no future activity is planned are expensed as exploration and evaluation expenses. Exploration and evaluation costs are excluded from costs subject to depletion until technical feasibility and commercial viability is assessed or production commences. At that time, costs are either transferred to property, plant and equipment or their value is impaired. Impairment is charged directly to net earnings. Drilling results, required operating costs and capital expenditure and estimated reserves are important judgments when making this determination and may change as new information becomes available.

E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting an oil and gas resource is determined. The technical feasibility and commercial viability of an oil and gas resource is established when all the following conditions are met - proved and/or probable reserves are determined to exist, the decision to proceed with development has been approved by the Board of Directors, regulatory approval to develop the project is received, and the Company has sufficient funds to complete or participate in the project. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, the impairment costs are charged to exploration and evaluation expense.

Upon determination that the technical feasibility and commercial viability of an oil and gas resource is established, E&E assets attributed to those reserves are first tested for impairment and then reclassified to oil and gas development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

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

4.24.6. Accounting for take or pay contracts

Under take or pay contracts, the Company make a long-term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not the customer takes delivery. If a buyer has a right to get a "make-up" delivery at a later date, revenue is deferred and recognized only when the product is delivered or the make-up product can no longer be taken. If no such option exists within the contractual terms, revenue is recognized when the take-or-pay penalty is triggered.

Important judgements are required in assessing the ability of the buyer to physically take future extra gas shipments in order to "make-up" shortfalls in a contract year including assessing any annual off-take plan filed by the buyer setting the offtake arrangements for the coming year, the minimums and maximums established under the take or pay contract and actual offtake to March 31 each year.

Under IFRS, only that portion of the make-up that has been determined to be no longer capable of being taken may be recognized as revenue.

5 Changes in accounting standards

New, Amended and Future IFRS Pronouncements

The following new standards, amendments to standards and interpretations are not yet effective or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any; adoption of the standards will have on the disclosures in the Company's interim consolidated financial statements:

(i) IFRS 9 *Financial Instruments* (IFRS 9)

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of the financial assets and financial liabilities. IFRS 9 was issued in November 2009 and 2010 and is effective for the periods commencing on or after January 1, 2018, with earlier adoption permitted. It replaces parts of the IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. 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 due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is set to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 ahead of the effective date of January 1, 2018.

(ii) IFRS 15 *Revenue from Contracts with Customers* (IFRS 15)

The IASB issued IFRS 15 in May 2014. This IFRS replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework, which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for the periods commencing on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 15 on the interim consolidated financial statements.

(iii) IFRS 16 *Leases* (IFRS 16)

The IASB issued IFRS 16 in January 2016. This IFRS will result in all leases being recognized on the statement of financial position of lessees, except those that meet the limited exception criteria. The standard is effective for the periods commencing on or after January 1, 2019, with earlier adoption permitted.

6 Financial risk management

6.1 Financial risk factors

The Company's financial instruments consist of the Syndicate Facility, RMB Banking Facility (Note 11), cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, cash calls payable and convertible bonds.

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 maturity of these instruments, and anticipates a successful conclusion to the CNOOC Arbitration and Zhejiang Gas Arbitration for the Company.

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

(a) Currency risk

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

	September 30, 2016	March 31, 2016
Cash and cash equivalents of:		
- CAD$ '000	101	101
- US$ '000	160	11,221
- GBP '000	17	18
- HK$ '000	180	151
Bank loans and interest of US$ '000	(235,612)	(256,900)
Convertible bonds and interest of US$ '000	(18,033)	(18,000)

Based on the above net exposures, and if 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:

	September 30, 2016 RMB'000	March 31, 2016 RMB'000	September 30, 2016 CAD$'000
- CAD$	51	51	10
- US$	169,252	185,406	33,357
- GBP	14	17	3
- HK$	16	13	3

(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 large international financial institutions 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 a single customer, Zhejiang Gas through CCL and receives sales proceeds on a weekly basis. Significant amounts not recognized under the Company's revenue recognition policy are also due from Zhejiang Gas and are subject to arbitration proceedings and continued negotiations with the customer (Note 18).

(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 development work and exploration commitments. (Note 1)

(d) *Interest rate risk*

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

6.2 Capital management

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

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

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

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

7 Exploration and evaluation assets

	Exploration and evaluation assets
	RMB'000
Balance at April 1, 2015 (Restated – Note 3)	306,267
Additions	152,955
Balance at March 31, 2016	459,222
Additions	11,858
Balance at September 30, 2016	471,080
	CAD$'000
Balance at September 30, 2016 in CAD$ (Note 4.5)	92,842

E&E relates to Petroleum Contract 33/07 where PECL and PPC are collectively the Contractors. The Contractors are responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development.

By entering phrase two of the Exploration stage, the Company has agreed to relinquish 25% of the contract area under the Petroleum Contract. The contract area for Petroleum Contract 33/07 now is 4,397 sq. km and the commitment is to drill one well within 2 years.

8 Property, plant and equipment

In accordance with Petroleum Contract 25/34, the production period for LS36-1 will be 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.

	Oil & Gas Properties	Computer & Office Equipment	Total	Total
	RMB'000	RMB'000	RMB'000	CAD$'000 **(Note 4)**
COST				
At April 1, 2015 (Restated – Note 3)	2,079,858	20	2,079,878	409,909
Additions	12,242	-	12,242	2,413
Disposal	(458)	-	(458)	(90)
At March 31, 2016	2,091,642	20	2,091,662	412,232
Additions	29,333	22	29,355	5,785
At September 30, 2016	2,120,975	42	2,121,017	418,017

DEPLETION AND, DEPRECIATION				
At April 1, 2015 (Restated-Note 3)	98,636	18	98,654	19,443
Charge for the year	171,265	-	171,265	33,754
Disposal	(458)	-	(458)	(90)
At March 31, 2016	269,443	18	269,461	53,107
Charge for the year	85,375	3	85,378	16,826
At September 30, 2016	354,818	21	354,839	69,933

CARRYING VALUES	RMB'000	RMB'000	RMB'000	CAD$000
At April 1, 2015 (Restated-Note 3)	1,981,222	2	1,981,224	390,466
At March 31, 2016	1,822,199	2	1,822,201	359,125
At September 30, 2016	**1,766,157**	**21**	**1,766,178**	**348,084**

As at September 30, 2016, the Company reviewed the carrying amounts of its gas assets for indicators of impairment such as the dispute with its sole customer, which resulted in lower than contracted offtake and payments below the contracted price, changes in future prices, future costs and reserves. Based on this review, the Company's LS36-1 CGU was tested for impairment in accordance with the Company's accounting policy. The recoverable amount of the CGUs was estimated based on the FVLCD using a scenario weighted discounted cash flow model. Key assumptions by management included significant judgement around the potential outcomes of the ongoing arbitrations and negotiations with the parties to the Gas Sales Contract, estimates of reserves and resources comprising proved, probable and certain prospective resources, consistent with the independent engineer's reserve report and using the oil price forecast contained in the report. Other key inputs include estimate of the future cash price received by the Company from Zhejiang Gas, gas quality, liquids and by-products yields, take-or-pay principles, annual quantity from the Gas Sales Contract, and a discount rate of 12%.

A reasonably possible change in the aforementioned key assumptions on which management has based its determination of the recoverable amount would cause the carrying amount to exceed the recoverable amount of the CGU. The amount by which the Company's recoverable amount exceeds its carrying amount is in the range of RMB 9.1 to 51.1 million, depending on the forward curve used to inflate the future gas prices. A change in the discount rate of 0.5% is a sufficient change to reduce the headroom by approximately RMB 35.0 million and would create a recoverable amount less than the carrying amount of the CGU using the Henry Hub forward gas curve and a recoverable amount in excess of the carrying amount using an oil linked gas curve in the independent engineer's reserve report.

A 10% reduction in the probability applied to negotiating or fully winning the arbitrations, either of these resulting in having the terms of the existing Gas Sales Contract with Zhejiang Gas upheld and the resulting 10% increase in the probability of agreeing or being ordered to accept a market based pricing arrangement would reduce the Company's headroom in the impairment test by approximately RMB 6.3 million. A complete loss through negotiation or arbitration would yield an impairment of approximately RMB 22.0 million using the Henry Hub forward gas curve or significant headroom using the oil linked gas curve in the independent engineer's reserve report.

9 Decommissioning Liabilities

	September 30, 2016 RMB'000	March 31, 2016 RMB'000	September 30, 2016 CAD$'000 (Note 4)
Balance, beginning of year (Restated – Note 3)	152,801	147,777	30,114
Accretion	2,576	5,024	508
Balance, end of year	155,377	152,801	30,622

The total undiscounted future asset retirement obligations, including costs to reclaim and abandon wells and facilities in the years in which such costs are expected to be incurred is estimated by CNOOC and stated in the Overall Development Plan for LS36-1 to be RMB 417,820,000. The Company's share of the liability is RMB204,731,800.

