

Primeline Energy Holdings Inc.
Interim Condensed Consolidated Financial Statements
December 31, 2017

(Unaudited)

Primeline Energy Holdings Inc.

Interim Consolidated Statement of Financial Position (Unaudited)

As at December 31, 2017 and March 31, 2017

(In RMB)

	Notes	December 31, 2017 RMB'000	March 31, 2017 RMB'000	December 31, 2017 CAD\$'000 (Note 3.5 (c))
Non-current assets				
Exploration and evaluation assets	6	499,592	479,461	96,316
Property, plant and equipment	7	1,369,434	1,629,729	264,013
Restricted cash	8	68,397	51,252	13,186
		<u>1,937,423</u>	<u>2,160,442</u>	<u>373,515</u>
Current assets				
Cash and cash equivalents		129,814	307,418	25,027
Restricted bank deposits	3.17	80,000	150,000	15,423
Trade receivables	18	23,125	8,121	4,458
Prepaid expenses and other receivables		13,320	17,375	2,569
Inventories		7,902	7,518	1,523
		<u>254,161</u>	<u>490,432</u>	<u>49,000</u>
Total assets		<u>2,191,584</u>	<u>2,650,874</u>	<u>422,515</u>
Equity attributable to shareholders				
Share capital	9	1,360	1,326	263
Share premium and reserves		853,360	849,676	164,519
Accumulated deficit		(531,874)	(538,605)	(102,540)
Total equity		<u>322,846</u>	<u>312,397</u>	<u>62,242</u>
Non-current liabilities				
Long term bank loan	10	1,042,080	1,426,148	200,902
Accounts payable	17	118,434	103,170	22,833
Convertible bonds	12	113,087	114,845	21,802
Decommissioning liabilities	8	162,008	157,996	31,234
		<u>1,435,609</u>	<u>1,802,159</u>	<u>276,771</u>
Current liabilities				
Bank loans	10	346,868	303,941	66,872
Accounts payable and accrued liabilities	20	86,261	198,896	16,630
Deferred Revenue	16	-	33,481	-
		<u>433,129</u>	<u>536,318</u>	<u>83,502</u>
Total liabilities		<u>1,868,738</u>	<u>2,338,477</u>	<u>360,273</u>
Total shareholders' equity and liabilities		<u>2,191,584</u>	<u>2,650,874</u>	<u>422,515</u>

Nature of Operations and Going Concern (Note 1)

Commitments (Note 14)

Subsequent events (Note 21)

Approved by the Board of Directors

“*Ming Wang*”

 Director

“*Brian Chan*”

 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 nine months ended December 31, 2017 and 2016

(In RMB)

	Notes	Three Months Ended			Nine Months Ended		
		December 31			December 31		
		2017	2016	2017	2017	2016	2017
		RMB'000	RMB'000	CAD\$'000	RMB'000	RMB'000	CAD\$'000
				(Note 3.5 (c))			(Note 3.5 (c))
Revenue							
Oil and gas	16	126,921	93,774	24,469	370,701	181,347	71,467
Interest and other income							
	11	2,742	1,881	529	9,068	5,949	1,748
Exchange gain (loss), net		30,371	(75,239)	5,855	86,757	(124,834)	16,726
Expenses							
Cost of make up gas	17(ii)	-	-	-	23,190	-	4,471
Production Costs		28,101	27,043	5,418	72,647	64,640	14,006
General and administrative		8,174	5,499	1,576	16,211	12,996	3,125
Depletion and depreciation		95,514	87,509	18,414	281,338	172,887	54,239
Bank interest expenses		19,160	22,282	3,694	60,245	69,223	11,615
Accretion	8	1,349	1,304	260	4,012	3,880	773
Amortization of convertible bonds issuance costs		723	708	139	2,152	2,140	415
		<u>153,021</u>	<u>144,345</u>	<u>29,501</u>	<u>459,795</u>	<u>325,766</u>	<u>88,644</u>
Profit/(Loss) and comprehensive loss		<u>7,013</u>	<u>(123,929)</u>	<u>1,352</u>	<u>6,731</u>	<u>(263,304)</u>	<u>1,297</u>
		RMB	RMB	CAD	RMB	RMB	CAD
Basic and diluted profit(loss) per share		<u>0.037</u>	<u>(0.662)</u>	<u>0.007</u>	<u>0.035</u>	<u>(1.418)</u>	<u>0.007</u>
Weighted average number of shares outstanding	9	<u>191,965,919</u>	<u>187,216,132</u>	<u>191,965,919</u>	<u>190,933,102</u>	<u>185,653,841</u>	<u>190,933,102</u>

