Primeline Energy Holdings Inc.
Consolidated Financial Statements
March 31, 2019

28 June 2019

Independent Auditor's Report to the Members of Primeline Energy Holdings Inc.

Opinion

We have audited the financial statements of Primeline Energy Holdings Inc (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2019 and 2018, which comprise:

- the Group statement of comprehensive income for the years ended 31 March 2019 and 2018;
- the Group statement of financial position as at 31 March 2019 and 31 March 2018;
- the Group statement of cash flows for the years then ended;
- the Group statement of changes in equity for the years then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Boards ("IASB").

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2019 and 2018 and of the Group's result for the periods then ended; and
- the Group financial statements have been properly prepared in accordance with IFRSs.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to notes 1, 10 and 21 in the financial statements, to the emphasis of matter section set out below, which indicate that the Company is involved in a legal dispute concerning operation of the continued operation of Petroleum Contract 25/34 which is currently the only source of revenue of the Company, and to the current default under the terms of the Group's Syndicate Facility bank loan.

As stated in note 1, this dispute and the default under the terms of the Group's Syndicate Facility bank loan indicate that a material uncertainty exists that may cast significant doubt on the ability of the Company and the Group to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter – disputes with the operator and sales agent, CNOOC Arbitration, banking default and possible impact on carrying value of assets

We draw attention to the disclosure made in sections notes 1, 10 and 21 to the financial statements concerning the Group's ongoing disputes with the operator and sales agent under the CNOOC Arbitration and the default under the terms of the Group's Syndicate Facility bank loan.

As set out in note 1 Primeline has commenced arbitration proceedings against China National Offshore Oil Corporation (CNOOC) and CNOOC China Limited (CCL) and is claiming substantial damages from CNOOC and CCL for their breach of contract and breach of fiduciary duty and, as part of the claim, is claiming material breach and an entitlement to terminate Petroleum Contract 25/34. CNOOC and CCL, in their defence and counterclaim, are also seeking to terminate contractual agreements with the Company. CCL is the operator and agent for sales of production from the LS36-1 gas field under Petroleum Contract 25/34 and collects and distributes the revenue.

If Primeline is unsuccessful in the arbitration and CNOOC and CCL are successful in terminating the contractual agreements without payment of substantial damages as claimed by Primeline, this would give rise to serious financial consequences for Primeline. While Primeline believes its legal position is good and that it will be successful in the arbitration, the outcome of such proceedings is inherently uncertain and Primeline may not ultimately be successful in the arbitration. If Primeline is successful in the arbitration, it may nonetheless be unable to enforce the award of the arbitrator. If either of these events were to occur, that would likely have a material adverse effect on Primeline's business and financial position.

As also set out in Note 1, since September 2018, production from LS36-1 has been substantially reduced, resulting in total sales gas quantity of the equivalent of approximately 40% of the annual contract quantity under the gas sale contract with Zhejiang Gas under which production from the gas field is sold. At that level of production, the gas sales revenue and Primeline's cash flow are greatly reduced and Primeline is now in default under the terms of its bank loans under the Syndicate Facility.

Our opinion is not modified in respect of these matters

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be RMB 25 million (2018: RMB 30 million), based on approximately 1.5 percent of Group gross assets. We based our assessment on benchmarking and took into account the abnormal results of most exploration and production companies in recent periods due to low prices and the abnormally low revenues in the period due to the dispute referred to above and concluded that an asset based benchmark is appropriate and that this should be a multiple of gross assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of RMB 750,000 (2017: RMB 900,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The Group has its head office in Hong Kong and a representative office in London. The company and its subsidiaries are accounted for from one central operating location in Shanghai, PRC. Our audit was conducted from the main operating location, which was visited by the audit team including the audit partner, during the course of our audit. All Group companies were within the scope of our audit testing.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of oil and gas properties The carrying value of these assets could be in excess of their recoverable amount and hence an impairment charge is required and the amounts involved could be material.	We reviewed management's assessment of impairment and considered that assessment in the context of the evaluation of reserves and resources report prepared by the Company's independent engineering auditor, including revenue forecasts and reserves estimates incorporated therein. We reviewed the current status of the legal process concerning the CNOOC Arbitration and the relevant documentation and legal advice available to Primeline. We considered the adequacy of the disclosures made in the financial statements of this significant area of judgement.
Impairment of exploration and evaluation assets The carrying value of these assets could be in excess of their recoverable amount and hence an impairment charge is required and the amounts involved could be material.	We reviewed management's assessment of the existence of impairment triggers as set out in IFRS 6. We reviewed the current status of the legal process concerning the CNOOC Arbitration and the relevant documentation and legal advice available to Primeline. We considered the adequacy of the disclosures made in the financial statements of this significant area of judgement. We considered the adequacy of the disclosures in respect of risks and significant judgements in these areas.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the Company's Management Discussion and Analysis for the financial year ended 31 March 2019. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

The directors to prepare financial statements for each financial year. The IAS Regulation requires the directors to prepare the financial statements in accordance with IFRSs' as adopted by the IASB and applicable law.

The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies:
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Primeline web site is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the Cayman Islands or the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Stephen Bullock (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
London

Crowe U.K.LLP is a limited liability partnership registered in England and Wales (with registered number OC307043).

Primeline Energy Holdings Inc.
Consolidated Statement of Financial Position
As at March 31, 2019 and March 31, 2018
(In RMB)

	Notes	March 31, 2019 RMB'000	March 31, 2018 RMB'000	March 31, 2019 CAD$'000 (Note 3.5 (c))
Non-current assets				
Exploration and evaluation assets	6	547,221	505,425	108,662
Property, plant and equipment	7	947,410	1,265,643	188,129
Restricted cash	8	97,076	74,130	19,276
		1,591,707	1,845,198	316,067
Current assets				
Cash and cash equivalents		61,522	256,893	12,216
Trade receivables	18	12,523	30,071	2,487
Prepaid expenses and other receivables		3,060	1,250	608
Inventories		5,847	7,647	1,161
		82,952	295,861	16,472
Total assets		1,674,659	2,141,059	332,539
Equity attributable to shareholders				
Share capital	9	1,452	1,378	288
Share premium and reserves		865,041	854,381	171,772
Accumulated deficit		(821,145)	(519,577)	(163,055)
Total equity		45,348	336,182	9,005
Non-current liabilities				
Long term bank loan	10	-	1,013,760	-
Accounts payable	17	6,000	18,000	1,191
Decommissioning liabilities	8	168,923	163,368	33,544
		174,923	1,195,128	34,735
Current liabilities				
Bank loans	10	1,119,712	300,960	222,342
Convertible bonds	12	136,302	111,471	27,066
Accounts payable and accrued liabilities	20	198,374	197,318	39,391
		1,454,388	609,749	288,799
Total liabilities		1,629,311	1,804,877	323,534
Total shareholders' equity and liabilities		1,674,659	2,141,059	332,539

Nature of Operations and Going Concern (Note 1)
Commitments (Note 14)
Subsequent events (Note 21)

Approved by the Board of Directors

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Director Director

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

Primeline Energy Holdings Inc.
Consolidated Statement of Comprehensive Income
For the years ended March 31, 2019 and 2018
(In RMB)

	Notes	Year Ended March 31		
		2019	**2018**	**2019**
		RMB'000	**RMB'000**	**CAD$'000**
				(Note 3.5 (c))
Revenue				
Oil and gas	16	372,338	504,820	73,935
Interest and other income	11	1,092	9,517	217
Exchange gain /(loss), net		(83,319)	126,901	(16,545)
Expenses				
Production Costs		97,146	92,427	19,290
Cost of makeup gas	16	-	23,190	-
General and administrative expenses		55,379	33,073	10,997
Depletion and depreciation		353,972	385,074	70,288
Bank interest expenses		72,785	75,996	14,453
Amortization of transaction costs for issuance of convertible bonds		1,283	2,871	255
Accretion	8	5,555	5,372	1,103
Makeup gas cost interest expenses	16	5,559	4,207	1,104
		591,679	622,210	117,490
Profit /(Loss) and comprehensive income/ (loss)		(301,568)	19,028	(59,883)
		RMB	RMB	CAD
Basic and diluted profit /(loss) per share		(1.530)	0.099	(0.304)
Weighted average number of common shares outstanding		197,069,989	191,622,393	197,069,989

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

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

	Attributable to equity owners of the company						
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Based Payment Reserve	Other Reserve	Deficit	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Balance – April 1, 2017	1,326	531,892	236,979	71,999	8,806	(538,605)	312,397
Share based payments	-	-	-	1,786	-	-	1,786
Bond interest accrued	52	2,919	-	-	-	-	2,971
Profit and comprehensive income for the period	-	-	-	-	-	19,028	19,028
Balance – March 31, 2018	1,378	534,811	236,979	73,785	8,806	(519,577)	336,182
Share based payments	-	-	-	4,427	-	-	4,427
Issuance of convertible bonds	-	-	-		4,003	-	4,003
Bond interest accrued	74	2,230	-	-	-	-	2,304
Profit and comprehensive income for the period	-	-	-	-	-	(301,568)	(301,568)
Balance – March 31, 2019	1,452	537,041	236,979	78,212	12,809	(821,145)	45,348
Balance – March 31, 2019, in CAD$'000 (Note 3.5(c))	288	106,640	47,058	15,531	2,543	(163,055)	9,005

Share capital and reserves

Share capital represents the par value of issued Common Shares in the Company. Share Premium represents the aggregate of the fair value of amounts received by the Company for the issue of Common Shares in excess of par value net of any amounts which can be offset against share premium under applicable law. Other reserves, comprising Contributed Surplus Reserve, Share Based Payment Reserve and Other Reserve, represent the fair value of capital introduced other than for the issue of Common Shares, the aggregate fair value of share options and warrants issued and the equity component of the Convertible Bonds respectively.

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

Primeline Energy Holdings Inc.
Consolidated Statement of Cash Flows
For the years ended March 31, 2019 and 2018
(In RMB)

	Notes	March 31, 2019 RMB'000	March 31, 2018 RMB'000	March 31, 2019 CAD$'000 (Note 3.5 (c))
Cash flows from operating activities				
Profit (Loss) for the period		(301,568)	19,028	(59,883)
Items not involving cash				
Interest income		(1,092)	(9,517)	(217)
Cost of makeup gas	16	-	23,190	-
By product inventory		(112)	(326)	(22)
Depletion and depreciation	7	353,972	385,074	70,288
Finance costs		78,339	81,368	15,556
Amortization of transaction costs for issuance of convertible bonds		1,283	2,871	255
Makeup gas cost interest expenses	16	5,559	4,207	1,104
Stock-based compensation	9	2,281	915	453
Unrealized foreign exchange (gain) loss		82,097	(125,612)	16,302
		220,759	381,198	43,836
Changes in working capital items:				
Trade receivables and prepaid expenses		15,738	(22,168)	3,125
Deferred Revenue	16	-	(33,481)	-
Accounts payable and accrued liabilities		(8,091)	(107,726)	(1,607)
Inventory		1,911	197	379
		9,558	(163,178)	1,897
		230,317	218,020	45,733
Cash flows from investing activities				
Oil and gas development assets	7	(35,739)	(19,914)	(7,097)
Expenditures on exploration and evaluation assets	6	(10,676)	(13,585)	(2,120)
Restricted cash	3.17	(22,947)	(22,878)	(4,557)
Interest received		1,092	25,861	217
		(68,270)	(30,516)	(13,557)
Cash flows from financing activities				
Issuance of convertible bonds		141,912	-	28,180
Redemption of fixed deposit		-	150,000	-
Redemption of convertible bonds		(141,148)	-	(28,028)
Loan repayment		(272,411)	(298,023)	(54,093)
Interest paid		(76,423)	(81,721)	(15,176)
Legal fees for issuance of convertible bonds		(621)	(41)	(123)
Repayment for CNOOC management fee	17	(12,000)	(6,000)	(2,383)
		(360,691)	(235,785)	(71,623)
Decrease in cash and cash equivalents		(198,644)	(48,281)	(39,447)
Effect of foreign exchange rate on cash and cash equivalents		3,273	(2,244)	652
Cash and cash equivalents - Beginning of period		256,893	307,418	51,011
Cash and cash equivalents - End of period		61,522	256,893	12,216

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

1. Nature of Operations and Going Concern

Nature of operations

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 into 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**"), 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 engineering development work relating to the LS36-1 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 Natural Gas Development Company Limited ("**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 bank loan facility ("**Syndicate Facility**") signed the following month from which PECL and PPC repaid CCL for the advanced 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.