At September 30, 2016, the Company's share of the liability in the principal amount of RMB204,731,800 (CAD$40,349,192) which has a net present value of RMB155,377,110 (CAD$30,622,213) (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 bond). The Company's share of the decommissioning liability has been determined to be non–current. Financing costs relating to the accretion of the decommissioning liabilities are RMB2,575,907 (CAD$507,668). Cash held as security for the decommissioning costs is reported in the balance sheet as restricted cash of RMB39,832,100 (CAD$7,850,237).

10 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, 2015 (Restated – Note 3)	157,460,869	1,030	484,967	485,997	95,782
Shareholder loan converted to Shares (i)	21,218,535	193	40,145	40,338	7,950
Issue of shares in payment of Bond interest accrued	1,960,716	18	(18)	-	-
Bond interest accrued	-	-	1,447	1,447	285
Issue shares in payment of share finder fee	3,140,775	29	2,439	2,468	486
Shareholder loan conversion costs	-	-	(146)	(146)	(29)
Balance – as at March 31, 2016	183,780,895	1,270	528,834	530,104	104,474
Issue of shares in payment of Bond interest accrued	3,003,824	27	(27)	-	-
Bond interest accrued	-	-	1,560	1,560	308
Balance – as at September 30, 2016	186,784,719	1,297	530,367	531,664	104,782

(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.

b) *Share Purchase Options*

The Company has a stock option plan ("the Plan"), pursuant to which the directors are authorized to grant options to purchase up to 10% of the issued and outstanding 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, 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, 2015	5,935,000	0.51	2,550,000	0.38
Granted	-	-	3,085,000	0.60
Expired	(625,000)	(0.47)	(475,000)	(0.41)
As at March 31, 2016	5,310,000	0.51	5,160,000	0.51
Vested	-	-	-	-
Expired	(1,575,000)	(0.32)	(1,575,000)	(0.32)
As at September 30, 2016	3,735,000	0.60	3,585,000	0.59

As at September 30, 2016, there are 186,784,719 Shares and 3,735,000 stock options outstanding and exercisable as follows:

Exercise price	**Number of outstanding options**	**Weighted average remaining contractual life**	**Number of exercisable options**
As at March 31, 2016			
CAD$0.32 (a)	1,575,000	0.32 years	1,575,000
CAD$0.50 (b)	500,000	1.24 years	500,000
CAD$0.60 (c)	2,785,000	1.49 years	2,785,000
CAD$0.68 (d)	450,000	3.36 years	300,000
	5,310,000	**1.08 years**	**5,160,000**

As at September 30, 2016

CAD$0.50 (b)	500,000	0.73 years	500,000
CAD$0.60 (c)	2,785,000	0.99 years	2,785,000
CAD$0.68 (d)	450,000	2.86 years	300,000
	3,735,000	**0.96 years**	**3,585,000**

a) 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, the last of which expired on July 27, 2016.

b) 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 on-going investor relations services. The options expire on June 25, 2017.

c) 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 320,000 options expired and 2,785,000 expire on September 26, 2017. 3,085,000 options vested on June 5, 2015 upon the conversion of shareholder loan. .

d) 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 RMB 25,330 (CAD$4,992) (2015 – RMB68,387) were recognized as salary and benefit in the consolidated statement of loss and comprehensive loss. Share based payment of RMB 59,104 (CAD$11,648) (2015 – RMB159,572) was capitalized as exploration and evaluation assets. 300,000 options have vested and the remaining 150,000 options vest on November 11, 2016.

11 Bank Loans

	September 30, 2016	**March 31, 2016**	**September 30, 2016**
	RMB'000	RMB'000	CAD$'000
Within one year	1,691,564	1,743,940	333,379
More than one year	-	-	-
Secured floating-rate bank loan	1,691,564	1,743,940	333,379

The original 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 has no principle repayment). The initial two principal repayments of US$21 million were paid on November 20, 2015 and on May 20, 2016.

As at September 30, 2016 the Company was in default of certain covenants under the Syndicate Facility. The Syndicate is aware that certain project economic parameters, including, inter alia, the debt repayment reserve account and the debt recovery ratio, did not meet the Syndicate Facility threshold. Thus, at September 30, 2016, all amounts due to the Syndicate are shown as current in accordance with IFRS. Principal repayment amounts outstanding under the Syndicate Facility are as follows:

	September 30, 2016	**September 30, 2016**
	RMB'000	CAD$ '000
Within 1 year	1,549,064	305,294
More than 1 year, but not more than 5 years	-	-
More than 5 years	-	-
Total	1,549,064	305,294

Estimated interest amounts outstanding under the Syndicate Facility are as follows:

	September 30, 2016	**September 30, 2016**
	RMB'000	CAD$ '000
Within 1 year	76,434	15,064
More than 1 year, but not more than 5 years	171,503	33,800
More than 5 years	12,796	2,522
Total	260,733	51,386

The Syndicate has subsequently concluded discussions with Primeline with respect to support for the Company during the Zhejiang Gas Arbitration and CNOOC Arbitration and this includes reduced capital repayments on the Syndicate Facility in November 2016 and May 2017 to US$2 million, representing a deferral of capital repayments of US$36 million over the life of the loan, and to reduce the Company's interest rate margin from 470bps to 335bps over 6 month LIBOR (Note 20) for the period up to the resolution of the disputes with Zhejiang Gas and CNOOC.

On December 9 and 24, 2015, January 13, 2016 and May 10, 2016, PECL signed short term RMB banking facilities with Shanghai Pudong Development Bank (the RMB Banking Facility) reserved for LS36-1 operations. The principal amount of the facility is RMB142.5 million at 4.0455% interest rate per annum and the principal is repayable on December 9, 2016, December 24, 2016, January 13, 2017 and May 10, 2017 respectively. The principal repayment amounts outstanding under the RMB Banking Facility are as follows:

	September 30, 2016	**September 30, 2016**
	RMB'000	CAD$ '000
Within 1 year	142,500	28,084
Total	142,500	28,084

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

	September 30, 2016	**September 30, 2016**
	RMB'000	CAD$ '000
Within 1 year	1,008	199
Total	1,008	199

12 Interest and other income

	For six months Period Ended September30,		
	2016	**2015**	**2016**
	RMB'000	**RMB'000**	**CAD$'000**
Bank interest income	4,068	4,752	802
Gain on fair value of re-measurement of warrant liability	-	657	-
	4,068	5,409	802

13 Convertible Bonds

The term of the convertible 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 at a deemed price per share equal to the volume-weighted average trading price of the shares on the TSX-V for the 10 consecutive trading days preceding the interest payment date.

The Tranche A Bonds had a total nominal value of RMB63,940,000 (CAD$12,601,498) at August 14, 2015. Liability component of RMB59,026,215 (CAD$11,633,074) and equity conversion component of RMB4,913,785 (CAD$968,424) were recognized initially. Transaction cost of RMB5,738,241 (CAD$1,130,911), were determined at the date of issuance of the Bonds.

The Tranche B Bonds had a total nominal value of RMB50,800,000 (CAD$10,011,825) at November 10, 2015. Liability component of RMB46,907,627 (CAD$9,244,704) and the equity conversion component of RMB3,892,213 (CAD$767,090) were recognized initially. Transaction cost of RMB220,709 (CAD$43,498), 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.

	September 30, 2016		
	RMB'000	RMB'000	RMB'000
	Tranche A	Tranche B	Total
Face value	63,940	50,800	114,740
Equity component	(4,914)	(3,892)	(8,806)
Liability component on initial recognition	59,026	46,908	105,934
Transaction costs for the issuance	(8,467)	(1)	(8,468)
Amortization of transaction costs and share finder fee	3,293	-	3,293
Fair value adjustment	5,160	2,642	7,802
Total Convertible bonds	59,012	49,549	108,561

14 Transactions with related parties and directors

During the quarter ended September 30, 2016, the Company paid or accrued the following:

a) Fees and benefits paid or accrued to key management personnel of the Company being Dr. Ming Wang, Mr. Andrew Biggs, Mr. Stuart Joyner, Mr. Mark Norman and others were RMB3,024,715 (CAD$596,120) (September 30, 2015 – RMB3,267,548) and share based payment of RMB84,434 (CAD$16,641) (September 30, 2015 – RMB569,644) was recognized for the 450,000 (September, 2015 – 2,360,000) share options granted to these key management personnel.

b) Fees and benefits paid or accrued to certain directors, being Mr. Victor Hwang, Mr. Brian Chan, Mr. Peter Kelty, Mr. Alan Johnson, Mr. Vincent Lien and Mr. Timothy Baldwin were RMB223,157 (CAD$43,981) (September 30, 2015 – RMB245,081) and share based payment of Nil (September 30, 2015 – RMB331,150) was recognized for Nil (September 30, 2015 – 2,100,000) share options granted to the directors.

These transactions are measured on terms equivalent to those that prevail in arm's length transactions are made only if such terms are substantiated.