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, 2016	1,270	528,834	236,979	79,753	950	(408,075)	439,711
Share based payments	-	-	-	102	-	-	102
Bond interest accrued	56	3,058	-	-	-	-	3,114
Loss and comprehensive loss for the year	-	-	-	-	-	(130,530)	(130,530)
Balance – March 31, 2017	1,326	531,892	236,979	79,855	950	(538,605)	312,397
Share based payments	-	-	-	1,455	-	-	1,455
Bond interest accrued	34	2,229	-	-	-	-	2,263
Profit and comprehensive income for the period	-	-	-	-	-	6,731	6,731
Balance – December 31, 2017	1,360	534,121	236,979	81,310	950	(531,874)	322,846
Balance –December 31, 2017, in CAD\$'000 (Note 3.5(c))	263	102,973	45,687	15,676	183	(102,540)	62,242

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 nine months ended December 31, 2017 and 2016
(in RMB)

	Notes	December 31, 2017 RMB'000	December 31, 2016 RMB'000	December 31, 2017 CAD\$'000 (Note 3.5 (c))
Cash flows from operating activities				
Loss for the period		6,731	(263,304)	1,297
Items not involving cash				
Interest income		(9,068)	(5,949)	(1,748)
Cost of makeup gas	17 (ii)	23,190	-	4,471
By product inventory		(744)	2,112	(144)
Depletion and depreciation	7	281,338	172,887	54,239
Finance costs		64,257	73,103	12,388
Amortization of transaction costs for issuance of convertible bonds		2,152	2,140	415
Stock-based compensation	9	743	31	143
Unrealized foreign exchange loss (gain)		(87,913)	125,510	(16,949)
		<u>280,686</u>	<u>106,530</u>	<u>54,112</u>
Changes in non-cash working capital items:				
Trade receivables and prepaid expenses		(15,772)	(6,994)	(3,041)
Deferred Revenue	16	(33,481)	-	(6,455)
Accounts payable and accrued liabilities		(100,242)	19,969	(19,326)
Inventory		360	(196)	69
		<u>(149,135)</u>	<u>12,779</u>	<u>(28,753)</u>
		<u>131,551</u>	<u>119,309</u>	<u>25,359</u>
Cash flows from investing activities				
Oil and gas development assets	7	(19,966)	(29,569)	(3,849)
Expenditures on exploration and evaluation assets	6	(10,685)	(10,192)	(2,060)
Restricted cash		(17,145)	(17,108)	(3,305)
Interest received		13,892	549	2,678
		<u>(33,904)</u>	<u>(56,320)</u>	<u>(6,536)</u>
Cash flows from financing activities				
Loan drawdown		-	38,000	-
Redemption of fixed deposit		70,000	-	13,495
Loan repayment		(260,523)	(145,374)	(50,226)
Interest paid		(81,624)	(98,857)	(15,736)
Legal fees for issuance of convertible bonds		(33)	(97)	(6)
Repayment for CNOOC management fee		(3,000)	-	(578)
		<u>(275,180)</u>	<u>(206,328)</u>	<u>(53,051)</u>
Increase (Decrease) in cash and cash equivalents		<u>(177,533)</u>	<u>(143,339)</u>	<u>(34,228)</u>
Effect of foreign exchange rate on cash and cash equivalents		<u>(71)</u>	<u>2,655</u>	<u>(12)</u>
Cash and cash equivalents - Beginning of period		<u>307,418</u>	<u>150,570</u>	<u>59,267</u>
Cash and cash equivalents - End of period		<u>129,814</u>	<u>9,886</u>	<u>25,027</u>

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

Primeline Energy Holdings Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the nine months ended December 31, 2017

(in RMB)

1. Nature of Operations and Going Concern

Primeline Energy Holdings Inc. (Primeline or the Company) was incorporated under the Companies Law of the Cayman Islands on March 31, 1995. The Company is in the business of exploration, 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 LS36-1 and CNOOC China Ltd. (CCL), CNOOC's subsidiary, is the Operator with a 51% interest, and PECL and PPC hold 36.75% and 12.25% interests respectively. CCL's subsidiary CNOOC (China) Ltd Lishui Operating Company (LOC) completed the development work relating to the LS36-1 gas field in 2014, and trial gas production from LS36-1 commenced on July 8, 2014. On October 29, 2014, CCL, on behalf of itself and as sales agent for PECL and PPC, signed the LS36-1 Natural Gas Sales and Purchase Contract (GSC) with Zhejiang Gas, which superseded the Gas Sale Agreement in principle and the subsequent Framework and Amendment Agreements signed in 2008, 2010 and 2011, and confirmed the commercial terms including, inter alia, gas quality, take-or-pay principles, base price and annual quantity. The terms of the GSC were the basis for PECL and PPC's US\$274 million syndicate facility (Syndicate Facility) signed the following month and from which PECL and PPC repaid CNOOC for the carried share of the development cost in December 2014.