Zhejiang Gas Arbitration

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.

CNOOC Arbitration

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 sales 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 LS 36-1 and commencement of production and cash flow, 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.

Dispute with COSL

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 2015-2017 referred to above. CNOOC owns 64.4% of CCL, 50.5% of COSL and 30% of Zhejiang Gas.

Settlement of the Zhejiang Gas Arbitration and dispute with COSL

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) the original price agreed under the GSC for gas delivered up to December 31, 2016; and (ii) a 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 full settlement of RMB 256 million (CAD$ 51 million) net of VAT and subsequently withdrew the Zhejiang Gas Arbitration.

On April 5, 2017, Primeline signed a settlement agreement with COSL and paid RMB116 million (CAD$23 million) in settlement of all amounts due to COSL, following which COSL applied to CIETAC to withdraw the COSL Arbitration on April 7, 2017.

Current status of the CNOOC Arbitration, counterclaim and risk of termination

In the CNOOC Arbitration, Primeline has claimed that CNOOC and CCL have committed multiple material breaches of Petroleum Contract 25/34 which entitle Primeline to relief, including termination of the contract and other related arrangements, which claim is to be determined by the tribunal in its final award. If such claim for termination is not upheld, Primeline's alternative claim is for damages arising from each of CNOOC and CCL's breaches of Petroleum Contract 25/34 and related agreements on the basis that the contract, and Primeline's interest in LS36-1, continue in effect. Primeline believes CNOOC and CCL have a significant conflict of interest in relation to their dealings with Zhejiang Gas in that CNOOC has a 30% ownership interest in Zhejiang Gas in addition to its wider commercial relationship which is believed by Primeline to be the underlying reason for CNOOC and CCL's committing the above breaches contrary to the provisions of Petroleum Contract

25/34 and PRC law (including the principles of good faith).

As part of their defence and counterclaim, CNOOC and CCL counterclaimed against Primeline for in order of RMB400 million and served a notice purporting to terminate Petroleum Contract 25/34 with effect from January 15, 2018, when they purported to cease to perform their obligations under the Petroleum Contract, including the obligation to distribute Primeline's share of production revenue. This was a breach of the contractual requirement that the parties should not cease the performance of contract obligations until the final award of the tribunal.

Primeline's primary claim in the CNOOC Arbitration is for RMB3.4 billion (CAD$675 million), which is on the basis that the tribunal rules there has been material breach and that Primeline is entitled to termination of Petroleum Contract 25/34; the alternative cumulative claim is for individual damages for various individual breaches on the basis that the tribunal rules that Petroleum Contract 25/34 should not be terminated so that the project continues, is circa RMB2.9 billion (CAD$576 million).

The final hearing of the CNOOC Arbitration took place in Singapore on September 10-14 and 17-21, 2018 and then in Hong Kong on October 30, 2018. The Parties then submitted two rounds of post hearing closing statements and subsequently filed submissions as to payment of the costs of the CNOOC Arbitration on January 21, 2019. The procedures for the arbitration have accordingly been completed and the parties are now waiting for the final award of the tribunal.

Primeline's lawyers contacted the Tribunal on March 14, 2019 with regard to the timing of the award. The Tribunal replied on March 16, 2019, saying the Tribunal is diligently working on the award and making good progress, however, based on the complexity of the case, the Tribunal will endeavor to issue the award before the end of the summer. Based on such relatively firm reply, Primeline's lawyers consider the Tribunal will issue the award before August 31, 2019.

The Company's management believes the terms of Petroleum Contract 25/34 and the associated agreements entered into in relation to the development of LS 36-1 will be upheld and the Company's rights will be protected. The Company expects that the disputes with CNOOC and CCL will be resolved to the Company's satisfaction.

Loan repayment default

In September 2018, at the time of the main hearing of the CNOOC Arbitration, CCL reduced production from LS36-1 to approximately 60% of the previous production level as a result of production from the A5 well having ceased due to apparent water ingress and CCL reducing production from the A1M well as a precautionary measure. Subsequent investigations showed that the liquid in the A5 well was not formation water but leaked completion fluids and as such, Primeline believes there was no reason to reduce production from the A1M well and that CCL as operator should carry out remedial work to the A5 well and increase production from the A1M well in order to restore the production and revenue level. Notwithstanding this finding, CCL initially proposed that the production level of the

LS 36-1 gas field for the year 2019 should be further reduced to a total sales gas quantity equivalent to approximately 40% of the annual contract quantity ("**ACQ"**) under the GSC with Zhejiang Gas under which production from the gas field is sold. At that level of production, the gas sales revenue and Primeline's cash flow are greatly reduced.

Primeline has been pressing CCL to carry out such remedial work and increase production but CCL has been slow to take any action. In January 2019, the Joint Management Committee established by CCL and Primeline for the project, instructed CCL to carry out further work to the A5 well to restore production. Belatedly, this has happened and, on May 11, 2019, CCL recommenced coiled tubing operations to lift water in the A5 well bore. That operation has been completed, with gas now being flowed from the A5 well Primeline has continued to urge CCL to increase production.

As a result of revenue being significantly reduced due to the reduction in production from the LS 36-1 gas field since September 2018, with CCL having now agreed a revised annual plan with Zhejiang Gas for 2019 of only 119mmcmpa, approximately 44% of the minimum ACQ currently required by the Gas Sales Contract, it was impossible for Primeline to make full repayment of principal due in relation to the Syndicate Facility in accordance with the agreed schedule.

Primeline informed its lending banks of the reduction in production and operational forecast made by CCL and, in November 2018, the lending banks, being China Development Bank, China Export and Import Bank and Shanghai Pudong Development Bank (jointly "**Syndicate Banks"),** which have been extremely supportive to date, agreed to an adjustment of the principal repayment instalment due in November 2018 so that part of that principal repayment instalment was deferred and added to the principal repayment due in May 2019, with the balance of the instalment being repaid on the due date.

However, due to the reduced production levels, as referred to above, resulting in the continuation of the reduced cash flow, Primeline was unable to effect full payment of the principal repayment instalment due on May 20, 2019 (making only a partial repayment in the amount of US$5m) and, as a result, is now in default under the terms of the Syndicate Facility. The position of Primeline is that its inability to repay the principal instalment is a direct result of decreased revenue which is, in turn, due to the various defaults by CCL and CNOOC which form the basis of the claims made by Primeline in the CNOOC Arbitration. As a result of the default, the entire amount owing under the Syndicate Facility as of March 31, 2019 of RMB1,119,712,511 (CAD$222,341,642) has been reclassified as a current liability (Note 10).

Following the default, the Syndicate Banks indicated that, notwithstanding the default, they did not intend to take enforcement action and confirmed in writing that they would endeavor to continue to support Primeline in order to maintain production and normal operations until the award in the CNOOC Arbitration has been made. Based on that indication of support (which was announced to the market) Primeline will endeavor to maintain normal operations whilst waiting for the award.

Going Concern

The Company's consolidated financial statements have been prepared on a going concern

basis, which assumes that the Company will continue operating for at least 12 months from the date of approval of the financial statements and/or that it will be successful in the CNOOC Arbitration.

The CNOOC Arbitration, CNOOC's counterclaim and the possibility of termination of Petroleum Contract 25/34 pursuant to either the Company's claim in the CNOOC Arbitration or CNOOC's counterclaim, constitutes a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

In order to continue as a going concern, the Company must either successfully generate sufficient operating cash flows, or obtain an award of damages in the CNOOC Arbitration, that is in either case sufficient to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on its outstanding debts.

The principal risks in this respect are if the Company is unsuccessful in the CNOOC Arbitration but CNOOC and CCL are successful in their counterclaim, so that Petroleum Contract 25/34 is terminated without substantial damages being received thus depriving Primeline of its only source of revenue, or if revenues continue at the current reduced level or fall further as a consequence of reduced production, or if outgoings increase as a consequence of unplanned capital or operational expenditure, in each case resulting in Primeline having insufficient cash resources to meet interest payments and repayments of principal on its debt.

As set out above, since September 2018, production from LS36-1 has been substantially reduced, with the total sales gas quantity for 2019 currently forecast at the equivalent of approximately 44% of the minimum ACQ under the GSC with Zhejiang Gas under which production from the gas field is sold. At that level of production, the gas sales revenue and Primeline's cash flow are greatly reduced and Primeline is now in default under the terms of the Syndicate Facility.

The Syndicate Banks have confirmed to the Directors that a default has occurred under the Syndicate Facility and requested that Primeline should use its best endeavours to fulfil its contractual obligation by repaying the outstanding amount of the principal instalment due on May 20, 2019 as soon as possible. The Syndicate Banks have confirmed that they understand the position of Primeline in the CNOOC Arbitration and will try as far as possible to support Primeline in meeting the expenses necessary to maintain its normal operations.

The Directors have reviewed the Company's financial projections including sensitivities for at least the next 12 months. Based on their assessment thereof, and on the confirmation referred to above from the Syndicate Banks, the Directors have, at the time of approving the 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.

The confirmation and indication of support from the Syndicate Banks referred to above is, however, not binding and, whilst the Directors believe that it is in the interests of the Syndicate that normal operations of the Company should be maintained at least until the

award in the CNOOC Arbitration is given so that it is likely that such support will continue, there can be no guarantee either:

- that the Company will continue to receive the benefit of operating support from the Syndicate Banks until such time as it receives the award in the CNOOC Arbitration; or
- that the Company will be successful in the CNOOC Arbitration.

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**) using the accrual basis. The comparative information has also been prepared on this basis.

The preparation of the 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 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 consolidated financial statements are disclosed in Note 3.22.

These consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2019.

3. Summary of Significant Accounting Policies

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

*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 are 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 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 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 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 5.036 to CAD$1, which is the exchange rate published in South China Morning Post as of March 31, 2019. Such presentation is not in accordance with IFRS and should not be construed as a representation that the RMB amounts shown could be readily converted, realized or settled in CAD$ 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.

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.