15 Commitments

a) Under Petroleum Contract 33/07, the Company has a 7.5 years' exploration period divided into 3 exploration periods of 3.5, 2 and 2 years each. On May 5, 2016, Primeline agreed with CNOOC that it would enter the second phase of exploration commitment under the Petroleum Contract for Block 33/07. There are no anticipated expenditures for such exploration activities currently; and

b) The Company entered a lease agreement in June 2015 for new premises for its Shanghai office in the PRC which covers the three-year period from September 15, 2015 to 2018 for a monthly rental fee of RMB111,437.00 (CAD$21,962).

16 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 or liabilities that are included in Level 1 of the fair value hierarchy.

2) *Level 2 – Significant Other Observable Inputs*

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

The Syndicate Facility (Note 11) which is a secured floating rate instrument, 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 expense.

A 1% change in the USD/RMB rate would cause (from RMB 6.677 to RMB 6.744) a 1% change in interest expense.

The Convertible Bond liability is included in Level 2 of the fair value hierarchy as the Bonds are valued using a pricing model, which require a variety of inputs, including but not limited to 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.

17 **Revenue**

	For the six months ended September 30,		
	2016	**2015**	**2016**
	RMB'000	**RMB'000**	**CAD$'000**
Natural gas - Billed	75,380	33,598	14,856
CO2	-	-	-
Condensate	10,919	3,790	2,152
Light Oil	1,239	300	244
LPG	35	-	7
	87,573	37,688	17,259

Under the terms of the Company's Gas Sales Contract with Zhejiang Gas the base price and minimum annual quantities are both fixed (Note 18). During the year ended 31 March 2016 and the period ended September 30, 2016, Zhejiang Gas disputed the base price in the agreement and to significantly short pay amounts invoiced to it by CCL. As a result of the significant period of dispute with Zhejiang Gas, which ultimately led to the filing of the Zhejiang Gas Arbitration for its failure to comply with both the base price and minimum quantities required under the Gas Sales Contract, the Company determined that in accordance with IFRS revenue recognition standards the disputed and unpaid portion of the offtake invoices issued by CCL should not be recognized as revenue from the point that Zhejiang Gas unilaterally began to apply a lower price to payment of these invoices. Accordingly, the Company has not recognized a total of RMB176 million (CAD$34.7 million) being its share of the unpaid amounts properly invoiced by CCL, of which RMB30 million (CAD$6 million)

relates to the quarterly period ended September 30, 2016. Notwithstanding this accounting treatment, the Company remains firmly of the opinion that Zhejiang Gas will agree or be compelled to honour its commitments under the Gas Sales Contract and that this revenue will subsequently be recognised as income.

18 Trade receivables

	September 30, 2016	March 31, 2016	September 30, 2016
	RMB'000	RMB'000	CAD$ '000
Less than 30 days past due	11,160	11,717	2,199
More than 30 days past due	-	-	-
Total	11,160	11,717	2,199

CCL has invoiced Zhejiang Gas for RMB 257,742,921 (CAD$50,796,792) to reflect the price of shortfall of offtaken gas against the 2015 minimum annual "take-or-pay" contractual volume. The minimum take or pay volume for 2015 was 195 mmcm in accordance with the Gas Sales Contract and Zhejiang Gas only took 117 mmcm.

Per the take or pay arrangements of the Gas Sales 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. The Gas Sales Contract states that parties may agree to extend this period and CCL and Primeline may not unreasonably refuse to extend.

- 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 completed, so during the first seven years it cannot start to off-take Make-Up Gas unless and until it has off-taken 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 submitted by Zhejiang Gas and current offtake rates of circa 750,000 cubic metres per day it is extremely unlikely that the Zhejiang Gas will be able to off-take any Make-Up Gas in the calendar year 2016. Because of the continuing dispute with Zhejiang Gas, the Company has decided that, in accordance with IFRS revenue recognition accounting standards, it will not currently recognise its share of the amount invoiced by CCL for take or pay volume for 2015. Notwithstanding this accounting treatment, the Company remains firmly of the opinion that Zhejiang Gas will agree or be compelled to honour its commitments under the Gas Sales Contract and that such revenue will subsequently be recognised as income.

The trade receivable of RMB 11,160,000 as at 30 September 2016 relating to the natural gas and by products sales in the month of September 2016 and it was fully paid in October 2016.

19 Long term accounts payable

Under the repayment agreement with CNOOC in December 2014, which governs the terms and basis for the Company's repayment of its LS36-1 development cost obligations, the Company and CNOOC agreed a supplementary management fee would be added in consideration of the carry by CNOOC of those costs during that period. The fee is expected to be made 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 PP&E.

20 Subsequent Events

The Syndicate agreed effective November 20, 2016 to reduce the Company's capital repayments on its outstanding US$232 million Syndicate Facility to US$2 million from US$38 million for two payments (November 2016 and May 2017), representing a deferral of US$36 million in capital repayments over the life of the loan, and to reduce the Company's interest rate margin from 470bps to 335bps over 6 month LIBOR (Note 11).

Primeline Energy Holdings Inc.
Management Discussion and Analysis
For the Three Months Ended September 30, 2016

Primeline Energy Holdings Inc. (TSX Venture-PEH) ("the Company")

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1. Reader Advisories

1.1. Forward Looking Statements

Some of the following disclosures contain forward-looking statements, which involve inherent risk and uncertainty affecting the business of Primeline Energy Holdings Inc. **(**the "**Company"**). These statements relate to matters such as: the financing of, and the results of, the Company's exploration programme; assumptions that production from LS36-1 will proceed in accordance with the Gas Sales Contract and other relevant agreements; the Company's expectations with respect to the outcome of its two arbitration actions with China National Offshore Oil Corporation **("CNOOC"),** a Chinese State oil company and its subsidiary CNOOC (China) Ltd. **("CCL")**, and Zhejiang Gas Natural Gas Development Company Limited **("Zhejiang Gas")** under the Natural Gas Sale Agreement **("Gas Sales Contract")** (see Section 3.3). While these statements are based on assumptions that management considers reasonable, actual results may vary from those anticipated. Sufficient cash flow and/or external finance may not be available to the Company for debt service and exploration and it may then be in breach of its funding obligations. The arbitrations may not be successful. Zhejiang Gas may continue not to comply fully with its obligations under the Gas Sales Contract during arbitration. Any such event may materially and adversely affect Primeline's financial position, and if the arbitrations are not successful, Primeline may default. This may result in the seizure of Primeline's assets, or Primeline's insolvency. Exploration for oil and gas is subject to the inherent risk that it may not result in a commercial discovery. The forward-looking information and statements contained in this Management's Discussion and Analysis ("**MD&A**") are made as of the date of this document and the Company does not undertake any obligation to update or to revise any forward-looking information or statements, except as required by applicable law.

1.2. Intention of MD&A

In this MD&A, '**Primeline**' refers generally to the Company and its wholly owned subsidiaries, Primeline Energy China Ltd. **("PECL"**), Primeline Energy Operations International Ltd. **("PEOIL")** and Primeline Petroleum Corporation **("PPC")**.

This MD&A is intended to provide an explanation of the Company's financial condition and operational performance compared with prior periods, and the Company's prospects and plans. It provides additional information that is not contained in the Company's unaudited interim consolidated financial statements for the quarter ended September 30, 2016, which are prepared in accordance with International Financial Reporting Standards **("IFRS")** as issued by the International Accounting Standards Board **("IASB").**

1.3. Date

The effective date of this MD&A is November 29, 2016 Events after that date could materially alter the veracity and usefulness of the information contained in this document.

1.4. Standard Comparisons in this Document

Unless otherwise indicated comparisons of results are for the quarters ended September 30, 2016 and 2015 and the Company's financial condition at September 30, 2016 and March 31, 2016.

All monetary amounts in this MD&A 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 a representation that the RMB amounts shown could be readily converted, realized or settled in CAD$ at the date of these financial statements or any other date. The exchange rate of CAD$ to RMB published in the South China Morning Post on September 30, 2016 was RMB 5.074 to CAD$1.00.

1.5. Reclassifications and Materiality for Disclosures

Certain prior year amounts have been reclassified to conform to current year presentation. The acquisition of PPC in 2015 by the Company (the **"Acquisition"**) is 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 annual 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, and Primeline has adopted this accounting treatment for the Acquisition. Materiality for disclosures is determined based on whether the information omitted or misstated would cause a reasonable investor to change their decision to buy, hold or sell the Company's securities.

1.6. Operating Segments

The Company has one operating segment, which is the exploration of oil and gas properties located in the People's Republic of China ("**PRC**"). CCL is the operator under Petroleum Contract 25/34, in which the producing LS36-1 gas field ("**LS36-1**"), which is the Company's sole source of revenue, is located. In this MD&A references to CNOOC include its subsidiary CCL.

2. Introduction

The Company is listed on the TSX Venture Exchange ("**TSX-V**") and is focused exclusively on upstream oil and gas opportunities in the PRC. The Company owns exploration, development and production 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 between CNOOC and PECL and PPC. Petroleum Contract 25/34, dated March 24, 2005, and Petroleum Contract 33/07, dated June 15, 2012, are together referred to as "**the Petroleum Contracts"**. PECL and PPC act jointly as the "**Contractor**" under the Petroleum Contracts.