Block 33/07 covers an offshore area enclosing Block 25/34. PECL and PPC are collectively the Contractors with interests of 75% and 25% respectively. The Contractors are responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development. Primeline Energy Operations International Ltd (PEOIL), a wholly owned subsidiary of the Company, is the Operator for Block 33/07 for the exploration, development and production operations within this contract area.

In April 2016, the Company commenced arbitration before the China International Economic and Trade Arbitration Commission (CIETAC) against Zhejiang Gas (the Zhejiang Gas Arbitration) for its failure to comply with payment obligations under the GSC relating to both the base price and the take-or-pay obligation in relation to natural gas deliveries for the 2015 and 2016 contract years.

Arbitration proceedings against CNOOC and CCL were commenced by the Company on May 24, 2016 under the dispute resolution provisions of Petroleum Contract 25/34 and in accordance with the UNCITRAL Arbitration Rules 1976 (CNOOC Arbitration) relating to: CCL's breach of fiduciary duty and good faith and wrongful conduct as PECL and PPC's agent under the GSC; CCL's mismanagement and failure to comply with its responsibilities as operator, which mismanagement resulted in delay of completion of the development of the LS 36-1 gas field and commencement of production, leading to loss of revenue, increased cost and the project falling below its design level; and in relation to CNOOC's position as guarantor of CCL.

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Due to the severe effect on the Company's cash flow caused by the Zhejiang Gas dispute, the Company failed to make payment to China Oilfield Services Limited (COSL) under the Turnkey Drilling Contract dated August 14, 2015 (the Drilling Contract) between COSL and PEOIL. On September 1, 2016, COSL commenced arbitration proceedings against PEOIL before CIETAC in relation to a claim for payment under the Drilling Contract (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 was part of the overall operational and commercial issues the Company had encountered in the last two years referred to above. CNOOC owns 64.4% of CCL, 50.5% of COSL and 30% of Zhejiang Gas.

On March 1, 2017, following extensive negotiations, the Company, CCL and Zhejiang Gas entered into agreements to settle the Zhejiang Gas Arbitration. The settlement is based on a pricing arrangement that results in Primeline receiving for its share of gas (i) at the original price agreed under the GSC for gas delivered up to December 31, 2016; and (ii) at price which represents a reduction of about 7% from the GSC price, fixed from January 1, 2017 for the rest of the GSC delivery period. On March 20, 2017, the Company received approximately RMB256 million (CAD\$49 million) net of VAT for its share of all outstanding unpaid or partly paid amounts due for natural gas already delivered to the end of 2016 and for the 2015 and 2016 take-or-pay payments, plus RMB12 million (CAD\$2 million) relating to the difference between the agreed price and the price previously paid from January 1, 2017 to February 29, 2017. In consideration of Zhejiang Gas making the settlement payment the Company withdrew the Zhejiang Gas Arbitration.

Primeline then signed a settlement agreement with COSL on April 5, 2017 and paid RMB116 million (CAD\$22 million) in settlement of all amounts due to COSL, following which COSL applied to CIETAC to withdraw the COSL Arbitration on April 7, 2017 and CIETAC confirmed termination of such proceedings on May 26, 2017.

CNOOC and Primeline agreed that the settlement of Zhejiang Gas Arbitration and the COSL Arbitration would not affect or halt the CNOOC Arbitration, in which Primeline has claimed that CNOOC and CCL have committed multiple material breaches of Petroleum Contract 25/34 which entitle it to relief including termination of the contract and other related arrangements, which claim is to be determined by the arbitral tribunal in its final award. CNOOC and CCL have purported to terminate Petroleum Contract 25/34 as of January 15 2018. Primeline has obtained an injunction against such termination. See Note 21.

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 12 months from the date of approval of the financial statements. In order to continue as a going concern, the Company must successfully generate sufficient operating cash flows to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on its outstanding debts (Notes 10 and 12). The principal risks in this respect are if CNOOC and CCL are successful in terminating Petroleum Contract 25/34, thus depriving Primeline of its only source of revenue, if revenues fall as a consequence of reduced production, or if outgoings increase as a consequence of unplanned capital or revenue expenditure, resulting in Primeline having insufficient cash

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resources to meet interest payments and repayments of principal on its debt. Management prepares detailed budgets and closely monitors expenditure to ensure Primeline has sufficient working capital for its needs and maintains strategies for mitigating actions which could be taken in the event that receipts for sales gas and condensates are lower than anticipated.

The Directors have reviewed the Company's financial projections including sensitivities for at least the next 12 months and have, at the time of approving the interim consolidated financial statements, a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future and accordingly these financial statements are prepared on the going concern basis.

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 December 31, 2017. These interim consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2018. 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 interim consolidated 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 interim consolidated financial statements in accordance with applicable law and International Standards on Auditing. The interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended March 31, 2017.

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 interim consolidated 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 interim consolidated 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 3.22.