For the purposes of recognition and measurement financial assets are classified into one of the following categories:

• Trading activities: assets that are held for collection of contractual trading cash flows are measured at amortised cost. A gain or loss is recognised in the consolidated income statement only when the asset is derecognised or impaired. Interest income is included in finance income using the effective interest rate method if applicable.

• Financial assets held for future sale: assets that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income.

In instances where the financial assets meet neither category, they are measured at fair value through profit and loss. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their invoice amount as interest is not applicable to the contract. For trade receivables, the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, is applied.

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

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.

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 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 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 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 attributes fair values 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.

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 it has satisfied its performance obligation, usually by physical delivery, and the customer obtains control of the asset. Specifically, revenues from the sale of natural gas, petroleum, CO2 and other related products are recorded on delivery to the customer pipeline.

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.

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 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.

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 for 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, which is 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 shares 49% of the results, assets and liabilities from LS36-1 under the joint operation which are incorporated in these consolidated financial statements using the proportionate method of accounting. The Company recognizes, on a line –by – line basis in the consolidated financial statements, 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.

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. All material non-current assets are held 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, assets and liabilities measured at fair value, employee future benefits, income taxes and contingencies are based on estimates.

3.22.1. 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, less estimated salvage values, is charged to DD&A over the life of the proved and probable 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.

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 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.

No charge has been recognised in relation to income tax because the Company had unutilised tax losses in relation to development costs. The Company considers that the realisation of income tax benefits related to its deferred income tax assets is uncertain and cannot be considered to be more likely than not. Accordingly, no deferred income tax asset has been recognised.

3.22.5 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 cash generating units (**"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 existence of life time expected credit losses relating to that asset. Objective evidence used by the Company to assess impairment of financial assets includes historical collection rates for loans and receivables and calculations of net present value of estimated future cash flows. This 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.

3.23.3. 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, including in relation to exploration and evaluation activities. 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.

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

3.23.5. 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.

3.23.6. 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 or not the customer takes delivery. Where there is a 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.

4. Changes in accounting standards

New, Amended and Future IFRS Pronouncements

The following new standards, amendments to standards and interpretations became effective in the period and have been adopted by the Company:

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

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. 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.

IFRS 9 introduced three new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) the impairment of financial assets and 3) general hedge accounting.

Reclassification of financial assets into the IFRS 9 categories has had no overall impact on their respective measurement bases.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39 – Financial Instruments: Recognition and Measurement. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised. IFRS 9 allows a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets. There was no impact of the change in impairment methodology on the carrying value of trade receivables.

The Company currently does not apply hedge accounting, and has not done so in previous periods.

(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. Natural gas revenue is currently recognised on delivery to the customer pipeline and as Primeline considers this to be the point at which the customer obtains control of the gas this remains the appropriate revenue recognition point under IFRS 15.

Take or pay revenue is currently recognised when volumes of gas are delivered and measured at the contract price. Revenue relating to volumes not taken, but paid for, is generally recognised at the end of the stated take-or-pay period if the customer is not able to make-up volumes in future take-or-pay periods. If the customer is entitled to make-up volumes in future take-or-pay periods, revenue is recognised either when the payment is applied to future volumes, or the right to make-up volumes expires. Although IFRS15 means that entities may be able to recognise revenue in relation to the minimum enforceable amounts under take or pay contracts where contractual rights to receive make-up gas are not exercised in a period earlier than is currently the case, this did not result in any adjustments on adoption by the Company and is not expected to have a material impact on the future reported results of the Company.

(iii) Forthcoming standards - 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. The Company's lease commitments are disclosed in Note 14 (b)

of the financial statements. The impact of recognising those operating lease commitments on the statement of financial position is not expected to be material.

5. Financial risk management

5.1 Financial risk factors

The Company finances its operating activities by managing the Syndicate Facility (Note 10), cash and cash equivalents, trade receivable, accounts payable and accrued liabilities and convertible bonds (Note 12).

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 ended as follows:

	March 31, 2019	March 31, 2018
Cash and cash equivalents of:		
- CAD$ ‘000	1	1
- US$ ‘000	376	8,220
- GBP ‘000	1	1
- HK$ ‘000	330	177
Bank loans and interest of US$ ‘000	(169,406)	(210,285)
Convertible bonds of US$ ‘000	(21,075)	(18,238)

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

	March 31, 2019 RMB'000	March 31, 2018 RMB'000	March 31, 2019 CAD$'000
- CAD$	1	1	1
- US$	(127,846)	(139,584)	(25,386)
- GBP	1	1	1
- HK$	28	14	6

(b) Credit and trade receivables risk

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

The Company's cash and cash equivalents outside China are principally held at a large international financial institution in interest bearing accounts. 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 is exposed to considerable credit and trade receivables risk. As at March 31, 2019, no amounts were overdue by more than 30 days. However, on January 10, 2018, CCL issued an invoice in relation to a take or pay shortfall in the amount of RMB50.7m for the year 2017 but Zhejiang Gas has refused to make payment of such invoice which remains in dispute.

(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. However, the Company is currently in default under the Syndicate Facility and is reliant upon the continuing support of the Syndicate Banks to release funds to maintain normal operations, as set out in Note 1, so that at the date of approval of these consolidated financial statements, there are material uncertainties in relation to liquidity risk. 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%. The Company does not hedge against this risk. An increase in US$ 6-month LIBOR of 0.1% would have increased interest payable for the period ended March 31, 2019 by approximately RMB2.1 million (March

31, 2018 – RMB3.3 million).

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 operations under 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, 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 annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

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, 2017	479,461
Additions	25,964
Balance at March 31, 2018	505,425
Additions	41,796
Balance at March 31, 2019	547,221
	CAD$'000
Balance at March 31, 2019 in CAD$ (Note 3.5 (c))	108,662

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 Petroleum Contract 33/07. The contract area now is 4,397 sq. km and the commitment is to drill one exploration well to a depth of 2,500m. before April 30, 2018.

However, Primeline has not as yet been able to find any technically and commercially viable prospects immediately ready to be drilled in the existing 3D seismic area within the contract area for Petroleum Contract 33/07. Primeline has however identified two areas where structural and stratigraphic exploration leads have been indicated by the existing 2D seismic data, but the potential in these leads requires further evaluation in order to establish any drilling targets. Accordingly, at the JMC meeting on December 1, 2017, Primeline proposed that the next step in the exploration programme should be to acquire 3D seismic over these two exploration leads after which the data would be assessed to make the decision on whether these leads are good drillable prospects. An outline programme of 400km2 of 3D seismic was presented to the JMC.

The second phase of exploration under Petroleum Contract 33/07 provides for a work programme to drill one exploration well and expired on April 30, 2018. Primeline thus requested CNOOC to agree with Primeline that with respect to phase two: (a) a 3D seismic programme of a minimum area of 400 km2 be substituted for the exploration well and (b) the expiry date for the second exploration phase of April 30, 2018 be extended to April 30, 2019 in order to provide time to complete the proposed revised work programme. However, CNOOC has not yet agreed to such requested extension and Primeline has suggested that the matter be suspended until after the result of the CNOOC Arbitration in relation to Petroleum Contract 25/34 is known. If CNOOC does not agree to the requested extension, it may be that CNOOC may take action to terminate Petroleum Contract 33/07 and Primeline's interest in Block 33/07 with effect from April 30, 2018. However, Primeline has set out in the CNOOC Arbitration principles of claims against CNOOC under Petroleum Contract 33/07 and, if CNOOC were to take action to terminate that contract, then such action would be robustly defended and a counterclaim made.

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$'000 (Note 3.5 (c))
COST				
At April 1, 2017	2,128,065	49	2,128,114	422,580
Additions	20,979	9	20,988	4,168
At March 31, 2018	2,149,044	58	2,149,102	426,748
Additions	35,739	-	35,739	7,097
At March 31, 2019	2,184,783	58	2,184,841	433,845
DEPLETION AND DEPRECIATION				
At April 1, 2017	498,361	24	498,385	98,964
Charge for the year	385,064	10	385,074	76,464
At March 31, 2018	883,425	34	883,459	175,428
Charge for the period	353,960	12	353,972	70,288
At March 31, 2019	1,237,385	46	1,237,431	245,716
CARRYING VALUES	RMB'000	RMB'000	RMB'000	CAD$'000
At April 1, 2017	1,629,704	25	1,629,729	323,616
At March 31, 2018	1,265,619	24	1,265,643	251,320
At March 31, 2019	**947,398**	**12**	**947,410**	**188,129**

As at March 31, 2019, the Company reviewed the carrying amounts of its oil and gas assets for indicators of impairment, changes in future liquids prices and 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 estimates of the future cash price to be 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 natural gas price used in the calculation of the reserve values is defined in the agreement relating to the settlement of the Zhejiang Gas Arbitration for the remainder of the GSC. Future prices of condensate and LPG are based on sales over the last 6 months.

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:

	March 31, 2019 RMB'000	March 31, 2018 RMB'000	March 31, 2019 CAD$'000
Balance, beginning of period and year	163,368	157,996	32,440
Accretion	5,555	5,372	1,104
Balance, end of period	168,923	163,368	33,544

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 March 31, 2019, the Company's share of the liability in the principal amount of RMB204,731,800 (CAD$40,653,654) which has a net present value of RMB168,922,846 (CAD$33,543,059) (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 RMB5,554,623 (CAD$1,102,983) for the period.

Cash contributed to by the Company and held as security for the decommissioning costs is reported in the balance sheet as restricted cash of RMB97,076,350 (CAD$19,276,479) 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, 2017	189,909,849	1,326	531,892	533,218	105,880
Convertible Bond interest accrued	5,661,757	52	2,919	2,971	590
Balance – as at March 31, 2018	195,571,606	1,378	534,811	536,189	106,470
Convertible Bond interest accrued	8,064,585	74	2,230	2,304	458
Balance – as at March 31, 2019	203,636,191	1,452	537,041	538,493	106,928

(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, 2017	3,735,000	0.60	3,735,000	0.60
Granted	5,150,000	0.18	-	-
Vested	-	-	1,733,333	0.18
Expired	(3,735,000)	(0.60)	(3,735,000)	(0.60)
As at March 31, 2018	5,150,000	0.18	1,733,333	0.18

Granted	12,600,000	0.09	-	-
Vested	-	-	14,383,333	0.10
Expired	-	-	-	-
As at March 31, 2019	17,750,000	0.12	16,116,666	0.11

As at March 31, 2019, there are 203,636,191 Shares outstanding, and 17,750,000 stock options outstanding as follows:

Exercise price	Number of outstanding options	Weighted average remaining contractual life	Number of exercisable options
As at March 31,2019			
CAD$0.18 (a)	4,750,000	3.35 years	3,166,666
CAD$0.20 (b)	400,000	3.38 years	350,000
CAD$0.09 (c)	12,600,000	4.39 years	12,600,000
	17,750,000	2.05 years	16,116,666
As at March 31, 2018			
CAD$0.18 (a)	4,750,000	4.35 years	1,583,333
CAD$0.20 (b)	400,000	4.38 years	150,000
	5,150,000	2.18 years	1,733,333

a) 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. The fair value of the options issued was estimated to be CAD$0.10 per option, which was derived from a Black Scholes option pricing model using historical share price volatility of 98%. These options comply with the requirements of TSX Venture Exchange Policy 4.4 Incentive Stock Options.

b) 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 Investor Relations, Promotional and Market-Making Activities, are subject to a quarterly vesting schedule over a twenty-four-month period and expire on August 15, 2022.

c) On August 23, 2018, the Company granted 12,600,000 options at an exercise price of CAD$0.09 per shares to directors, officers, employees and consultants. The options vest as to one half on the date of issue and one half on the day falling six months from the date of issue and otherwise in accordance with the terms of the plan. The options expire on August 23, 2023. The fair value of the options issued was estimated to be CAD$0.06 per option, which was derived from a Black Scholes option pricing model using historical share price volatility of 104%. These options comply with the requirements of TSX Venture Exchange Policy 4.4 Incentive Stock Options.