Block 25/34 covers 84.7 sq. km, being the development and production area for the LS36-1 for which CCL is the Operator holding a 51% interest and the Company holding a 49% interest (PECL 36.75% and PPC 12.25%).

PEOIL is the operator for Block 33/07 which covers an offshore area of 4,397 sq. km (1.08 million acres) enclosing Block 25/34 and the Company owns the Contractor's interest 100% (PECL 75% and PPC 25%). 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. The first exploration phase under Petroleum Contract 33/07 expired in April 2016 when Primeline entered the second exploration phase, which is for a period of two years, to enable it to continue with its exploration operations in the Lishui Basin.

Primeline and CNOOC are implementing a rolling development and exploration strategy in the Lishui Basin with CCL operating LS36-1 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 natural 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.

During 2010-2014, CCL, as Operator, carried out and completed LS36-1's development works including the production platform, subsea pipeline, development wells and onshore processing terminal. Trial production from LS36-1 commenced on July 16, 2014 and commercial production commenced on December 1, 2014.

In October 2014, CCL and Zhejiang Gas signed the Gas Sales Contract**,** which superseded the first gas sale agreement in principle, which was signed in 2008, and a framework agreement for gas sale, which was signed in 2010, which together provided the commercial support for the development of LS36-1.

Primeline's share of development cost was financed by a US$274 million loan ("**Syndicate Facility**") from China Development Bank, China Export and Import Bank and Shanghai Pudong Development Bank (together the "**Syndicate**")

The development has established access to the Zhejiang provincial gas grid in Eastern China, and together with the production infrastructure, enhances the value of LS36-1's incremental reserves and prospective resources and any additional resources which may be discovered in Block 33/07. The Company is continuing its exploration operations in the East China

Sea and is also exploring opportunities to acquire additional assets either by itself or in joint venture with others.

The Company was an exploration company for over 20 years and first discovered gas in the East China Sea in 1997. LS36-1 has now been in production and selling gas to Zhejiang Gas under the Gas Sales Contract for over two years, since 2014. However, a dispute has arisen with Zhejiang Gas regarding the price for gas payable under the Gas Sales Contract, which has led to worse than anticipated project financial performance and cash flow to Primeline. After extended negotiations to resolve the dispute with Zhejiang Gas and CCL without success, the Company commenced arbitration against Zhejiang Gas and separately against CNOOC and CCL. Further details are set out below.

3. Results of Operations

3.1. Operational Overview

During the quarter under review, the Company, together with its partner CNOOC, has delivered approximately 34.06 million cubic metres (mmcm) natural gas from LS36-1 to Zhejiang Gas under the Gas Sales Contract. Volumes were about 13% higher than the 30.15 mmcm in the previous quarter, and a significant improvement over the 16.28mmcm in the quarter ending September 30, 2015. Production since the end of the quarter has been in line with planned levels.

3.2. Production and Continued Development

During the quarter under review, the production facility of LS36-1 operated safely and smoothly without technical issues and the Operator continued to finalise the remainder of the development, including the development of a dock for transporting future sales of by-products.

To support future production levels, CCL proposed the drilling of the adjustment well LS36-1-A4M following the JMC for Block 25/34 in February 2016. Rig KX-1 was towed to location and arrived May 24, 2016. The drilling and completion of the well LS36-1-A4M was completed in July 2016 and the well is now in production providing support to the overall field production.

3.3. Gas Sales Challenges and Dispute with Buyer, Operator and COSL

As previously reported, due to an oversupply of gas in China since 2015, Zhejiang Gas has demanded a significant drop of gas price under the Gas Sales Contract which was rejected by Primeline. Subsequent negotiations have yet to resolve the dispute. Zhejiang Gas' position has been that the gas price payable under the Gas Sales Contract should reflect the onshore and overall current market gas price regime. It has offtaken less than the contract minimum for 2015 and has only made partial payment at the reduced price it has proposed. This led to significant declines in the production and operating cash flow for Primeline.

Primeline believes there is no contractual or legal basis for Zhejiang Gas' actions. Although the Gas Sales Contract states that parties may discuss and agree a price adjustment mechanism at some stage, and may discuss the price adjustment due to market changes, any changes must be mutually agreed. The Gas Sales Contract is a long-term contract with a fixed price framework to compensate for the investment by CCL and Primeline to establish the supply of gas. Hence any price adjustment needs to be reasonable and affordable by Primeline and CCL. Primeline must maintain operations and the service of the Syndicate Facility as its bottom line position.

The challenges posed by the dispute with Zhejiang Gas have been compounded due to CNOOC's shareholder and business relationship with Zhejiang Gas. CCL, which acts as operator under Petroleum Contract 25/34 and sales agent for Primeline under the Gas Sale Contract, has failed to enforce the Gas Sales Contract against Zhejiang Gas. A wholly owned subsidiary of CNOOC owns 30% of Zhejiang Gas and CNOOC, together with its partners (including Primeline), supplies a substantial proportion of the natural gas market in Zhejiang Province.

After lengthy negotiation without conclusion, Primeline has referred the matters to arbitration in accordance with Gas Sales Contract and Petroleum Contract 25/34. Details of such arbitration proceedings are as follows:

- Arbitration proceedings with China International Economic and Trade Arbitration Commission ("**CIETAC**") were commenced by Primeline on April 15, 2016 against Zhejiang Gas (the "**Zhejiang Gas Arbitration**") in respect of claims for payment of unpaid and partially paid gas sale invoices. Such proceedings were commenced in accordance with the dispute resolution provisions in the Gas Sales Contract. Following the commencement of such proceedings, Zhejiang Gas filed a request with the Zhejiang Province Hangzhou Intermediate Peoples' Court challenging the validity of Primeline's reliance on the arbitration provisions in the Gas Sales Contract. The basis of the challenge is that, as Primeline is not a signatory to the Gas Sales Contract but sells through CCL as agent, only CCL could institute such arbitration proceedings. Primeline received a notice from CIETAC on May 10, 2016 that the Zhejiang Gas Arbitration has been suspended until the court resolves this challenge. Primeline has been advised that it has a clear right under Section 402 of the Chinese Contract Law to institute the Zhejiang Gas Arbitration in view of the failure by its agent CCL to institute arbitration proceedings in accordance with the Gas Sales Contract and therefore considers Zhejiang Gas' move to be simply an attempt to delay the Zhejiang Gas Arbitration. Primeline has filed a defence against the application by Zhejiang Gas and a hearing of the matter was held on July 26, 2016. The parties are awaiting the decision of the Court.

- Arbitration proceedings against CNOOC and CCL were commenced by Primeline on May 24, 2016 under the dispute resolution provisions of Petroleum Contract 25/34 ("**CNOOC Arbitration**") relating to CCL's failure to properly manage and implement the Gas Sales Contract and commence arbitration against Zhejiang Gas and Primeline's continuing disputes with CNOOC and CCL regarding the development, production and sales of gas from LS36-1. Primeline appointed an arbitrator and on June 6, 2016 filed the formal Notice of Arbitration in accordance with the UNCITRAL Arbitration Rules 1976 and the arbitration clause under Petroleum Contract 25/34. CNOOC has subsequently confirmed the identity of their appointed arbitrator. The CNOOC Arbitration also includes claims in respect of CCL's mismanagement in relation to the development and production of LS36-1 and breach of fiduciary duties as agent under the Gas Sales Contract. As referred to above CNOOC has a significant conflict of interest in relation to its dealings with Zhejiang Gas and, thus, Primeline believes that CNOOC and CCL have failed to act in relation to the dispute with Zhejiang Gas in accordance with the principles of good faith.

Although the Company continues to seek a negotiated resolution of the disputes with the other parties, it and its legal counsel believe the Gas Sales Contract terms will be upheld by arbitration. The Company expects that the disputes will be resolved to the Company's satisfaction.

During the period under review, China Oilfield Services Limited ("**COSL**") commenced arbitration proceedings against **PEOIL** before **CIETAC** in relation to a claim for payment under the previously announced Turnkey Drilling Contract dated August 14, 2015 (the "**Drilling Contract**") between COSL and PEOIL (the **"COSL Arbitration"**). The Drilling Contract relates to the two wells drilled by COSL for PEOIL as the operator in Block 33/07 in late 2015. The dispute between PEOIL and COSL in relation to payment under the Drilling Contract is part of the overall operational and commercial issues the Company has encountered in the last 2 years referred to above. The amount claimed by COSL Arbitration against PEOIL is RMB119m, or approximately CAD$23.5m. PEOIL filed a jurisdictional challenge with Beijing No.4 Intermediate Court on the COSL arbitration on November 28, 2016, and expects that CIETAC will suspend the COSL arbitration shortly pending court ruling.