3. Summary of Significant Accounting Policies

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

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(in RMB)

3.1 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 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.

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).

3.2 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.

3.3 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

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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.

3.4 Exploration and evaluation assets (E&E)

Once the legal right to explore has been acquired, costs directly associated with an exploration project are capitalized as either tangible or intangible exploration and evaluation assets 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 a mineral 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 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.

3.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the 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.

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(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 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 5.187 to CAD\$1, which is the exchange rate published in South China Morning Post as of December 31, 2017. 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.

3.6 Impairment of non-current assets

The carrying amounts of the Company's property, plant and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at Cash Generating Unit (CGU) level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of a CGU is the greater of its fair value less costs 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.

3.7 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.

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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 resulted in substantially different revised terms 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 financial liabilities measured at amortized cost. Loans and receivables and financial liabilities measured at amortized cost are recognized initially at fair value and subsequently at amortized cost using the effective interest method. Financial assets and liabilities are classified as current if the assets are realized / liabilities are settled within 12 months. Otherwise, they are presented as non-current.

3.8 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.

3.9 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 amortized cost using the effective interest method.

3.10 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 conversion of debt to equity.

3.11 Share capital

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.

3.12 Current and deferred income tax

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

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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 interim 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 realized 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.

3.13 Share-based payments

The Company has a share-based compensation plan, details of which are disclosed in Note 9(b). 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 recognizes the impact of the revision to original estimates, if any, in the income 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.

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3.14 Revenue recognition

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

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 or not the customer takes delivery. Where there is subsequent physical delivery obligation revenue is deferred and recognized in future periods on delivery until the obligation to deliver expires at which time any remaining unrecognized revenue is recognized in full.

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

3.16 Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until 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.

3.17 Restricted Cash/Restricted Bank Deposit

Restricted Cash is held 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. Details of the decommissioning costs are reported in Note 8.

Restricted Bank Deposit is cash held on deposit in the amount of RMB80,000,000 (CAD15,423,173). Originally RMB150 million was held in a debt service reserve account on a 3-year term for servicing the Syndicate Facility and RMB Banking Facility (see Note 10) since December 2014, which could be accessed with penalty loss of interest and/or permission of the Syndicate Facility banks. During the period, RMB70

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million of the restricted bank deposit became matured and was redeemed in December 2017.

3.18 Trade receivables

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

3.19 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.

*3.20 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 Corporation	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 with 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 in the consolidated financial statements as at March 31, 2016.

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Inter-company transactions, balances and unrealized 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 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 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.

3.21 Segmental reporting

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

3.22 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.

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

Eligible costs associated with oil and gas activities are capitalized on a unit of measure

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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 and probable reserves using the unit of production method.

3.22.2. 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.

3.22.3. 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.

3.22.4. 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.

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3.22.5 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 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.

3.22.6 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.

3.23 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 CGUs, the determination of a joint arrangement and the designation of the Company's functional currency.

3.23.1. Impairment of Financial Assets

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. These calculations are subject to management's judgement.

3.23.2. 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.

3.23.4. 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

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functional currency is a management judgment based on the composition of revenues and costs in the locations in which it operates.

3.23.5. 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 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.

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. The assessment of E&E assets for impairment is subject to management’s judgement.

4 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 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 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.

5 Financial risk management

5.1 Financial risk factors

The Company finances its operating activities by managing the Syndicate Facility, short term bank loan, cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, cash calls payable, advances from a related party 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.

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

(a) Currency risk

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

	December 31, 2017	March 31, 2017
Cash and cash equivalents of:		
- CAD\$ '000	1	2
- US\$ '000	180	165
- GBP '000	3	5
- HK\$ '000	159	161

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Bank loans and interest of US\$ '000	(207,803)	(233,743)
Convertible bonds of US\$ '000	(18,036)	(18,238)

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:

	December 31, 2017 RMB'000	March 31, 2017 RMB'000	December 31, 2017 CAD\$'000
- CAD\$	1	1	1
- US\$	(146,972)	(173,073)	(28,335)
- GBP	3	4	1
- HK\$	13	14	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 institution in interest bearing accounts. Most current cash balances are held at a Chinese financial institution in RMB, primarily for debt servicing requirements relating to the Syndicate Facility.

The Company currently sells its natural gas to a single customer, Zhejiang Gas, through CCL and receives sales proceeds on a weekly basis. Because it sells only to a single customer, the Company exposed to considerable credit and trade receivables risk. At December 31, 2017, no amounts were overdue by more than 30 days.

(c) *Liquidity risk (Note 1)*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company must successfully generate sufficient operating cash flows from its trading activities to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on its outstanding debt. In common with businesses engaged in such activities, financing may be required in relation to any future development work and exploration commitments.

(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 which carries a floating interest rate of US\$ 6 month LIBOR plus 3.35%.