10. Bank Loans

	March 31, 2019	**March 31, 2018**	**March 31, 2019**
	RMB'000	RMB'000	CAD$'000
Within one year	1,119,712	300,960	222,342
More than one year	-	1,013,760	-
Secured floating-rate bank loan	1,119,712	1,314,720	222,342

The principal amount of the Syndicate Facility is US$274 million which is repayable over 8 years (after a one-year principal repayment holiday) at an interest rate of US$ 6-month LIBOR+3.35% with interest and principal repayments made bi-annually (except the first year in which there were no principal repayments). As at March 31, 2019, the Company had made seven principal repayments of US$107.5 million in total on November 20, 2015, 2016, 2017 and 2018 and May 20, 2016, 2017 and 2018.

As a result of revenue being significantly reduced due to the reduction in production from the LS 36-1 gas field since September 2018, it was impossible for Primeline to make full repayment of the principal instalments due in accordance with the agreed schedule. As a result, in November 2018, the lending banks agreed to an adjustment of the principal repayment instalment due in November 2018 so that part of that principal repayment instalment was deferred and added to the principal repayment due in May 2019 with the balance to be repaid on the due date. However, Primeline was unable to effect full repayment of the principal repayment instalment due on May 20, 2019 and, as a result, is now in default under the terms of the Syndicate Facility. Amounts due under the facility have therefore been reclassified as current.

11. Interest and other income

	Year ended March 31,		
	2019 RMB'000	**2018 RMB'000**	**2019 CAD$'000**
Bank interest income	1,092	9,517	217

12. Convertible Bonds

On August 14, 2015, Primeline issued US$10 million principal amount Tranche A Convertible Bonds (**"Tranche A Bonds"**) to GRF Prime Limited (**"GRF"**), a resources fund managed by GEMS Investment Management Limited of Hong Kong, and, on November 10, 2015, issued US$8 million principal amount Tranche B Convertible Bonds (**"Tranche B Bonds"**) to GRF, in order to fund the exploration work relating to Block 33/07.

The Tranche A Bonds had a total nominal value of RMB63,940,000 (CAD$12,696,585) at August 14, 2015, the date of issuance. A liability component of RMB59,026,215 (CAD$11,720,853) and equity conversion component of RMB4,913,785 (CAD$975,732) were recognized initially. Transaction costs of RMB8,547,769 (CAD$1,697,333) were incurred for the issuance of the Tranche A Bonds. The Tranche A Bonds matured on August 14, 2018.

The Tranche B Bonds had a total nominal value of RMB50,800,000 (CAD$10,087,371) at November 10, 2015, the date of issuance. A liability component of RMB46,907,627 (CAD$9,314,461) and an equity conversion component of RMB3,892,213 (CAD772,878) were recognized initially. Transaction costs of RMB49 (CAD$10), were incurred for the issuance of the Tranche B Bonds. The Tranche B Bonds matured on November 10, 2018.

The term of the Tranche A Bonds and Tranche B Bonds was three years, extendable at the option of the bondholder for two one-year periods. Interest was payable quarterly at 7% per annum, of which 4.5% was payable in cash (**"Cash Interest"**) 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 (**"Share Interest"**). The Bonds were convertible, at the option of the bondholder, at any time during the period commencing four months and a day following the date of issuance up to the date that was 10 days prior to the date of maturity of the Bonds, into Common Shares at conversion prices of CAD$0.70 per share (Tranche A Bonds) and CAD$0.85 per share (Tranche B Bonds).

On August 14, 2018, the Tranche A Bonds were due for repayment. The redemption amount due, including the redemption premium, amounted to US$ 11,300,000, which the Company repaid in full to GRF in accordance with the terms of the Tranche A Bonds. Redemption of the Tranche A Bonds was funded by a loan of US$11,300,000 from Primeline International (Holdings) Inc. (**''PIHI''**), a company wholly owned by Mr. Victor Hwang, who is the Company's President, Chairman and majority shareholder. PIHI's loan was secured by the issuance by the Company of principal amount US$11,300,000 bonds (**''New Bonds''**) having the same terms as the Tranche A Bonds except that the New Bonds are deemed to have been issued on August 14, 2018 and for an initial period of one year, extendable for a further year at the option of the holder. The issuance of the New Bonds was approved by the TSX-V on September 17, 2018.

The New Bonds had a total nominal value of RMB77,314,600 (CAD$15,352,383) at August 14, 2018, the deemed date of issuance. A liability component of RMB75,133,529 (CAD$14,919,287) and an equity conversion component of RMB2,181,071 (CAD433,096) were recognized initially. Transaction costs of RMB400,520 (CAD$79,531) were incurred for the issuance of the New Bonds.

On November 13, 2018, the Tranche B Bonds were due for payment. The redemption amount due, including the redemption premium, amounted to US$9,301,000, which the Company repaid in full to GRF in accordance with the terms of the Tranche B Bonds. Redemption of the Tranche B Bonds was funded by a loan of US$9,301,000 from PIHI. PIHI's loan was secured by the issuance by the Company of principal amount US$9,300,000 bonds (''**New B Bonds**'') having the same terms as the Tranche B Bonds except that the New B Bonds are deemed to have been issued on November 12, 2018 and for an initial period of one year, extendable for a further year at the option of the holder. The issuance of the New B Bonds was approved by the TSX Venture Exchange on December 11, 2018.

The New B Bonds had a total nominal value of RMB64,597,800 (CAD$12,827,204) at November 12, 2018, the deemed date of issuance. A liability component of RMB62,775,475 (CAD$12,465,345) and an equity conversion component of RMB1,822,356 (CAD$361,866) were recognized initially. Transaction costs of RMB218,095 (CAD$43,307) were incurred for the issuance of the New B Bonds.

The Company and PIHI agreed that with effect from and including March 15, 2019, whilst the Share Interest and Cash Interest shall continue to be payable under the terms of the certificates representing the New Bonds and the New B Bonds (the **''Certificates''**), from March 15, 2019 forward, the payment of the Cash Interest shall not be made when due under the Certificates but shall be deferred and accrued on the books of the Company and shall be payable on written demand by PIHI given at any time after the date of the final award in the CNOOC Arbitration.

The fair values of the liability component included in the New Bonds and New B Bonds are calculated using a market interest rate for an equivalent non-convertible bond. The liability components are subsequently stated at amortized cost until extinguished on conversion or maturity of the New Bonds and New B Bonds. The residual amounts, representing the value of the equity conversion component, are included in shareholder's equity in convertible bonds reserves.

March 31, 2019

	RMB'000 Tranche A	RMB'000 Tranche B	RMB'000 New Bonds	RMB'000 New B Bonds	RMB'000 Total
Face value	63,940	50,800	77,314	64,597	256,651
Equity component	(4,914)	(3,892)	(2,181)	(1,822)	(12,809)
Liability component on initial recognition	59,026	46,908	75,133	62,775	243,842
Accumulated transaction costs incurred	(8,548)	(1)	(401)	(218)	(9,168)
Amortization of transaction costs and share finder fee	8,548	1	249	82	8,880
Exchange difference	4,307	4,571	(1,305)	(2,002)	5,571
Adjustments	5,087	4,089	1,337	652	11,165
Redemption of Convertible bonds	(68,420)	(55,568)	-	-	(123,988)
Total Convertible bonds	-	-	75,013	61,289	136,302

13. Transactions with related parties and directors

During the year ended March 31, 2019, 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. Mark Norman, and Mr. John Li were RMB4,629,768 (CAD$919,334) (March 31, 2018 – RMB5,088,815 which includes fees paid to Mr. Stuart Joyner who left the Company in July 2017).Share based payment of RMB2,254,628 (CAD$447,702) (March 31, 2018 – RMB1,123,064) was recognized for the 9,300,000 (March 31, 2018 – 4,750,000) share options granted to these key management personnel.

b) Share based payment of RMB146,044 (CAD$29,000) (March 31, 2018 – Nil) was recognized for the 500,000 (March 31, 2018 – Nil) share options granted to Mr. Brian Chan, an executive director of the Company.

c) Fees and benefits paid or accrued to non-executive directors being Mr. Peter Kelty, Mr. Alan Johnson and Mr. Vincent Lien were RMB384,570 (CAD$76,364) (March 31, 2018 – RMB385,240) and share based payment of RMB438,132 (CAD$87,000) (March 31, 2018 – Nil) was recognized for the 1,500,000 (March 31, 2018 – Nil) share options granted to these non -executive directors.

d) The Company issued the New Bonds and the New B Bonds to a company wholly owned by Mr. Victor Hwang, the Company's President, director and majority

shareholder (See Note 12).

e) The Company made a provision of RMB3,317,850 (CAD$658,826) in respect of a departure bonus which is payable to Dr. Ming Wang pursuant to the employment termination agreement entered into with him and which was calculated in accordance with the terms of his employment agreement. Dr. Wang resigned as the Company's chief executive office on March 31, 2019 and remains as a Director. The termination agreement entered into between the Company and Dr. Wang provided that such departure bonus and his Director's fee will only be payable when the award in the CNOOC Arbitration is given.

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 Petroleum Contract 33/07 with a minimum committed work programme of one exploration well during the phase (See Note 6).

b) The Company renewed the lease agreement for its Shanghai office in the PRC in October 2018. The renewal covers the period from September 15, 2018 to September 14, 2019 for a monthly rental fee of RMB197,731 (CAD$39,264). The minimum payments due under the lease are the remaining annual rental of RMB1,186,386 (CAD$235,581) to September 2019.

15. Fair value measurement

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

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

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

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, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

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

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

On March 1, 2017, the Company entered into settlement agreements resolving the dispute with Zhejiang Gas (see Note 1) and recorded settlement receipts of RMB33.48 million (CAD$7 million) as deferred revenue in the consolidated financial statements as at March 31, 2017 relating to 2015 and 2016 take-or-pay payments for which the make-up gas delivery to Zhejiang Gas was completed after the year end. On April 12, 2017, such amounts were recognized as revenue upon the completion of delivery to Zhejiang Gas in accordance with IFRS revenue recognition accounting standards.