3.4. Exploration

During the period under review, Primeline has continued its post well evaluation of the two exploration wells drilled at the end of 2015 to fully assess the remaining prospectivity in Block 33/07. The Company's strategy is to use the LS36-1 production and its infrastructure as a springboard to expand in the neighbouring area in the East China Sea. In addition to the production and cash flow from the first phase, the main benefit of LS36-1 is that, based on the current production from LS36-1, the production infrastructure has spare capacity. Such spare capacity is anticipated to allow the Company to capitalise on its access to the Chinese gas market through exploration in the remainder of the Lishui Basin.

4. Financial Summary

4.1. Financial Position

As at 30 September 2016, the Company held cash resources of RMB 26,182,170 (CAD$5,160,065) and a bank deposit of RMB 150,000,000 (CAD$29,562,475) in a debt service reserve account serving the Syndicate Facility.

Primeline has substantial amounts outstanding due to it because of the various previously disclosed contractual disputes relating to LS36-1 with Zhejiang Gas, and CNOOC. The Company will continue to seek a negotiated resolution of the disputes but to ensure the Company's capital position and allow the arbitrations and other dispute resolutions to complete, the Syndicate have agreed in November 2016 to reduce the Company's capital repayments on its outstanding US$232 million Syndicate Facility to US$1 million respectively for two payments (November 2016 and May 2017), representing a deferral of capital repayments of US$36 million to a later stage over the life of the loan. The Company thus met the repayment obligation in November 2016. Further, the Syndicate agreed to reduce the Company's interest rate margin from 470bps to 335bps over 6 month LIBOR until the disputes are resolved.

Even after the restructuring of the Syndicate Facility, the Company's normal cash flow may be insufficient to meet the interest payment under the Syndicate Facility due on December 20, 2016. The Company is currently in discussions with CNOOC to agree a mechanism that would allow the Company to have sufficient cash flow. In addition, the Company is in discussions with its Chairman and majority shareholder, Mr. Victor Hwang, to secure his financial support if agreement with CNOOC cannot be reached or is insufficient. Management and the directors are confident that arrangements will be reached to allow the Company to make the interest payment, and therefore consider the going concern basis of preparation to be appropriate.

If the Company does not have sufficient funds to meet the December interest payment, the Company would face default under the Syndicate Facility and the directors believe the Syndicate may require repayment of the Syndicate Facility. The Company would have insufficient funds to repay the Syndicate Facility promptly. This would result in the restatement of these interim consolidated financial statements on a 'breakup' basis, which could result in adjustments to the amounts and classifications of assets and liabilities in the Company's interim consolidated financial statements and such adjustments could be material. However, while in the past the Company has been successful in closing financing agreements, there can be no assurance it will be able to do so again. Factors that could affect the availability of financing include the state of debt and equity markets, investor perceptions and expectations, and the natural gas markets. Further, there can be no assurance that the Company will prevail in its commercial arbitration actions or on the timing of the completion of those actions and collections of amounts owing as compared to the timing of future cash outflows.

As at September 30, 2016, the amounts outstanding under the convertible bonds issued to GEMS (the **"Bonds"**) are RMB 108,561,376 (CAD$21,395,620).

4.2. Financial Performance

The Company's results for the quarter ended September 30, 2016 were a loss of RMB48,149,986 (CAD$9,489,554), compared to the loss of RMB82,071,761 for the same quarter last year. Revenues of RMB44,004,308 saw an increase of 78% on the same period last year.

Exploration expenditures of RMB5,961,694 (CAD$1,174,950) were incurred during the quarter, which were comprised mainly of technical evaluations & management of RMB233,585 (CAD$46,036), interest on funding of deferred exploration expenditures of RMB2,825,680 (CAD$556,894), project administration of RMB1,333,526 (CAD$262,816) and salaries and benefits of RMB1,392,421 (CAD$274,423). These amounts were capitalized as exploration and evaluation assets.

The Company estimates that the realization of income tax benefits related to its deferred income tax assets is uncertain and is not more likely than not. Accordingly, no deferred income tax asset has been recorded.

The Company's financial statements are reported under IFRS issued by the IASB. Because of the prudent approach the Company has adopted about revenue recognition the Company has amended the disclosures for the quarters ended December 31, 2015 and September 30, 2015 but does not consider the changes to be material such that the Company would re-file. The following tables provide highlights from the Company's financial statements for the past eight quarters:

Quarter Ended		**Sep 30, 2016** **CAD$**	**Sep 30, 2016** **RMB**	**Jun 30,2016** **RMB**	**Mar 31,2015** **RMB**	**Dec 31, 2015** **RMB**
Revenue		8,672,508	44,004,308	43,568,666	60,869,960	85,935,717
Net Profit (loss)		(9,489,554)	(48,149,986)	(91,224,536)	(35,001,257)	(105,633,910)
Per basic share		(0.051)	(0.259)	(0.496)	(0.199)	(0.608)
Per diluted share		(0.051)	(0.259)	(0.496)	(0.199)	(0.608)
Total assets		490,686,335	2,489,742,462	2,514,917,385	2,645,993,506	2,821,779,989

Quarter Ended		**Sep 30, 2015** **RMB**	**Jun 30, 2015** **RMB** **(Restated)**	**Mar 31, 2015** **RMB** **(Restated)**	**Dec 31,2014** **RMB** **(Restated)**	**Sep 30, 2014** **RMB** **(Restated)**
Revenue		24,687,210	7,060,841	91,450,721	67,576,663	-
Net income (loss)		(82,071,761)	(37,006,590)	(376,788)	(15,464,038)	289,419
Per basic share		(0.69)	(0.31)	(0.003	(0.14)	0.002
Per diluted share		(0.69)	(0.31)	(0.003)	(0.14)	0.002
Total assets		2,621,986,456	2,569,346,843	2,562,736,595	2,519,801,543	696,642,062

5. Risk Management

5.1. Risk Management

The Company's risk management supports decision-making via comprehensive and systematic identification and assessment of risks that could materially impact the results of the Company. Through this framework, the Company builds risk management and mitigation into strategic planning and operational processes through the adoption of standards and best practices.

The Company attempts to mitigate its financial, operational and legal risks to an acceptable level through a variety of policies, systems and processes. The following provides a list of the most significant risks relating to the Company and its operations.

5.2 Significant Risk Factors

5.2.1 Operational, Environmental and Safety Incidents

The Company's operations are subject to inherent operational risks with respect to safety and the environment that require continuous vigilance. The Company seeks to minimise these operational risks by carefully designing and building its facilities and conducting its operations in a safe and reliable manner. Failure to manage the risks effectively could result in potential fatalities, serious injury, interruptions to activities or use of assets, damage to assets, environmental impact, or loss of license to operate. Enterprise risk management, emergency preparedness, business continuity and security policies and programmes are in place for all operating areas and are adhered to on an ongoing basis. The Company, in accordance with industry practice, maintains insurance coverage against losses from certain of these risks. Nonetheless, insurance proceeds may not be sufficient to cover all losses, and insurance coverage may not be available for all types of operational risks.

5.2.2 Commodity Price Volatility

Primeline's results of operations and financial condition are dependent on the prices received for its natural gas, LPG and condensate production. Lower prices will adversely affect the value and quantity of Primeline's oil and gas reserves. All Primeline's natural gas production is currently sold to Zhejiang Gas. Therefore, most of Primeline's revenue is currently dependent on the one contract, being the Gas Sales Contract. The Gas Sales Contract is between CCL (the operator of LS36-1) and Zhejiang Gas and as such Primeline has limited influence over its performance and terms. If Zhejiang Gas was to attempt to terminate the Gas Sales Contract, or the cost of production from LS36-1 were to rise above the price provided for in the Gas Sales Contract that would have a material, adverse effect on Primeline's business. Continuation of the settlement issues that have arisen with Zhejiang Gas and conclusion of the Zhejiang Gas Arbitration or the CNOOC Arbitration adversely to the Company's expectations could each have a material adverse effect on the Company's business, financial condition and cash flow. (See Section 3.3).

5.2.3 History of Losses

Primeline has incurred net losses in each of the years since the date of its incorporation. If Primeline is unable to achieve profitable operations in the future, there may be a material adverse effect on its ability to continue operations. A lack of cash flow could impede the ability of Primeline to raise capital through debt or equity financing to the extent required for continued operations or planned expansion. Accordingly, future losses may have a material adverse effect on the business, financial condition, results of operations and cash flows of Primeline.

5.2.4 Requirement for New Capital

Primeline may require additional financing to fund its operations. If additional financing is required, there can be no assurance that it will be available on acceptable terms, or at all. If Primeline raises additional funds by issuing equity securities, dilution to the holders of Shares may result. If adequate funds are not available, Primeline may be required to delay, scale back or eliminate portions of its operations.

5.2.5 Risks Relating to Arbitrations

Primeline is engaged in the Zhejiang Gas Arbitration, the CNOOC Arbitration and the COSL Arbitration (See Section 3.3). While Primeline believes, its legal position is good and that it will be successful in each of these arbitrations, the outcome of such proceedings is inherently uncertain and no assurance can be given of Primeline's success. Primeline may not be successful in either or all of the arbitrations. If Primeline is successful in the arbitrations, it may nonetheless be unable to enforce the award of the arbitrator. If these events were to occur, that would likely have a material, adverse effect on

Primeline's business and financial position. See Section 5.2.18.