5.2 Capital management (Note 1)

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 having regard to 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 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 budgets.

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

6 Exploration and evaluation assets

	Exploration and evaluation assets
	RMB'000
Balance at April 1, 2016	459,222
Additions	20,239
Balance at March 31, 2017	479,461
Additions	20,131
Balance at December 31, 2017	499,592
	CAD\$'000
Balance at December 31, 2017 in CAD\$ (Note 3.5 (c))	96,316

E&E relates to Petroleum Contract 33/07 under which 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.

Upon entering phase two of the exploration, the Company relinquished 25% of the prior contract area under the Petroleum Contract. The contract area now is 4,397 sq. km and the commitment is to drill one well before April 30, 2018.

7 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 if additional gas resources are discovered which can be conveniently tied into, transported and processed using the production facility.

	Oil & Gas	Computer & Office Equipment	Total	Total
	RMB'000	RMB'000	RMB'000	CAD\$'000
				(Note 3.5 (c)
COST				
At April 1, 2016	2,091,642	20	2,091,662	403,251
Additions	36,423	29	36,452	7,028
At March 31, 2017	2,128,065	49	2,128,114	410,279
Additions	21,035	8	21,043	4,056
At December 31, 2017	2,149,100	57	2,149,157	414,335
DEPLETION AND DEPRECIATION				
At April 1, 2016	269,443	18	269,461	51,949
Charge for the year	228,918	6	228,924	44,134
At March 31, 2017	498,361	24	498,385	96,083
Charge for the period	281,330	8	281,338	54,239
At December 31, 2017	779,691	32	779,723	150,322
CARRYING VALUES	RMB'000	RMB'000	RMB'000	CAD\$000
At April 1, 2016	1,822,199	2	1,822,201	351,302

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At March 31, 2017	1,629,704	25	1,629,729	314,196
At December 31, 2017	1,369,409	25	1,369,434	264,013

As at December 31, 2017, the Company reviewed the carrying amounts of its oil and gas assets for indicators of impairment, changes in future liquids 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 CGU was estimated based on the FVLCD using a scenario weighted discounted cash flow model. Key assumptions by management included significant judgement around the estimates of 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 GSC, and a discount rate of 10%. The assessment is sensitive to the discount rate applied but the recoverable amount of the CGU would not be impaired if a discount rate of 12% was used.

8 Decommissioning Liabilities

The total balance of the Company's share of the NPV of the abandonment fund is summarized below:

	December 31, 2017 RMB'000	March 31, 2017 RMB'000	December 31, 2017 CAD\$'000
Balance, beginning of period and year	157,996	152,801	30,461
Accretion	4,012	5,195	773
Balance, end of period	<u>162,008</u>	<u>157,996</u>	<u>31,234</u>

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 LS 36-1 to be RMB 417,820,000. The Company's share of the liability is RMB204,731,800.

At December 31, 2017, the Company's share of the liability in the principal amount of RMB204,731,800 (CAD\$39,470,175) which has a net present value of RMB162,008,468 (CAD\$31,233,559) (assuming the liability is settled in 10 years and using an estimated risk-free nominal interest rate of 3.4% which equates to the long-term yield on PRC government bonds). The 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 RMB4,012,024 (CAD\$773,477) for the period.

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Cash contributed to by the Company and held as security for the decommissioning costs is reported in the balance sheet as restricted cash of RMB68,396,650 (CAD\$13,186,167) under Non-current assets.

9 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, 2016	183,780,895	1,270	528,834	530,104	102,199
Bond interest accrued	6,128,954	56	3,058	3,114	600
Balance – as at March 31, 2017	189,909,849	1,326	531,892	533,218	102,799
Convertible Bond interest accrued	3,693,919	34	2,229	2,263	437
Balance – as at December 31, 2017	<u>193,603,768</u>	<u>1,360</u>	<u>534,121</u>	<u>535,481</u>	<u>103,236</u>

(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 Common Shares from time to time. The options enable the directors, officers, consultants and employees of the Company to acquire Common Shares. The board of directors, subject to TSX-V policy, sets the exercise price of a share option. Options granted under the Plan may have a maximum term of ten years and, subject to any vesting restrictions imposed by the TSX-V, shall vest over such period as is determined by the board of directors at the grant date.