	Year ended March 31,		
	2019 RMB'000	2018 RMB'000	2019 CAD$'000
Natural gas	307,180	426,046	60,997
CO2	289	-	57
Condensate	27,365	40,864	5,434
Light Oil	13,116	16,135	2,604
LPG	24,388	21,775	4,843
	372,338	504,820	73,935

17. Long term accounts payable

	March 31, 2019 RMB'000	March 31, 2018 RMB'000	March 31, 2019 CAD$'000
CNOOC management fee	6,000	18,000	1,191

	6,000	18,000	1,191

Under the repayment agreement with CCL in December 2014, which governs the terms and basis for the Company's contribution of its LS36-1 development cost obligations, the Company and CCL agreed a supplementary management fee would be added in consideration of the advance by CCL of those costs during the development period of 2010-2014. The initial payment of RMB68 million (CAD$14 million) was made in December 2014, and the remainder of RMB36 million (CAD$7 million) had been accrued as a non-current account payable with the full amount capitalized as development costs in PP&E and was to be repaid by the Company over 3 years. Primeline started the repayment schedule from October 2017 in 36 monthly installments over 3 years and made eighteen repayments of RMB1 million (CAD$198,570) each in total of RMB18 million (CAD$4 million) to CCL up to March 31, 2019. As at March 31, 2019, RMB12 million of the remaining RMB18 million to be paid within one year is classified as current account payable (see Note 20) and RMB6 million to be repaid in more than one year is classified as long-term account payable.

18. Trade receivables

	March 31, 2019	**March 31, 2018**	**March 31, 2019**
	RMB'000	RMB'000	CAD$ '000
Current	12,523	30,071	2,487
Past due	-	-	-
Total	12,523	30,071	2,487

The trade receivable of RMB12,522,785 (CAD$2,486,653) as at March 31, 2019 related to natural gas and by products sales in the month of March, 2019, and it was fully received in April 2019.

19. Financial instruments

Accounting classification of financial assets and liabilities

	Financial assets at amortized cost RMB '000	Financial liabilities at amortized cost RMB '000	Total RMB '000
At March 31, 2019			
Cash and cash equivalents	61,522	-	61,522
Trade receivables	12,523	-	12,523
Other receivables excluding non-financial items	2,137	-	2,137
Trade payables and other payables excluding non-financial items	-	(166,249)	(166,249)
Convertible bonds	-	(136,302)	(136,302)
Bank loans	-	(1,119,712)	(1,119,712)
Total (RMB'000)	76,182	(1,422,263))	(1,346,081)
Total (CAD'000)	15,127	(282,419)	(267,292)

	Financial assets at amortized cost RMB '000	Financial liabilities at amortized cost RMB '000	Total RMB '000
At March 31, 2018			
Cash and cash equivalents	256,893	-	256,893
Trade receivables	30,071	-	30,071
Other receivables excluding non-financial items	510	-	510
Trade payables and other payables excluding non-financial items	-	(155,804)	(155,804)

Convertible bonds	-	(111,471)	(111,471)
Bank loans	-	(1,314,720)	(1,314,720)
Total (RMB'000)	287,474	(1,581,995)	(1,294,521)
Total (CAD'000)	57,084	(314,137)	(257,053)

20. Accounts payable and accrued liabilities

	March 31, 2019 RMB'000	March 31, 2018 RMB'000	March 31, 2019 CAD'000
Accrued charges and other creditors	35,433	43,525	7,036
CNOOC management fee (Note 17)	12,000	12,000	2,383
Loan interest payable	19,546	17,646	3,881
Convertible bonds interest payable	3,195	1,506	634
Cost of makeup gas and interest	128,200	122,642	25,457
	198,374	197,318	39,391

As part of the settlement of the Zhejiang Gas Arbitration, Primeline agreed that CCL, on its behalf, would purchase LNG in order to 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 payments made by Zhejiang Gas. CCL 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 make-up gas cost is RMB118,433,984 (CAD$23,517,471). It was further agreed that CCL only had the right to demand payment for Primeline's share of the make-up gas cost at a date which was no earlier than 12 months from purchase. RMB95,243,492 make-up gas cost was recognized in the year 2017 and the remaining RMB23,190,492 relating to the proportion of gas delivered in the year 2018 was recognised upon the completion of gas delivery to Zhejiang Gas on April 12, 2017. Given that CCL paid the makeup gas cost and has demanded on June 16, 2018 that Primeline repay its share of such cost one year from the date of purchase on June 6, 2017, which is June 6, 2018, Primeline for accounting purposes made provision for the whole amount of Primeline's share of the make-up gas cost as a current account payable as at March 31, 2018 and March 31, 2019. Primeline also agreed with CCL that it will pay interest on the make-up gas cost at the People's Bank of China rate, estimated at 4.35% per annum for the period ended June 6, 2018 and 4.75% per annum afterwards. As at March 31, 2019, interest payment due of RMB9,766,609 (CAD$1,939,358) (March 2018 – RMB4,207,367) has been accrued, of which RMB5,559,242 (CAD$1,103,900) is recognized for the period.

21. Subsequent Events

1. As a result of revenue being significantly reduced due to the reduction in production from the LS 36-1 gas field since September 2018, Primeline was unable to effect full repayment of the principal instalment due on May 20, 2019 and, as a result, is now in default under the terms of the Syndicate Facility. However, the Syndicate Banks indicated that, notwithstanding the default, they did not intend to take enforcement action and confirmed in writing that they would endeavor to continue to support Primeline in order to maintain production and normal operations until the award in the CNOOC Arbitration has been received. Based on that support (which was announced to the market) Primeline will endeavour to maintain normal operations whilst waiting for the award (See Note 1).

2. The Company made a partial repayment of the principal instalment in the amount of US$ 5 million to the Syndicate Banks on May 21, 2019.

Primeline Energy Holdings Inc.
Management Discussion and Analysis
March 31, 2019
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"**). A number of these statements relate to the Company's expectations with respect to the outcome of its arbitration ("**CNOOC Arbitration**") against China National Offshore Oil Corporation **("CNOOC"),** a Chinese State oil company, and its subsidiary CNOOC (China) Ltd. ("**CCL**"), including: (i) Primeline's belief that it will ultimately be successful in the CNOOC Arbitration; and (ii) that the syndicate of banks described below ("**Syndicate**") providing finance to Primeline ("**Syndicate Facility**") will not demand immediate repayment of all amounts owed under the Syndicate Facility and/or will continue to release funds in order for the Company to maintain normal operations. However, they also relate to issues which might arise before the conclusion of the CNOOC Arbitration, such as: assumptions that production and sales from the LS36-1 gas field will continue at the level currently being produced under the production plan currently agreed between CCL and Zhejiang Gas under the LS36-1 Natural Gas Sales and Purchase Contract ("**Gas Sales Contract**") between CCL and Zhejiang Natural Gas Development Company ("**Zhejiang Gas**") and other relevant agreements. While these statements are based on assumptions that management considers reasonable, actual results may vary from those anticipated. If Primeline is not successful in the CNOOC Arbitration, or Primeline is successful but not able to enforce the award of the arbitral tribunal, Primeline's banking Syndicate may demand immediate repayment of all amounts owed under the Syndicate Facility. Any of these events would likely result in Primeline's insolvency and seizure of its assets. Zhejiang Gas may not comply fully with its obligations under the Gas Sales Contract. Production from LS36-1 may continue at the current reduced level, or be reduced further (see Section 3.3), Primeline and CCL may be unable to meet their obligations under the Gas Sales Contract and negotiations between CCL and Zhejiang Gas may not result in any amendment of the Gas Sales Contract. CNOOC may not agree to Primeline's request for the substitution of the work programme and extension of the exploration period under Petroleum Contract 33/07 (see Section 3.7) and Primeline may then be in breach of its obligations under Petroleum Contract 33/07 (see Section 3.7) giving CNOOC the right to terminate Petroleum Contract 33/07 in which event Primeline may commence a separate arbitration to claim damages. If CNOOC does agree, sufficient cash flow and/or external finance to carry out its exploration obligations may nevertheless be unavailable to Primeline. Primeline and CCL may be unable to meet their obligations under the Gas Sales Contract and negotiations between CCL and Zhejiang Gas may not result in any amendment of the Gas Sales Contract. Production from LS 36-1 may be reduced further. Any of such events may materially and adversely affect Primeline's financial position. 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 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 audited consolidated financial statements for the year ended March 31, 2019, 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 June 28, 2019. Events subsequent to 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 financial years ended March 31, 2019 and 2018 and the Company's financial condition at March 31, 2019 and March 31, 2018.

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 this MD&A or any other date. The exchange rate of CAD$ to RMB published in the South China Morning Post on March 31, 2019 was RMB5.036 to CAD$1.00.

1.5. Operating Segments

The Company has one operating segment, which is the exploration, development and production of oil and gas properties located in the People's Republic of China ("**PRC**"). CCL, a subsidiary of CNOOC, is the operator under Petroleum Contract 25/34 (see Section 2), in which the producing LS36-1 gas field, 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 entered into between CNOOC and two wholly owned subsidiaries of the Company - 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 an offshore area of 84.7 sq. km, being the development and production area for the LS36-1 gas field ("**LS36-1**") for which CCL is the Operator, holding a 51% interest, with the Company holding a 49% interest (PECL 36.75% and PPC 12.25%).

Block 33/07 covers an offshore area of 4,397 sq. km (1.09 million acres) enclosing Block 25/34 and the Company owns the Contractor's interest 100% (PECL 75% and PPC 25%). Another wholly owned

subsidiary of the Company, PEOIL, is the operator for Block 33/07. The Contractor is responsible for 100% of the exploration costs and CNOOC has the right to participate in up to 51% of any commercial development. The Company fulfilled the exploration obligations in the first exploration phase under Petroleum Contract 33/07, which expired in April 2016 when Primeline entered into the second exploration phase in order to continue with its exploration operations in the Lishui Basin. The second exploration phase is for a period of two years and, after conducting a careful evaluation, Primeline applied to CNOOC for an extension and a revision of certain terms of Petroleum Contract 33/07, before it lapsed on April 30, 2018. However, CNOOC has not yet agreed to such requested extension and the Company has suggested that the matter be suspended until after the result of the CNOOC Arbitration in relation to Petroleum Contract 25/34 is known. See Section 3.7.

In 2007, Primeline and CNOOC agreed to implement a rolling development and exploration strategy in the Lishui Basin with CCL operating LS36-1 under Petroleum Contract 25/34 since 2010 and Primeline leading the effort on exploration, initially under Petroleum Contract 25/34 and, since 2012, under Petroleum Contract 33/07. LS36-1's production infrastructure is the first natural gas production 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 the development work of LS36-1, including the construction and installation of the production platform, subsea pipeline, development wells and onshore processing terminal. Trial production from LS36-1 commenced on July 8, 2014 and the field's production period commenced on December 1, 2014.

In October 2014, CCL and Zhejiang Gas signed the Gas Sales Contract (under which CCL sells Primeline's share of the natural gas produced from LS36-1 as Primeline's agent), 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 and amended in 2011, which together provided the commercial support for the development of LS36-1.

The total development cost incurred by the Company for LS36-1 up to March 31, 2019 was RMB1,984 million (CAD$394 million) including the management charge for the cost of capital for CCL's advance of the development costs from 2010 to 2014. Primeline's share of the 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**"), signed on November 17, 2014. The principal amount outstanding in respect of the Syndicate Facility as at March 31, 2019 was US$166.5 million.

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 had been continuing its efforts to carry out 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, but such exploration operations and expansion effort are currently suspended due to the CNOOC Arbitration.