5.2.6 Volatility of the Market Price of the Shares

The market price of the Company's ordinary shares ("Shares") may exhibit significant fluctuations in response to the following or other factors, many of which are beyond the control of Primeline. The factors include the outcome of the arbitrations, variations in the operating results of Primeline, results of its oil and gas exploration activities, material announcements by Primeline or its competitors of exploration developments, strategic partnerships, joint ventures or capital commitments, general economic and political conditions in China and in the oil and gas industry, and regulatory developments. The price at which an investor purchases or acquires Shares may not be indicative of the price of the Shares that will prevail in the trading market.

5.2.7 Dependence on Key Management Personnel

Primeline's success is highly dependent upon the continued services of key managerial employees, including the Chairman and President of the Corporation, Mr. Victor Hwang, and the Chief Executive Officer of Primeline, Dr. Ming Wang. Primeline does not currently maintain key-man life insurance policies on any member of management. Accordingly, the loss of these key executives or one or more other key members of management could have a material adverse effect on Primeline.

5.2.8 Exchange Rate Risk

Primeline is exposed to currency risk to the extent that it holds cash deposits primarily denominated in US$ and CAD$, whereas accounts payable by reference to various currencies are denominated primarily in US$, CAD$, £Sterling and RMB. For instance, the Syndicate Facility is denominated in US$, and serviced from cash from operations in RMB. Therefore, fluctuation between exchange rates for CAD$ and US$, in which Primeline holds most of its cash deposits as against RMB and £Sterling could adversely affect Primeline and, accordingly, the market price of the Shares. Primeline believes the foreign exchange risk is currently significant and is in discussions with the Syndicate to mitigate.

5.2.9 Exploration Risk

Oil and natural gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. Primeline's exploration expenditures with respect to Block 33/07 may not result in new discoveries of oil or natural gas in commercially viable quantities. If exploration costs exceed estimates, or if exploration efforts do not produce results, which meet expectations, exploration efforts may not be commercially successful, which could adversely impact Primeline's ability to generate revenues from operations. Primeline faces additional risk due to the offshore nature of its exploration and development operations. Drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions or other geological and mechanical conditions.

5.2.10 Reservoir Performance Risk

Lower than projected reservoir performance at LS36-1 could have a material impact on the Company's financial position, medium to long-term business strategy and cash flow. Inaccurate appraisal of large project reservoirs could result in missed production, revenue and earnings targets and negatively affect the Company's reputation, investor confidence and the Company's ability to deliver on its growth strategy. To maintain the Company's future production of crude oil, natural gas and NGL and maintain the value of the reserves portfolio, additional reserves must be added through discoveries, extensions, improved recovery, performance related revisions and acquisitions. The production rate of oil and gas properties tends to decline as reserves are depleted while the associated unit operating costs increase. To mitigate the effects of this, the Company must undertake successful exploration and development programmes, increase the recovery factor from existing properties through applied technology and identify and execute strategic acquisitions of proved developed and undeveloped properties and unproved prospects. Maintaining an inventory of developable projects depends on, among other things, obtaining and renewing rights to explore, develop and produce oil and natural gas, drilling success, completing long-lead time capital intensive projects on budget and on schedule and the application of successful exploitation techniques on mature properties.

5.2.11 Reserves Data and Future Net Revenue Estimates

The reserves data contained or referenced in this MD&A are estimates only. The accurate assessment of oil and gas reserves is critical to the continuous and effective management of the Company's upstream assets. Reserves estimates support various investment decisions about the development and management of oil and gas properties. In general, estimates of economically recoverable crude oil and natural gas reserves and the future net cash flow therefrom are based upon several variable factors

and assumptions, such as product prices, future operating and capital costs, historical production from the properties and the assumed effects of regulation by government agencies, including with respect to royalty payments, all of which may vary considerably from actual results. All such estimates are to some degree uncertain, and classifications of reserves are only attempts to define the degree of uncertainty involved. For those reasons, estimates of the economically recoverable oil and gas reserves attributable to any group of properties, classification of such reserves and resources based on risk of recovery and estimates of future net revenues expected therefrom may differ substantially from actual results. The data may be prepared by different engineers or by the same engineers at different times. These factors may cause the estimates to vary substantially over time. All reserves estimates involve a degree of ambiguity and, at times, rely on indirect measurement techniques to estimate the size and recoverability of the resource. While new technologies have increased the accuracy of these techniques, there remains the potential for human or systemic error in recording and reporting the magnitude of the Company's oil and gas reserves. Inaccurate appraisal of large project reservoirs could result in missed production, revenue and earnings targets and could negatively affect the Company's reputation, investor confidence and the Company's ability to deliver on its growth strategy.

5.2.12 Unplanned Shutdowns and Pipeline Interruptions
Unplanned shutdowns and closures of facilities or platform may limit may potentially have a material impact on the Company's financial condition, short-term to long- term business strategy, cash flow, and earnings. The Company's corporate reputation is particularly vulnerable to these events. Prolonged problems may threaten the commercial viability of operations.

5.2.13 Security and Terrorist Threats
Security threats and terrorist or activist activities may impact the Company's personnel, which could result in injury, death, extortion, hostage situations and/or kidnapping, including unlawful confinement. A security threat, terrorist attack or activist incident targeted at a facility, office or offshore vessel/installation owned or operated by the Company could result in the interruption or cessation of key elements of the Company's operations. Outcomes of such incidents could have a material impact on the Company's financial condition, business strategy and cash flow. A cyber incident may impact the operational state and/or cause physical damage to the Company's assets, along with potential health and safety risks or loss of intellectual property.

5.2.14 Lack of Diversification
Primeline's business focuses exclusively on the oil and gas industry in China, and therein exclusively on exploration and development of two properties, Block 25/34 and Block 33/07. Completion of the Acquisition has increased Primeline's exposure to the exploration and development risks of these properties. Larger companies can manage their risk by diversification. However, Primeline currently lacks diversification, in terms of both the nature and geographic scope of business. Thus, factors affecting the oil and gas industry or China in general or Blocks 25/34 and 33/07 are likely to impact Primeline more acutely than if its business were more diversified.

5.2.15 Insurance
Involvement in the exploration for and development of oil and natural gas properties may result in Primeline becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Primeline will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, Primeline may choose not to obtain insurance to protect against specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce funds available. If Primeline suffers a significant event or occurrence that is not fully insured, or if the insurer of such event is not solvent, then Primeline would be required to fund any shortfall.

5.2.16 Competition
The oil and gas industry is highly competitive. Other companies engaged in the same line of business may compete with Primeline from time to time in obtaining capital from investors. Competitors include much larger companies, which may have access to greater resources than Primeline, may be more successful in the recruitment and retention of qualified employees and may conduct their own marketing operations, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests.

5.2.17 Risks Related to Primeline's Controlling Shareholder
Primeline is controlled by Mr. Victor Hwang, its Chairman and President, who directly and indirectly through PIHI owns

Shares representing approximately 67.04% of the votes attaching to all the Shares and management share options in respect of a further 200,000 Shares. Mr. Hwang can control election to the board of directors and may be able to cause Primeline to effect corporate transactions without the consent of its other shareholders, subject to applicable law and the fiduciary duty of Primeline's directors and officers. Transactions effected between Primeline and Mr. Hwang may not be on the same terms as could be obtained from independent parties. Mr. Hwang is also able to cause or prevent a change of control of Primeline. This may have an adverse effect on the market price or value of the Shares.

5.2.18 PRC Political and Economic Considerations

The location of its operations wholly in the PRC may expose the Company to uncertain political, economic and other risks. The Company's operations may be adversely affected by events that may include, but are not limited to, onerous fiscal policy, renegotiation, nullification or failure to perform agreements, imposition of onerous regulation, changes in laws governing existing operations, financial constraints, including currency and exchange rate fluctuations, unreasonable taxation and corrupt behaviour of public officials, joint venture partners or third-party representatives that could result in lost business opportunities for Primeline. This could adversely affect the Company's interest in its PRC operations and future profitability. Changes in PRC government policy, legislation or regulation could impact the Company's existing and planned projects as well as impose costs of compliance and increase capital expenditures and operating expenses. Examples of the Company's regulatory risks include, but are not limited to, uncertain or negative interactions with government, uncertain energy policies, uncertain climate policies, uncertain environmental and safety policies, penalties, taxes, royalties, government fees, reserves access, limitations or increases in costs relating to the exportation of commodities, restrictions on the acquisition of exploration and production rights and land tenure, expropriation or cancellation of contract rights, limitations on control over the development and abandonment of fields and loss of licences to operate.