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

	Options outstanding	Weighted Average exercise price CAD\$	Options exercisable	Weighted Average exercise price CAD\$
As at April 1, 2016	5,310,000	0.51	5,160,000	0.51
Vested	-	-	150,000	0.68
Expired	(1,575,000)	(0.32)	(1,575,000)	(0.32)

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As at March 31, 2017	3,735,000	0.60	3,735,000	0.60
Granted	5,150,000	0.18	-	-
Vested	-	-	1,683,333	0.18
Expired	(3,735,000)	(0.60)	(3,735,000)	(0.60)
As at December 31, 2017	5,150,000	0.18	1,683,333	0.18

As at December 31, 2017, there are 193,603,768 Shares and 5,150,000 stock options outstanding and exercisable are as follows:

Exercise price	Number of outstanding options	Weighted average remaining contractual life	Number of exercisable options
As at March 31, 2017			
CAD\$0.50 (a)	500,000	0.24 years	500,000
CAD\$0.60 (b)	2,785,000	0.49 years	2,785,000
CAD\$0.68 (c)	450,000	2.36 years	450,000
	3,735,000	0.52 years	3,735,000
As at December 31, 2017			
CAD\$0.18 (d)	4,750,000	4.60 years	1,583,333
CAD\$0.20 (e)	400,000	4.62 years	100,000
	5,150,000	2.30 years	1,683,333

- 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 expired on June 25, 2017.
- On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD\$0.60 per share to directors, officers, employees and consultants, all of which expired by September 26, 2017.
- On August 11, 2014, the Company granted 450,000 options at an exercise price of CAD\$0.68 per share to an officer. Share based payments of nil (2016 – RMB30,889) were recognized as salary and benefit in the interim consolidated statement of loss and comprehensive loss. Share based payment of nil (2016 – RMB72,075) was capitalized as exploration and evaluation assets. All 450,000 options expired on October 24, 2017.
- On August 4, 2017, the Company granted 4,750,000 options at an exercise price of CAD\$0.18 per share to directors, officers, employees and consultants. The options vest as to one third on the date of issue, one third on the first anniversary of the date of issue and one third on the second anniversary of the date of issue. The options expire on August 5, 2022.

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- e) On August 16, 2017, the Company granted 400,000 options at an exercise price of CAD\$0.20 per share to Frontier Consulting Ltd in consideration of investment relations and marketing services. These options, which comply with the requirements of TSX Venture Exchange Policy 3.4, will be subject to a quarterly vesting schedule over a twenty-four-month period and expire on August 15, 2022.

10 Bank Loans

	December 31, 2017	March 31, 2017	December 31, 2017
	RMB'000	RMB'000	CAD\$'000
Within one year	346,868	303,941	66,872
More than one year	1,042,080	1,426,148	200,902
Secured floating-rate bank loan	<u>1,388,948</u>	<u>1,730,089</u>	<u>267,774</u>

The principal amount of the Syndicate Facility is US\$274 million which is repayable over 8 years (after a one year principal repayment holiday) at an all-in interest rate of 6 month LIBOR+3.35% with interest and principal repayments made bi-annually (except the first year in which there is no principal repayment). So far five principal repayments of US\$66.5 million in total were paid by the Company on November 20, 2015, 2016, and 2017 and May 20, 2016 and 2017.

As at December 31, 2017, principal repayment amounts outstanding under the Syndicate Facility are as follows:

	December 31, 2017	December 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	309,368	59,643
More than 1 year, but not more than 5 years	1,003,002	193,368
More than 5 years	<u>39,078</u>	<u>7,534</u>
Total	<u>1,351,448</u>	<u>260,545</u>

Primeline Energy Holdings Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the nine months ended December 31, 2017

(in RMB)

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

	December 31, 2017	December 31, 2017
	RMB'000	CAD\$'000
Within 1 year	51,800	9,987
More than 1 year, but not more than 5 years	75,332	14,523
More than 5 years	618	119
Total	127,750	24,629

PECL signed four short term RMB banking facilities with Shanghai Pudong Development Bank (the RMB Banking Facility) for LS36-1 operations i) on December 9, 2015 for RMB45 million (CAD\$8.68 million); ii) on December 24, 2015 for RMB21.5 million (CAD\$4.14 million); iii) on January 13, 2016 for RMB38 million (CAD\$7.33 million) and iv) on May 10, 2016 for another RMB38 million (CAD\$7.33 million), all together for a total amount of RMB142.5 million (CAD\$24.47 million) at an interest rate of 4.0455% per annum. The first three bank facilities for the amount of RMB45 million (CAD\$8.68 million), RMB21.5 million (CAD\$4.14 million) and RMB38 million (CAD\$7.33 million) respectively have been repaid in full. The Company made a partial repayment of RMB500,000 (CAD\$96,395) for the iv) bank facility on December 22, 2017 with the remaining RMB37.5 million (CAD\$7.23 million) due on January 13, 2018. See Note 21.