In March 2017, CCL and Primeline resolved the two years' long dispute with Zhejiang Gas with regard to the gas price payable under the Gas Sales Contact, and Primeline received the settlement payment on March 20, 2017. Under the terms of the agreement with CNOOC relating to the settlement with Zhejiang

Gas, the CNOOC Arbitration was unaffected by the settlement with Zhejiang Gas and continued during the year. Further details are set out below.

3. Results of Operations

3.1. Operational Overview

The Company has been an exploration company for over 20 years and first discovered gas in LS36-1 in the East China Sea in 1997. LS36-1 has now been in production and selling gas to Zhejiang Gas for over four years.

During the year ended March 31, 2019 the Company, together with its partner CCL, has produced gas from LS36-1 and delivered approximately 210 mmcm (Company's share is 49% or 103 mmcm) of natural gas to Zhejiang Gas under the Gas Sales Contract. This is significantly lower than the minimum Annual Contract Quantity ("**ACQ**") of 270 mmcm required by the GSC because, as noted below, CCL, as Operator for Block 25/34, has reduced the production level since September 10, 2018 and has agreed an annual production plan for 2019 with Zhejiang Gas which is about 44% of the minimum ACQ required by the GSC. This is discussed in greater detail in section 3.3 below.

As a result of the drop in gas production from LS36-1 during the year, the revenues generated by the Company decreased by 26% to RMB 372 million (CAD$74 million) during fiscal 2019, which is a decrease of RMB133 million compared with the revenues in the previous fiscal year.

3.2. Analysis of Performance and Comparison to Previous Years

The Company's future and key performance drivers will be whether it is able to:

1. Ensure that the production and associated cash flow from the LS36-1 field is sustained by CCL as operator as planned and in accordance with the requirements of the GSC;
2. Control operational expenditure;
3. Continue to explore for and develop additional gas resources to expand gas production, both in LS36-1 development area and in the nearby Block 33/07;
4. Explore for other investment opportunities in PRC or elsewhere; and
5. Resolve the dispute with CNOOC and CCL to the satisfaction of the Company

The drivers 1, 2 and part of 3 (within the LS36-1 development area) are subject to the performance of CCL as operator under Petroleum Contract 25/34, and part of 3 (in nearby Block 33/07), 4 and 5 are driven by Primeline but, as referred to above, exploration is currently suspended pending resolution of the CNOOC Arbitration. Financial investment would be required for exploration if a revised work programme is agreed with CCL.

Due to the issues mentioned in section 3.3 below, the Company's performance has been badly affected and Primeline's total oil and gas revenue for the year was reduced to RMB372 million (approximately CAD$74 million), as compared to RMB505 million (approximately CAD$$100 million) for the previous year. EBITDA (a financial measure which does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers but provides useful information to investors as a measure of underlying cash generation) was RMB221 million (CAD$44 million) (see the reconciliation between net profit/(loss) and EBITDA below). After the substantial

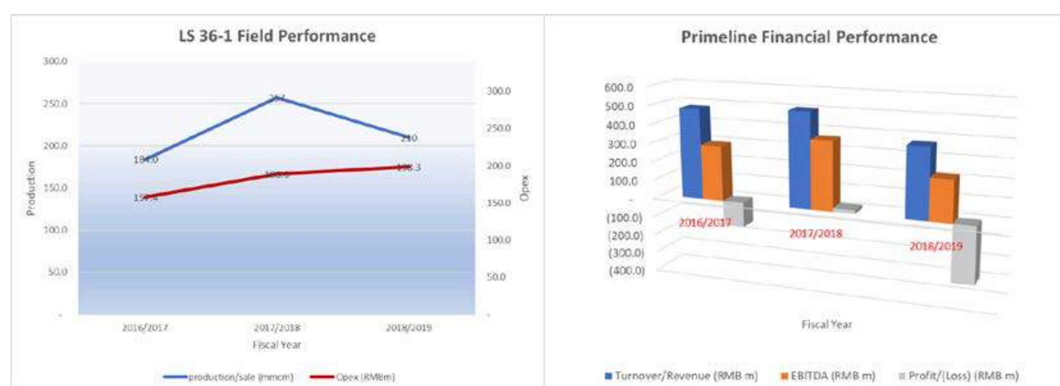
depreciation charge of RMB354 million (approximately CAD$70 million) coupled with the effect of the foreign exchange loss as a result of the depreciation of the RMB against the US$ of RMB83 million (approximately CAD$16 million), the Company made a net loss of RMB302 million (approximately CAD$60 million) compared with the net profit of RMB 19 million (approximately CAD$4 million) in the prior year.

Reconciliation between Net Loss/ (Profit) and EBITDA of the Company as follows:

	For the year ended			
	March 31, 2019		March 31, 2018	
	RMB	CAD$	RMB	CAD$
Net (Loss) / Profit under IFRS	(301,567,925)	(59,882,431)	19,027,396	3,778,276
Add:				
Depletion and depreciation	353,971,699	70,288,264	385,074,025	76,464,262
Bank interest expenses	72,784,793	14,452,898	75,995,724	15,090,493
Other finance costs	12,397,001	2,461,676	12,450,247	2,472,249
Foreign exchange loss / (gain)	83,319,218	16,544,722	(126,900,568)	(25,198,683)
EBITDA	220,904,786	43,865,129	365,646,824	72,606,597

The operational and financial results in the year under review were significantly below management's expectations due to the loss of production for LS 36-1 which occurred in September 2018 (see section 3.3.1 below).

The following charts show the results of operations and financial performance in the past 3 years.



3.3. Production and Continued Development

3.3.1 Drop in Production from September 2018

As previously reported, the A10M infill well was drilled in April 2018 to support the existing producing wells in the M1-2 reservoir. However, following completion of the well, it became clear that the A10M well is in communication with A4M well and thus failed to achieve its goals to maintain the production plateau. Primeline had provided a warning of such risk and made suggestions to CCL, the Operator of LS36-1, as to alternative drilling targets at the time but these suggestions were rejected by CCL.

Following the drilling of the A10M well, CCL revised the mapping of the field and significantly lowered its estimate of the gas in place volume accessible by the existing production wells and declared that they did not plan to drill any further development wells in the LS36-1 Gas Field. Primeline disagreed with the revised mapping and requested a detailed re-evaluation of technical data. Also, Primeline completely disagrees with CCL's refusal to drill additional wells and has continued to try to persuade CCL of the technical and commercial merits of an additional drilling programme. In the absence of any additional drilling, LS36-1 production has been out of plateau since July 2018, although, until August 2018, it had been maintaining a level of circa 750mcm/day of sale gas.

However, on September 10, 2018, CCL reported that well A5 had stopped producing as a result of water ingress. Well A5 represented approximately 13% of the total production from LS36-1. CCL also proposed, as a precaution, reducing the production rate from well A1M, which drains the same reservoir as A5, until it completed its investigation of the cause of the loss of A5. This resulted in reduced production of LS36-1 to a level of approximately 450mcm/day of sale gas, or about 60% of the previous production level of about 750mcm/day, the rate required to deliver the minimum ACQ required under the GSC. The effect of this on production is discussed in section 3.3.3 below.

The development of LS36-1 was intended to supply gas for 15 years under the Gas Sales Contract at an ACQ of 300mmcmpa for an initial plateau period of seven years. The facilities have a design life of 25 years. However, after only four years of intermittent production at a rate lower than the designed plateau rate, CCL proposed a revised annual plan for 2019 of only 119mmcmpa, approximately 44% of the minimum ACQ currently required by the Gas Sales Contract, and has entered into negotiations with Zhejiang Gas to vary the terms of the Gas Sales Contract to conform to its current production forecasts (see section 3.3.2 below).

To put matters into context, one of the key issues related to the current production shortfall is CCL's failure as Operator to implement a previously agreed plan to drill for additional gas resources discovered and identified within LS 36-1 which can be drilled from the platform. The rolling development of the reserves and resources in the field was always envisioned and therefore additional well slots were built on the platform to allow such additional work. In 2013, following the drilling of the initial four production wells, CCL presented to the Joint Management Committee established by CCL and Primeline for the project ("**JMC**") detailed reports confirming the proven developed reserves and identifying additional gas reserves and resources. Four wells were designed for such "phase 2" drilling and their technical justification was approved by the JMC in October 2013. However, CCL failed to implement such work for additional gas during the 5 years from 2013. This failure, among others, forms part of the main claims in the CNOOC Arbitration. The timing of the above events in relation to the reduced production levels was significant, as CCL submitted its rejoinder in the CNOOC Arbitration in June 2018 and the hearing was held in September 2018 (see section 3.4 below)

3.3.2 Take or Pay Issue, Delivery Shortfall and GSC Negotiations

For the 2017 contract year, the take or pay quantity under the Gas Sales Contract was 270 mmcm (the minimum ACQ level) but Zhejiang Gas only off-took 241.8 mmcm and accordingly there was an offtake shortfall of approximately 21.9 mmcm for the year, following allowable reductions, against its committed minimum offtake volume. Under the terms of the take or pay arrangements of the Gas Sale Contract, CCL issued an invoice for such shortfall (RMB50.7m) on January 10, 2018, but Zhejiang Gas refused to make payment. As confirmed by CCL's email to Zhejiang Gas regarding the invoice, the Gas Sales Contract provides that in the event of dispute Zhejiang Gas should pay the amount due under the invoice first and then follow the dispute resolution procedures set out in the contract. Primeline therefore urged CCL to insist on payment of the invoice or, otherwise, enforce the terms of the Gas Sales Contract.

However, due to the drop in production since September 2018, there was a supply shortfall in 2018 of 30mcm, and, under the terms of the Gas Sales Contract, CCL and Primeline as sellers would be liable to pay a penalty of 10% which would be circa RMB6.81m. As a result, Primeline consented to CCL's request to enter into discussions with Zhejiang Gas on the revision of Gas Sales Contract to reflect the current forecast production rate, such consent being on the basis that Primeline reserved all rights, as the loss of production and, hence, the need to renegotiate the Gas Sales Contract was due to CCL's failures as claimed in the CNOOC Arbitration. Zhejiang Gas responded to CCL in January 2019 to the effect that Zhejiang Gas would consider a reduction in the ACQ of gas deliverable under the Gas Sales Contract if the Sellers waive payment of the 2017 take or pay invoice. Such negotiations are currently continuing but, in the meantime, CCL and Zhejiang Gas are operating on the basis of an agreed production plan which matches CCL's current production forecast.

3.3.3 Current Production and JMC Discussions

Following receipt of the information regarding the A5 well, on September 11, 2018 Primeline approved a budget for CCL to proceed with work to investigate and resolve the problems with A5 immediately. However, CCL did not commence the work until November 5, 2018 when it conducted coiled tubing operations to lift water in the A5 well bore. On November 8, CCL reported that whilst such operations had successfully removed the water from the well, gas flow had not been restored and CCL confirmed its view that production from the A5 well should be discontinued and immediately demobilized the coiled tubing equipment. However, the well head pressure of A5 recovered on November 11 and Primeline requested that the coiled tubing equipment be returned to the platform immediately, but CCL refused to do so at that time.