5.2.19 Partner Misalignment

CNOOC, as joint venture partner operates all Primeline's producing assets. Primeline is at times dependent upon CNOOC for the successful execution of various projects. If a dispute with partners were to occur over the development and operation of a project or if partners were unable to fund their contractual share of the capital expenditures, a project may be delayed and the Company may be partially or totally liable for its partner's share of the project. The CNOOC Arbitration may have an adverse impact on Primeline's relationship with CNOOC. See Section 3.3.

5.2.20 Environmental Considerations

As Primeline is involved in oil and gas exploration, it is subject to extensive environmental and safety legislation (for example, in relation to plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection) and this legislation may change in a manner that may require additional or stricter standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may be unforeseen environmental liabilities resulting from oil and gas activities that may be costly to remedy. The acceptable level of pollution and the potential clean-up costs and obligations and liability for toxic or hazardous substances for which Primeline may become liable because of its activities may be impossible to assess against the current legal framework and current enforcement practices of PRC. The extent of potential liability, if any, for the costs of abatement of environmental hazards cannot be accurately determined and consequently no assurances can be given that the costs of implementing environmental measures or meeting any liabilities in the future will not be material to Primeline or affect its business or operations. Primeline will be committed to meeting its responsibilities to protect the environment and anticipates making increased expenditures of both a capital and an expense nature because of the increasingly stringent laws relating to the protection of the environment in China, and will be taking such steps as required to ensure compliance with such legislation.

Under the Environmental Protection Law of PRC, the division of the State Council responsible for environmental protection has the power to set national environmental quality standards and supplement the national standards in areas where the national standards are silent. Due to the very short history of the Environmental Protection Law of PRC, national and local environmental protection standards are still in the process of being formulated and implemented. Primeline believes there are no outstanding notices, orders or directives from central or local environmental protection agencies or local government authorities alleging any breach of national or local environmental quality standards by Primeline and that Primeline has complied with all existing environmental protection laws, regulations, administrative orders and standards. Given the nature of Primeline's business, there is a possibility that Primeline must meet higher environmental quality standards as the economy of the PRC expands and its level of environmental consciousness increases in the future.

5.2.21 Reliability of Information

While the information contained herein regarding the PRC and its economy has been obtained from a variety of government and private publications, independent verification of this information is not available and there can be no assurance that the sources from which it is taken or on which it is based are wholly reliable.

5.3 Financial Risks

5.3.1. Currency risk

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

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

	September 30, 2016	March 31, 2016
Cash and cash equivalents of:		
- CAD$ '000	101	101
- US$ '000	160	11,221
- GBP '000	17	18
- HK$ '000	180	151
Bank loans and interest of US$ '000	(235,612)	(256,900)
Convertible bonds and interest of US$'000	(18,033)	(18,000)

Based on the above net exposures, and if 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:

	Sep 30, 2016	March 31, 2016	Sep 30, 2016
	RMB'000	RMB'000	CAD$'000
- CAD$	51	51	10
- US$	169,252	185,406	33,357
- GBP	14	17	3
- HK$	16	13	3

5.3.2. Credit risk and trade receivable risk

Credit and trade 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 currently sells its natural gas a single customer, Zhejiang Gas through CCL and is contractually entitled to receive sales proceeds on a weekly basis. See Section 3.3.

5.3.3. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and arises through the excess of financial obligations over financial assets due at any point in time. Financing may be required in relation to any future exploration work and to fund any current working capital deficiency. (See Section 6.1).

5.3.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes

in market interest rates. The Company has inherent interest rate risk in the Syndicate Facility, which carries a floating interest rate of US$ 6 month LIBOR plus 4.7%. The Company does not hedge against this risk.

6. Liquidity and Capital Resources

6.1 Liquidity

The Company commenced the Zhejiang Gas Arbitration because of the failure of Zhejiang Gas to comply with both the basic price and minimum quantities required under the Gas Sales Contract and has also commenced arbitration against CNOOC and CCL in respect of claims in respect of CCL's mismanagement in relation to failure to implement and breach of fiduciary duties as agent under the Gas Sales Contract and for failures to comply with responsibilities as Operator of Petroleum Contract 25/34. The total amounts outstanding and due to PECL and PPC from Zhejiang Gas as of the end of the period under the Gas Sales Contract are estimated to be RMB372 million (approximately CAD$74 million). This includes partially paid gas offtaken and unpaid take or pay payment obligations. This estimate is subject to change depending on the final determined detail of the cost recovery relating to unrecovered exploration costs.

The Company's unaudited interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least September 30, 2017 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, to continue as a going concern, the Company must successfully conclude the ongoing arbitrations (as described above), generate sufficient operating cash flows, secure additional capital, obtain continued financial support from its majority shareholder or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If it fails to do so, then the Company may not have sufficient capital resources or cash flows from operations to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on the Syndicate Facility. Thus, it may not be able to continue as a going concern.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a working capital deficiency of RMB1,848 million (CAD$364 million) as at September 30, 2016 compared to RMB 1,747 million (CAD$344 million) as at March 31, 2016 due to the Syndicate Facility being reclassified as current in the March 31, 2016 accounts. Primeline has reached agreement with the Syndicate in November 2016 to defer capital repayments and reduce interest rate on the Syndicate Facility, demonstrating the support of the Syndicate in this time of difficulty during the Zhejiang Gas Arbitration and CNOOC Arbitration. The Company is actively seeking to successfully resolve the disputes related to the arbitration cases, while remaining focused on minimizing uncommitted capital and exploration expenditures and preserving the Company's growth options.

If for any reason, the Company is unable to successfully complete the arbitrations or secure additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's interim consolidated financial statements and such adjustments could be material.

As at September 30, 2016, the Company had total assets of RMB 2,490 million (CAD$491 million) (March 31, 2016 – RMB2,646 million), which were financed by net shareholders' equity of RMB 302 million (CAD$59.5 million) March 31, 2016 – RMB440 million), Syndicate Facility and short term bank loan of RMB 1,692 million (CAD$333.5 million) (March 31. 2016 – RMB 1,744 million.

As at September 30, 2016, the Company had an accumulated deficit of RMB 548 million (CAD$108 million) (March 31, 2016 – RMB408 million.

During the quarter, exploration and evaluation assets of RMB6 million (CAD$1.2 million) were incurred. As at September 30, 2016, the total amount of exploration and evaluation assets incurred and capitalized amounted to RMB 471 million (CAD$93 million)

Under Petroleum Contract 33/07, the Company has a 7.5-year exploration period divided into 3 exploration periods of 3.5, 2 and 2 years each. On May 5, 2016, Primeline agreed with CNOOC that it would enter the second exploration phase under the Petroleum Contract for Block 33/07 but substantial expenditures for such exploration activities are not likely to occur before

2018. The Company intends to finance these expenditures when due by securing a farm in from a partner, from further financing, or a combination of these.

6.2 Capital Structure

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

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

To facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors approves the annual and updated budgets. At this stage of the Company's development, to maximize ongoing development efforts, the Company does not pay out dividends. Additional information regarding capital management is disclosed in Note 6 of the interim consolidated financial statements as at September 30, 2016.

There are no significant budgeted exploration and development, or research and development expenditures required to maintain properties or agreements in good standing above and beyond the operating expenditures for the LS36-1 Gas Field, which are expected to be funded from cash flow from operations from that asset.

6.3 Transactions with Related Parties and Directors

During the quarter ended September 30, 2016, the Company paid or accrued the following:

i. Fees and benefits paid or accrued to key management personnel of the Company being Dr. Ming Wang, Mr. Andrew Biggs, Mr. Stuart Joyner, Mr. Mark Norman and others were RMB3,024,715 (CAD$596,120) (September 30, 2015 – RMB3,267,548) and share based payment of RMB84,434 (CAD$16,641) (September 30, 2015 – RMB569,644) was recognized for the 450,000 (September, 2015 – 2,360,000) share options granted to these key management personnel.

ii. Fees and benefits paid or accrued to directors being Mr. Victor Hwang, Mr. Brian Chan, Mr. Peter Kelty, Mr. Alan Johnson, Mr. Vincent Lien and Mr. Timothy Baldwin were RMB223,157 (CAD$43,981) (September 30, 2015 – RMB245,081) and share based payment of Nil (September 30, 2015 – RMB331,150) was recognized for Nil (September 30, 2015 – 2,100,000) share options granted to the directors.

These transactions are measured on terms equivalent to those that prevail in arm's length transactions are made only if such terms are substantiated.

6.4 Outstanding Share Data

As at November 29, 2016, there are 186,784,719 Shares and 3,735,000 stock options outstanding.

7. Critical Accounting Estimates and Key Judgements

Primeline's consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. Significant accounting policies are disclosed in note 4 to the interim Consolidated Financial Statements for the three months ended September 30, 2016. Certain of the Company's accounting policies require subjective judgement and estimation in uncertain circumstances.

7.1 Accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and on a prospective basis. By their nature, estimates are subject to measurement uncertainty and a change in such estimates in future years could require a material change in the consolidated financial statements. These underlying assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances, and are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained and as the Company's operating environment changes. Specifically, amounts recorded for depletion, depreciation, amortization and impairment, asset retirement obligations ("**ARO**"**),** assets and liabilities measured at fair value, employee future benefits, income taxes and contingencies are based on estimates.