The principal amounts outstanding under the RMB Banking Facility based on the extended repayment schedules are as follows:

	December 31, 2017	December 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	37,500	7,230

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

	December 31, 2017	December 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	55	11

11 Interest and other income

	<u>For the nine months ended</u>		
	<u>December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>CAD\$'000</u>
Bank interest income	9,068	5,949	1,748

12 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 Common Shares at a deemed price per share equal to the higher of (i) the closing price of the Shares on the TSX-V on the day before; and (ii) the volume-weighted average trading price of the Shares on the TSX-V for the 10 days preceding; the interest payment date. The Bonds are convertible, at the option of the holder, at any time during the period commencing four months and a day following the date of issuance up to the date that is 10 days prior to the date of maturity of the Bonds, into Shares at conversion prices of CAD\$0.70 (Tranche A Bonds) and CAD\$0.85 (Tranche B Bonds) per Share.

The Tranche A Bonds had a total nominal value of RMB63,940,000 (CAD\$12,326,971) at August 14, 2015, the date of issuance. A liability component of RMB59,026,215 (CAD\$11,379,644) and equity conversion component of RMB4,913,785 (CAD\$947,327) were recognized initially. Transaction cost of RMB5,738,241 (CAD\$1,106,274) was determined at the date of issuance of the Bonds.

The Tranche B Bonds had a total nominal value of RMB50,800,000 (CAD\$9,793,715) at November 10, 2015, the date of issuance. A liability component of RMB46,907,627 (CAD\$9,043,306) and the equity conversion component of RMB3,892,213 (CAD\$750,378) were recognized initially. Transaction cost of RMB220,709 (CAD\$42,550), was 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 amortized 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.

	<u>December 31, 2017</u>		
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
	<u>Tranche A</u>	<u>Tranche B</u>	<u>Total</u>
Face value	63,940	50,800	114,740
Equity component	(4,914)	(3,892)	(8,806)
Liability component on initial recognition			

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	59,026	46,908	105,934
Transaction costs for the issuance	(8,537)	(1)	(8,538)
Amortization of transaction costs and share finder fee	6,877	-	6,877
Exchange difference	1,010	1,128	2,138
Fair value adjustment	3,541	3,135	6,676
Total Convertible bonds	61,917	51,170	113,087

13 Transactions with related parties and directors

During the nine months ended December 31, 2017, 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 and Mr. Mark Norman were RMB3,740,498 (CAD\$721,129) (December 31, 2016 – RMB4,334,986) and share based payment of RMB917,982 (CAD\$176,977) (December 31, 2016 – RMB102,964) was recognized for share options granted to these key management personnel.
- b) Fees and benefits paid or accrued to directors being Mr. Victor Hwang, Mr. Brian Chan, Mr. Peter Kely, Mr. Alan Johnson, Mr. Vincent Lien and Mr. Timothy Baldwin were RMB384,092 (CAD\$74,049) (December 31, 2016 – RMB379,180).

14 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 from 2012. On May 5, 2016, Primeline elected to enter the second phase of exploration period under the Petroleum Contract for Block 33/07 with a minimum committed work programme of one exploration well during the phase. See Note 21.
- b) The Company entered a lease agreement in June 2015 for new premises for its Shanghai office in the PRC which covers the period from September 15, 2015 to 2018 for three years for a monthly rental fee of RMB141,757 (CAD\$27,329).

15 Fair value measurement

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

Primeline Energy Holdings Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the nine months ended December 31, 2017

(in RMB)

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 10) is a secured floating rate instrument which was recorded at fair value on inception and is carried at amortized cost.

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.

16 Revenue**For the nine months ended December 31,**

	2017	2016	2017
	RMB'000	RMB'000	CADS'000
Natural gas	320,573	155,481	61,803
CO2	-	-	-
Condensate	29,378	18,839	5,664
Light Oil	11,116	4,262	2,143
LPG	9,634	2,765	1,857
	<u>370,701</u>	<u>181,347</u>	<u>71,467</u>

On March 1, 2017, the Company entered into settlement agreements resolving the disputes with Zhejiang Gas (see Note 1) and recorded settlement receipts of RMB33.4 million (CAD\$6 million) as deferred revenue on the consolidated financial statement as at March 31, 2017 relating to 2015 and 2016 take-or-pay payments for which the gas delivery to Zhejiang Gas was completed after the year end. On April 12, 2017, such amounts are recognized as revenue upon the completion of delivery to Zhejiang Gas in according with IFRS revenue recognition accounting standards.

17 Long term accounts payable

	December 31, 2017 RMB'000	March 31, 2017 RMB'000	December 31, 2017 CAD\$'000
CNOOC management fee (i)	-	7,926	-
Cost of makeup gas (ii)	118,434	95,244	22,833
	<u>118,434</u>	<u>103,170</u>	<u>22,833</u>

(i) Under the repayment agreement with CNOOC in December 2014, which governs the terms and basis for the Company's contribution of its LS36-1 development cost obligations, the Company and CNOOC agreed a supplementary management fee would be added in consideration of the advance by CNOOC of those costs during the development period of 2010-2014. The initial payment of RMB68 million (CAD\$13.1 million) was made in December 2014, and the remainder RMB36 million (CAD\$6.94 million) fee had been accrued as a non-current account payable with the full amount capitalized as a development cost into PP&E, which will be repaid by the Company over 3 years. As at December 31, 2017, all RMB36 million (CAD\$6.94 million) fee is reclassified as current account payable (see Note 20). During the period, the Company made three repayments of RMB1 million (CAD\$192,790) each to CNOOC on November 10, November 17 and December 19, 2017 respectively.