In any event, subsequent investigations showed that the liquid in the A5 well was not formation water (as suggested by CCL) but leaked completion fluids and, on that basis, Primeline took the view that further attempts to restore the A5 well should be made and that there was no reason to reduce production from the A1M well, which had been reduced as a precautionary measure in view of the perceived threat of formation water. Notwithstanding this finding, CCL proposed that the production level of the LS 36-1 gas field for the year 2019 should be further reduced.

Nevertheless, in view of the failure of the A5 well and CCL's projections of remaining reserves, at a meeting of the JMC in November 2018, Primeline had to agree to CCL's proposal that production for 2019 should be reduced to around 119mmcmpa, about 44% of the minimum ACQ. At that level of production, the gas sales revenue would be sufficient to cover the budget for operating costs which CCL

has proposed for 2019, but would provide only minimal operational cash flow to Primeline. This agreement was on the basis that CCL agreed that they would continue to find ways to enhance and prolong the commercial production and carry out more diligent work to monitor, prevent and rectify any water ingress issues for the current wells. CCL also agreed to a reduction in operating costs.

Subsequently, in December 2018 and January 2019, as suggested by Primeline, CCL increased the well head production rate of the A1M well marginally, firstly, from 260 mcm/day to 280mcm/day and then to 300mcm/day (both gross raw gas production) and continued to closely monitor the chloride content of produced water.

In the meantime, Primeline continued to press CCL to carry out remedial work on the A5 well and, in January 2019, the JMC instructed CCL to carry out further work on the A5 well to restore production. CCL continued to delay such work but finally commenced coiled tubing operations on May 11, 2019 and following further delays due to equipment problems, restored gas flow from the A5 well on June 5, 2019. The well is now contributing to field production.

Primeline has also continued to press for production from well A1M to be increased and following further representations from Primeline, CCL has recently agreed to increase production from the A1M well. As a result, the current sales gas production rate is about 435mcm/day, equivalent to approximately 58% of the minimum ACQ under the Gas Sales Contract. While encouraging, this increased level of production does not generate sufficient revenue to enable Primeline to service its debt under the Syndicate Facility.

In late 2018, CCL proposed to start liquified CO_2 production and, following discussions, a CO_2 sales contract was entered into with an affiliate company of CCL (which arranges onward sale to the market). Production commenced in March 2019. Sales of the CO_2 are at a fixed price at the terminal in order to avoid financial risk to the project. However, on the basis of the anticipated sales price, the CO_2 will only achieve break even so that there will be no financial benefit to the project or Primeline. Production is continuing at a rate of circa 300-350t/day of liquified CO_2, albeit on an intermittent basis due to the limitations of the transportation method although CCL is currently taking measures to allow the production to be maintained on a continuous basis.

3.4. Arbitration against CNOOC and CCL

As previously reported, due to the events of the past few years, the Company commenced arbitration proceedings against CNOOC and CCL under Petroleum Contract 25/34 in May of 2016.

In the CNOOC Arbitration, Primeline's primary claim is that CNOOC and CCL have committed multiple material breaches of Petroleum Contract 25/34 which entitle Primeline to relief, including termination of the contract and other related arrangements, which claim for termination is to be determined by the tribunal in its final award. The amount of damages claimed is RMB3.48b (CAD$691m). If such claim for termination is not upheld, Primeline's alternative claim is for damages arising from each of CNOOC and CCL's breaches of Petroleum Contract 25/34 and related agreements on the basis that the contract, and Primeline's interest in LS36-1, continue in effect. The alternative cumulative claim for damages for various individual breaches is circa RMB2.9b (CAD$576m). Primeline believes CNOOC and CCL have a significant conflict of interest in relation to their dealings with Zhejiang Gas in that CNOOC has a 30% ownership interest in Zhejiang Gas in addition to its wider commercial relationship which is believed by Primeline to be the underlying reason for CNOOC and CCL's committing the above breaches contrary to

the provisions of Petroleum Contract 25/34 and PRC law (including the principles of good faith).

As part of their defence and counterclaim in the CNOOC Arbitration, CNOOC and CCL counterclaimed against Primeline for in the order of RMB400 million and served a notice purporting to terminate Petroleum Contract 25/34 with effect from January 15, 2018, (such notice of termination subsequently being confirmed by the tribunal to be subject to determination by the final award of the tribunal).

The final hearing of the CNOOC Arbitration took place in Singapore on September 10-14 and 17-21, 2018 and then in Hong Kong on October 30, 2018. The parties then submitted two rounds of post hearing closing statements and subsequently filed submissions as to costs of the CNOOC Arbitration on January 21, 2019. The procedures for the arbitration have therefore been completed and the parties are waiting for the final award.

Primeline's lawyers contacted the Tribunal on March 14, 2019 with regard to the timing of the award. The Tribunal replied on March 16, 2019, saying the Tribunal is diligently working on the award and making good progress, however, based on the complexity of the case, the Tribunal will endeavor to issue the award before the end of the summer. Based on such relatively firm reply, Primeline's lawyers consider the Tribunal will issue the award before August 31, 2019.

The Company's management believes the terms of Petroleum Contract 25/34 and the associated agreements entered into in relation to the development will be upheld and the Company's rights will be protected. The Company expects that the disputes with CNOOC and CCL will be resolved to the Company's satisfaction.

3.5. Bank Finance

The Syndicate has been extremely supportive of Primeline, particularly during the period following commencement of the CNOOC Arbitration and, in November 2016, agreed to Company's application to amend the capital repayments and to reduce the interest rate margin payable in relation to the Syndicate Facility.

As a result of the significantly reduced production and revenue from September 2018 referred to above, whilst Primeline was able to maintain interest payments in relation to the Syndicate Facility, it was not able to make payments of principal in accordance with the agreed amortisation schedule, which was geared to the anticipated production and revenue. Primeline informed the Syndicate of the reduction in production and operational forecasts made by CCL and, in November 2018, the Syndicate agreed to an adjustment of the principal repayment due in November 2018 so that part of that principal repayment was deferred and added to the principal repayment due in May 2019, with the balance being paid at that time. This rescheduling of the Syndicate Facility was agreed in view of the abnormal operating conditions and the schedule of the CNOOC Arbitration, as it was then anticipated that the award would be available prior to the May principal repayment.

However, due to the continuation of the reduced cash flow referred to above, Primeline was unable to effect payment of the increased principal repayment instalment due on May 20, 2019. Primeline applied to the Syndicate for a further adjustment in order that the principal repayment due in May 2019 be deferred to November 2019, after the now expected date of the award in the CNOOC Arbitration. Unfortunately,

the Syndicate was unable to approve such further adjustment of the repayment plan. As a result, due to the decreased revenue, Primeline was unable to effect full repayment of the principal amount due on May 20, 2019 (making only a partial repayment in the amount of US$5m) so that a default under the terms of the Syndicate Facility has now occurred. The position of Primeline is that its inability to repay the principal instalment is a direct result of decreased revenue which is, in turn, due to the various defaults by CCL and CNOOC which form the basis of the claims made by Primeline in the CNOOC Arbitration. As a result of the default, the entire amount owing under the Syndicate Facility as of March 31, 2019 of RMB 1,119,712,511 (CAD$222,341,642) has been reclassified on the Company's balance sheet as a current liability.

However, following the default, the Syndicate indicated that, notwithstanding the default, they did not intend to take enforcement action and confirmed in writing that they would endeavor to continue to support Primeline in order to maintain production and normal operations until the award in the CNOOC Arbitration has been made. Based on that indication of support (which was announced to the market) Primeline will endeavour to maintain normal operations whilst waiting for the award.

3.6. Corporate Finance

On August 14, 2015, Primeline issued US$10 million principal amount Tranche A Convertible Bonds (the **''Tranche A Bonds''**) to GRF Prime Limited ("**GRF**"), a resources fund managed by GEMS Investment Management Limited of Hong Kong, and then issued US$8 million principal amount Tranche B Convertible Bonds to GRF on November 10, 2015 (the **"Tranche B Bonds"**), in order to fund the exploration work relating to Block 33/07. The term of the Bonds was three years, extendable at the option of the bondholder for two one-year periods. Interest was payable quarterly at 7% per annum, of which 4.5% was payable 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 were convertible, at the option of the bondholder, 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 per share (Tranche A Bonds) and CAD$0.85 per share (Tranche B Bonds).

The Tranche A Bonds were due for repayment on August 14, 2018. On August 14, 2018, the Company redeemed the Tranche A Bonds in accordance with their terms. Redemption of the Tranche A Bonds was funded by a loan of US$11,300,000 from Primeline International (Holdings) Inc. (''**PIHI**''), a company wholly owned by Mr. Victor Hwang, who is the Company's President, Chairman and majority shareholder. The Tranche A Bonds were redeemed for an amount equal to their principal amount together with a premium calculated in accordance with their terms. PIHI's loan was secured by the issuance by the Company of US$11,300,000 principal amount of bonds (the "**New Bonds**") having the same terms as the Tranche A Bonds, except that the New Bonds are deemed to have been issued on August 14, 2018 and are for an initial period of one year, extendable for a further year at the option of the holder. The issuance of the New Bonds was approved by the TSX-V on September 17, 2018.

The Tranche B Bonds were due for repayment on November 13, 2018. The redemption amount due including the redemption premium amounted to US$9,301,000, which the Company repaid in full to GRF in accordance with their terms. Payment of the redemption amount of the Tranche B Bonds was funded by a loan of US$9,301,000 from PIHI. PIHI's loan is secured by the issuance by Primeline of

US$9,300,000 principal amount of bonds (the **"New B Bonds"**) having the same terms as the Tranche B Bonds except that the New B Bonds are deemed to have been issued on November 12, 2018 and are for an initial period of one year, extendable for a further year at the option of the holder. The issuance of the New B Bonds was approved by the TSX-V on December 11, 2018.

3.7. Exploration

The Company's strategy was 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, on the basis of the current production from LS36-1, the production infrastructure has spare capacity. Such spare capacity was anticipated to allow the Company and CCL to capitalise on its access to the Chinese gas market through exploration in the remainder of the Lishui Basin.

However, as previously reported, Primeline has not as yet been able to identify any technically and commercially viable prospects immediately ready to be drilled in the existing 3D seismic area within the contract area for Petroleum Contract 33/07. Primeline has however identified two areas where structural and stratigraphic exploration leads have been indicated by the existing 2D seismic data but the potential in these leads requires further evaluation in order to establish any drilling targets. Accordingly, at the JMC meeting on December 1, 2017, Primeline proposed that the next step in the exploration programme should be to acquire 3D seismic over these two exploration leads after which the data would be assessed to make the decision on whether these leads are good drillable prospects. An outline programme of 400 km2 of 3D seismic was presented to the JMC.

The second phase of exploration under Petroleum Contract 33/07 provides for a work programme to drill one exploration well and expired on April 30, 2018. Primeline thus requested that CNOOC agree with Primeline that with respect to the second phase: (a) a 3D seismic programme of a minimum area of 400 km2 be substituted for the exploration well and (b) the expiry date for the second exploration phase of April 30, 2018 be extended to April 30, 2019 in order to provide time to complete the proposed revised work programme. However, CNOOC did not agree to such requested extension and Primeline suggested that the matter be suspended until after the result of the CNOOC Arbitration in relation to Petroleum Contract 25/34 is known. If CNOOC does not agree to the requested extension, CNOOC may take action to terminate Petroleum Contract 33/07 and Primeline's interest in Block 33/07 with effect from April 30, 2018. However, Primeline has set out in the CNOOC Arbitration principles of claims against CNOOC under Petroleum Contract 33/07 and, if CNOOC were to take action to terminate that contract, then such action would be robustly defended and a counterclaim made.