7.1.1. Depletion, Depreciation, Amortization ("DD&A") and Impairment
Eligible costs associated with oil and gas activities are capitalized on a unit of measure basis. Depletion expense is subject to estimates including petroleum and natural gas reserves, future petroleum and natural gas prices, estimated future remediation costs, future interest rates as well as other fair value assumptions. The aggregate of capitalized costs, net of accumulated DD&A, less estimated salvage values, is charged to DD&A over the life of the proved developed reserves using the unit of production method, except in the case of assets whose useful life is shorter or longer than the lifetime of the proved developed reserves of that field, in which case the straight-line method or a unit-of-production method based on total proved plus probable reserves is applied.

7.1.2. Impairment of Non-Financial Assets
The carrying amounts of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. Determining whether there are any indications of impairment requires significant judgment of external factors, such as an extended decrease in prices or margins for oil and gas commodities or products, a significant decline in an asset's market value, a significant downward revision of estimated volumes, an upward revision of future development costs, a decline in the entity's market capitalization or significant changes in the technological, market, economic or legal environment that would have an adverse impact on the entity. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to net earnings.

The determination of the recoverable amount for impairment purposes involves the use of numerous assumptions and estimates. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices, operating costs and future capital expenditures, marketing supply and demand, forecasted crack spreads, growth rate, discount rate and, in the case of oil and gas properties, expected production volumes. Expected production volumes consider assessments of field reservoir performance and include expectations about proved and probable volumes and where applicable economically recoverable resources associated with interests which are risk-weighted utilizing geological, production, recovery, market price and economic projections. Either the cash flow estimates or the discount rate is risk- adjusted to reflect local conditions as appropriate. Future revisions to these assumptions impact the recoverable amount.

7.1.3. ARO
Estimating ARO requires that Primeline estimate costs many years in the future. Restoration technologies and costs are constantly changing, as are regulatory, political, environment, safety and public relations considerations. Inherent in the calculation of ARO are numerous assumptions and estimates, including the ultimate settlement amounts, future third-party pricing, inflation factors, credit- adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. Future revisions to these assumptions may result in changes to the ARO.

7.1.4. Fair Value of Financial Instruments

The fair values of derivatives are determined using valuation models, which require assumptions concerning the amount and timing of future cash flows and discount rates. These estimates are also subject to change with fluctuations in commodity prices, interest rates, foreign currency exchange rates and estimates of non-performance. The actual settlement of a derivative instrument could differ materially from the fair value recorded and could impact future results.

Because of the continuing dispute with Zhejiang Gas, the Company has decided, in accordance with IFRS revenue recognition accounting standards, it will not currently recognise its share of the amount invoiced by CCL. Full recovery of these amounts will be dependent on successful resolution of the Zhejiang Gas Arbitration and CNOOC Arbitration or an alternative settlement.

7.1.5 Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. Estimates that require significant judgments are also are made with respect to the timing of temporary difference reversals, how realizable tax assets are, and in circumstances where the transaction and calculations for which the ultimate tax determination are uncertain. All tax filings are subject to audit and potential reassessment, often after the passage of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

7.1.6 Legal, Environmental Remediation and Other Contingent Matters

Primeline is required to determine both whether a loss is probable based on judgment and interpretation of laws and regulations and whether the loss can be reasonably estimated. When a loss is determined, it is charged to net earnings. Primeline must continually monitor known and potential contingent matters and make appropriate provisions by charges to net earnings when warranted by circumstances.

7.2 Key Judgements

Management makes judgments regarding the application of IFRS for each accounting policy. Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include successful efforts and impairment assessments, the determination of cash generating units ("CGUs"), the determination of a joint arrangement and the designation of the Company's functional currency.

7.2.1. Impairment of Financial Assets

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

A financial asset is assessed at the end of each reporting period to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence used by the Company to assess impairment of financial assets includes quoted market prices for similar financial assets and historical collection rates for loans and receivables. The calculations for the net present value of estimated future cash flows related to derivative financial assets requires the use of estimates and assumptions, including forecasts of commodity prices, marketing supply and demand, product margins and expected production volumes, and it is possible that the assumptions may change, which may require a material adjustment to the carrying value of financial assets.

7.2.2. CGUs

The Company's assets are grouped into CGUs, which is the smallest identifiable group of assets, liabilities and associated goodwill that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of the Company's CGUs is subject to management's judgment.

7.2.3. Joint Arrangements
Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions. A joint arrangement is either a joint operation whereby the parties have rights to the assets and obligations for the liabilities or a joint venture whereby the parties have rights to the net assets.

Determining the type of joint arrangement as either joint operation or joint venture is based on management's assumptions of whether it has joint control over another entity. The considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. Management also assesses the entity's rights to the economic benefits, other facts and circumstances and its involvement and responsibility for settling liabilities associated with the arrangement.

The Company and CCL's participation in the development and production activities of LS36-1 is through a joint operation without establishing a separate legal entity for this arrangement. The joint operation has engaged CNOOC China Limited Lishui Operating Company **("LOC")**, which is a non-legal entity wholly, owned by CCL, as the operator for the project. LOC is accountable to the JMC, in which both CCL and the Company have equal voting rights and decision-making power. The LOC's executive decisions are to be made jointly by chief representatives from both partners. The Company shares 49% of the results, assets and liabilities in LS36-1 under the joint operation, which are incorporated in the consolidated financial statements using the proportionate method of accounting in which the Company recognises, on a line –by – line basis, its share of the assets, liabilities, revenues and expenses of this joint operation incurred jointly with other parties from the date when control passes to the Company.

7.2.4.RMB as Functional Currency
Functional currency is the currency of the primary economic environment in which the Company and its subsidiaries operate and is normally the currency in which the entity primarily generates and expends cash. The designation of RMB as the Company's functional currency is a management judgment based on the composition of revenues and costs in the locations in which it operates.

7.2.5. Exploration and evaluation costs **("E&E")**
Costs directly associated with an exploration project are initially capitalized as exploration and evaluation assets. Such E&E costs may include undeveloped land acquisition, geological, geophysical and seismic modelling, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs.

Expenditures related to wells that do not find reserves or where no future activity is planned are expensed as exploration and evaluation expenses. Exploration and evaluation costs are excluded from costs subject to depletion until technical feasibility and commercial viability is assessed or production commences. At that time, costs are either transferred to property, plant and equipment or their value is impaired. Impairment is charged directly to net earnings. Drilling results required operating costs and capital expenditure and estimated reserves are important judgments when making this determination and may change as new information becomes available.

E&E costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting an oil and gas resource is determined. The technical feasibility and commercial viability of an oil and gas resource is established when all the following conditions are met - proved and/or probable reserves are determined to exist, the decision to proceed with development has been approved by the Board of Directors, regulatory approval to develop the project is received, and the Company has sufficient funds to complete or participate in the project. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, the impairment costs are charged to exploration and evaluation expense.

Upon determination that the technical feasibility and commercial viability of an oil and gas resource is established, E&E assets attributed to those reserves are first tested for impairment and then reclassified to oil and gas development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

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

7.2.6. Accounting for take or pay contracts
Under take or pay contracts, the Company makes a long-term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether the customer takes delivery.

8. Recent Accounting Standards and Changes in Accounting Policies

8.1 Recent Accounting Standards

The following new standards, amendments to standards and interpretations are not yet effective or have otherwise not yet been adopted by the Company. The Company is evaluating the impact, if any; adoption of the standards will have on the disclosures in the Company's interim consolidated financial statements:

*(i) IFRS 9 Financial Instruments ("**IFRS 9**")*

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of the financial assets and financial liabilities. IFRS 9 was issued in November 2009 and 2010 and is effective for the periods commencing on or after January 1, 2018, with earlier adoption permitted. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. 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 due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is set to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when the Board completes assessment.

*(ii) IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**")*

The IASB issued IFRS 15 in May 2014. This IFRS replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework, which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for the periods commencing on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 15 on the interim consolidated financial statements.

*(iii) IFRS 16 Leases ("**IFRS 16**")*

The IASB issued IFRS 16 in January 2016. This IFRS will result in all leases being recognized on the statement of financial position as lessees, except those that meet the limited exception criteria. The standard is effective for the periods commencing on or after January 1, 2019, with earlier adoption permitted.

8.2. Changes in Accounting Policies

There were no changes in accounting policies in the period under review and a detailed listing of the Company's significant accounting policies is provided in Note 4 to the interim consolidated financial statements for the quarter ended September 30, 2016, prepared in accordance with IFRS.

10. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim condensed financial statements and the audited annual financial statements and respective accompanying MD&A.

In contrast to the certificate for non-venture issuers under National Instrument 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings) ("**NI 52-109**"), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Disclosure controls and procedures ("**DC&P**") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("**ICFR**") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with Canadian generally accepted accounting principles.

TSX-V listed companies are not required to provide representations in the interim and annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

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