(ii) As part of the settlement of the Zhejiang Gas Arbitration, Primeline agreed that CCL, on its behalf, would procure and deliver natural gas to Zhejiang Gas in compensation and settlement to Zhejiang Gas for the corresponding make-up gas quantity due in respect of the 2015 and 2016 take-or-pay payment made by Zhejiang Gas. CCL has acquired and delivered LNG in accordance with that arrangement at a gas price which management estimates to be RMB 2.17/m³. Primeline's share of the cost of LNG purchased is RMB118,433,984 (CAD\$22,832,848). It was further agreed that CCL only has the right to demand payment of Primeline's share of the cost of purchase of the LNG for such purpose at a date which is no earlier than 12 months from purchase. Thus, during the year ended March 31, 2017, the Company recognised its share of LNG purchase as a non-current account payable for the gas supply expense, being RMB95,243,492 (CAD\$18,361,961) relating to the proportion of gas delivered to Zhejiang Gas completed before the year end. The remaining RMB23,190,492 (CAD\$4,470,887) relating to the proportion of gas delivered after the year end was recognised upon the completion of gas delivery to Zhejiang Gas on April 12, 2017.

18 Trade receivables

	December 31, 2017 RMB'000	March 31, 2017 RMB'000	December 31, 2017 CAD\$ '000
Less than 30 days past due	23,125	8,121	4,458
More than 30 days past due	-	-	-

Primeline Energy Holdings Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the nine months ended December 31, 2017

(in RMB)

Total	23,125	8,121	4,458
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The trade receivable of RMB23,124,641(CAD\$4,458,192) as at December 31, 2017 related to the natural gas and by products sales in the month of December 2017, and it was fully received in January 2018.

19 Financial instruments

Accounting classification of financial assets and liabilities

	Financial assets	Other financial liabilities at amortized cost	Total
	RMB '000	RMB '000	RMB '000
At December 31, 2017			
Cash and cash equivalents	129,814	-	129,814
Trade receivables	23,125	-	23,125
Other receivables excluding non-financial items	12,001	-	12,001
Trade payables and other payables excluding non-financial items	-	(62,506)	(62,506)
Total (RMB'000)	164,940	(62,506)	102,434
Total (CAD'000)	31,799	12,051	19,748

	Financial assets	Other financial liabilities at amortized cost	Total
	RMB '000	RMB '000	RMB '000
At March 31, 2017			
Cash and cash equivalents	307,418	-	307,418
Trade receivables	8,121	-	8,121
Other receivables excluding non-financial items	16,788	-	16,788

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Trade payables and other payables excluding non-financial items	-	(50,436)	(50,436)
Total (RMB'000)	332,327	(50,436)	281,891
Total (CAD'000)	64,069	9,724	54,346

20 Accounts payable and accrued liabilities

	December 31, 2017 RMB'000	March 31, 2017 RMB'000	December 31, 2017 CAD'000
Accrued charges and other creditors	51,008	151,250	9,834
CNOOC management fee (Note 17 (i))	33,000	27,000	6,362
Loan interest payable	2,018	19,012	389
Convertible bonds interest payable	235	1,634	45
	<u>86,261</u>	<u>198,896</u>	<u>16,630</u>

21 Subsequent Events

- 1) The Arbitral Tribunal heard Primeline's application for an interim injunction on January 5, 2018 in Singapore and issued its written decision on January 11, 2018. The tribunal granted Primeline's application and ordered CNOOC and CCL not to take any steps to give effect to their purported termination of Petroleum Contract 25/34 and related agreements by ceasing to perform their obligations under such agreements, until a final award is issued by the Arbitral Tribunal. The hearing on the merits of the CNOOC Arbitration is scheduled for September, 2018.
- 2) Primeline formally applied to CNOOC for substitution of the work programme required for the phase 2 exploration period under Petroleum Contract 33/07 from drilling one exploration well to completing 400 sq km of 3D seismic, and an extension of the phase 2 exploration period of Block 33/07, on January 25, 2018. CNOOC rejected such application on February 1, 2018 and requested that Primeline fulfil the minimum work programme before April 30, 2018. Primeline requested CNOOC reconsider its decision on February 12, 2018. However, CNOOC replied on February 24, 2018 that they disagree.
- 3) On January 13, 2018, the Company has fully repaid the short term RMB banking facilities to Shanghai Pudong Development Bank (see Note 10).