There is a potential penalty, in the amount of up to US$ 7million, under Petroleum Contract 33/07 in respect of Primeline's failure to complete the agreed work plan, but, as referred to above, Primeline has a reserved claim in the CNOOC Arbitration relating to Block 33/07 in the amount of approximately RMB312m as Primeline's decision to enter into Petroleum Contract 33/07 was based on certain undertakings by CCL on the performance of the LS36-1 development, made at the time when CNOOC persuaded Primeline to move the exploration work into a separate Petroleum Contract. Failure to resolve this issue with CNOOC may lead to the acceleration of the reserved claim. It is for this reason that Primeline suggested to CNOOC that the matter be suspended until after the result of the CNOOC Arbitration in relation to Petroleum Contract 25/34 is known. Management is carefully managing this issue.

3.8. Reserves and Resources

The Company appointed McDaniel and Associates Consultants Limited ("McDaniel") of Calgary to update the independent evaluation of its assets, including LS36-1 and Block 33/07. McDaniel is one of the world's leading petroleum consulting firms specializing in geological studies, reserves evaluations, resource assessments, economic evaluations and petroleum engineering studies.

McDaniel has been the independent engineering auditor for the Company since 2007 and has seen the progress of LS36-1 from feasibility study, Overall Development Programme **("ODP"),** and construction through to final completion and production. They have reviewed the full current development status, including the engineering, development drilling and commercial progress, as well as the ODP and the Gas Sales Contract, its predecessor agreements and the settlement arrangements as at March 31, 2019 and have updated their evaluation of the natural gas and natural gas liquid reserves located in LS36-1, as well as the prospective resources in Block 25/34 and Block 33/07, in accordance with the standards set out in Canadian National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook ("**COGEH")**. The full report is dated June 18, 2019.

At the effective date of March 31, 2019, the key estimates by McDaniel for LS36-1 are as follows:

Summary of Reserves (1) (2)

Reserve Category	Natural Gas Reserves Property Gross MMcf	Natural Gas Reserves Company Gross MMcf	Natural Gas Reserves Company Net MMcf	LPG Reserves (3) Property Gross Mbbl	LPG Reserves (3) Company Gross Mbbl	LPG Reserves (3) Company Net Mbbl
Proved Developed Producing Reserves	13,895	6,809	7,025	432	212	218
Proved Developed Reserves	13,895	6,809	7,025	432	212	218
Proved Undeveloped Reserves	-	-	(0)	-	-	(0)
Total Proved Reserves	13,895	6,809	7,025	432	212	218
Probable Reserves	3,098	1,518	1,511	96	47	47
Proved Plus Probable Reserves	16,994	8,327	8,536	529	259	265
Possible Reserves	5,529	2,709	2,708	172	84	84
Proved + Prob. + Poss. Reserves	22,522	11,036	11,243	700	343	350

Reserve Category	Condensate Reserves Property Gross Mbbl	Condensate Reserves Company Gross Mbbl	Condensate Reserves Company Net Mbbl	BOE Reserves (4) Property Gross Mbbl	BOE Reserves (4) Company Gross Mbbl	BOE Reserves (4) Company Net Mbbl
Proved Developed Producing Reserves	150	73	77	2,898	1,420	1,467
Proved Developed Reserves	150	73	77	2,898	1,420	1,467
Proved Undeveloped Reserves	0	0	0	0	0	0
Total Proved Reserves	150	73	77	2,898	1,420	1,467
Probable Reserves	87	43	44	700	343	343
Proved Plus Probable Reserves	237	116	121	3,598	1,763	1,809
Possible Reserves	79	39	39	1,172	574	574
Proved + Prob. + Poss. Reserves	315	155	160	4,770	2,337	2,383

- Total Property Gross Proved Plus Probable Reserves of 16.99 bcf of natural gas and 0.77 MMbbl of LPG and condensate which translates to Company Net Reserves of 8.536 bcf of gas and 0.38MMbbl of LPG [3] and condensate;
- Total Property Gross Proved Plus Probable barrels of oil equivalent ("**boe**")[4]of 3.60 MMbbl which translates to Net Company Reserves of 1.81MMbbl; and
- Total Property Gross Proved Plus Probable Plus Possible boe[4] for the project is 4.77 MMbbl, which translates to Net Company boe Reserves of 2.38 MMbbl .

(1) Company Gross reserves are based on Company working interest share of the reserves.
(2) Company Net reserves are based on Company share of total Cost and Profit Oil and due to repayment of past costs are greater than Company Gross.
(3) Barrels of LPG are based on density of Propane
(4) Based on gas/boe conversion of 6 to 1 and LPG/boe conversion of 1 to 1. Boes may be misleading, particularly if used in isolation. A boe conversion of 6 McF gas:1bbl oil and 1bbl LPG:1bbl oil is based on an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead.
(5) Company Share of Net Present Values are after the deduction of Chinese Corporation Tax.

Under the reporting definitions, there is a 90% probability that the quantities actually recovered will be equal to or exceed the Proved Reserves, and a 50% probability that the quantities actually recovered will be equal to or exceed the Proved plus Probable Reserves. Possible Reserves are those additional reserves that are less certain to be recovered than Probable Reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the Proved plus Probable plus Possible Reserves.

In addition to the evaluation of the reserves, McDaniel also evaluated the prospective resources in the LS36-1 Field itself and in the 3D area surrounding the LS36-1 Gas Field. The prospective resources in the prospects and reservoir layers in the field itself are estimated to have a very high chance of success for the top 4 layers of reservoir (73-50%, with an average of 68%) since they were drilled and confirmed as gas reservoir, although they are tighter gas reservoir compared to the top reservoir that is currently producing. McDaniel commented "In our opinion, there is a good chance that some of these lower permeability, prospective formations can be successfully developed at the LS36-1 location especially given the significant advancements made by the oil and gas industry in exploiting tight gas over the last few years".

Prospective Resources - Natural Gas

		Prospective Resources - Unrisked (1)				Chance	Chance	Risked Pro. Res.
		Low	**Best Est.**	**Mean**	**High**	**of Disc.**	**of Dvpmt**	**Mean**
Prospect	**Zone**	MMcf	MMcf	MMcf	MMcf	**% (4)**	**% (5)**	MMcf (2)
LS36-1	Paleocene - M1-0	2,740	5,436	6,301	11,055	73	100	4,593
LS36-1	Paleocene - M1-1 South	1,716	3,936	4,729	8,745	73	100	3,447
LS36-1	Paleocene - M2	4,942	14,300	18,929	38,222	60	100	11,357
LS36-1	Paleocene - M3	14,308	31,325	37,045	67,044	70	100	25,932
LS36-1	Paleocene - L1	8,347	23,808	32,791	68,497	50	100	16,395
LS36-1	Paleocene - L2	2,353	5,271	6,448	11,988	40	100	2,579
LS30-8	Paleocene - M2	9,190	27,006	35,747	72,219	17	90	5,405
LS36-1 Development Area (Sub-total)		**43,595**	**111,081**	**141,989**	**277,770**			**69,709**

(1) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.
(2) These are fully risked prospective resources that have been risked for chance of discovery and for chance of development.
(3) The Unrisked Total is not representative of the Portfolio Unrisked Total and is provided to give an indication of the resources range assuming all prospects are successful.
(4) The LS23-2 N & S total prospect chance of discovery takes into account the inter-dependency between zones.

(5) The chance of development is defined as the probability of a project being commercially viable. Quantifying the chance of development requires consideration of both economic contingencies and other contingencies such as legal, regulatory, market access, political, social license, internal and external approvals and commitment to project finance and development timing. As many of these factors are extremely difficult to quantify, the chance of development is uncertain and must be used with caution.

McDaniel's evaluation of the total mean prospective resources in these 4 layers in the field and immediate vicinity was 141 bcf natural gas and risked prospective resources mean of 69.7 bcf. When adding the prospects in the nearby 3D seismic data area in Block 33/07, the total property mean prospective resources is 502 bcf (Company gross 246 bcf) and risked mean prospective resources is 110 bcf (Company gross 53.9 bcf assuming CCL participation at 51%).

For the prospective resource in the nearby prospects, McDaniel commented "The development of the LS36-1 Field provides an infrastructure hub in the area which may be utilized in any development of the nearby prospects; there is spare capacity in this infrastructure to accommodate future expansion. It is envisaged that development of these prospects will either be by wells drilled from the existing platform using the three spare well slots on the platform, by subsea wells or using a well head platform with all processing at the infrastructure hub. Incremental development costs will therefore be low and so that the economics for any additional resources which may be discovered within LS36-1 Field itself or in the nearby identified prospects would be significantly enhanced".

Based on the terms of the Gas Sales Contract and McDaniel's view of the by-product prices, McDaniel estimates

Summary of Company Share of Net Present Values After Tax (1) (2) (3) (4) (5)

			$M US Dollars		
Reserve Category	0.0%	5.0%	10.0%	15.0%	20.0%
Proved Developed Producing Reserves	45,396	42,129	39,357	36,981	34,925
Proved Developed Reserves	45,396	42,129	39,357	36,961	34,925
Proved Undeveloped Reserves					
Total Proved Reserves	45,396	42,129	39,357	36,981	34,925
Probable Reserves	13,116	11,107	9,538	8,295	7,296
Total Proved Plus Probable Reserves	58,512	53,236	48,896	45,276	42,221
Possible Reserves	18,606	14,939	12,248	10,231	8,689
Total Proved + Prob. + Poss. Reserves	77,119	68,175	61,143	55,507	50,910

(1) Company Gross reserves are based on Company working interest share of reserves.
(2) Company Net reserves are based on Company share of total Cost and Profit Oil and due to payment of past costs are greater than Company Gross
(3) Barrels of LPG are based on the density of Propane
(4) Based on gas/boe conversion of 6 to 1 and the LPG/boe conversion of 1 to 1
(5) Company Share of Net Present Values are after the deduction of Chinese Corporation Tax.

- the net present value after tax for LS36-1's Proved Plus Probable Reserves, net to Primeline, of US$53.2 million at a discount rate of 5%: and

- the net present value after tax for LS36-1's Proved Plus Probable Plus Possible Reserves, net to Primeline, of US$68.2 million at a discount rate of 5%.

The prospective resources are not valued in the same way as reserves and were not reported on in the McDaniel's report. However, based on the comments of McDaniel on the risk and concept of development for these prospective resources, management believes there is significant value in the prospective resources, if they are successfully explored and developed, due to their location and benefit from the production hub. The valuation of some of the main prospective resources was provided by McDaniel to the Company, for its auditor's accounting valuation purpose.

It should be noted that these estimates of the net present values are not estimates of fair market value nor do they reflect capital and corporate structure effects and optimisation.

3.9. Investor Relations

Frontier Consulting Ltd., part of the Merchant Capital Group, ("**FronTier**") acts as Primeline's investor relations and marketing consultant. FronTier helped Primeline with investor relations in Canada during the year under review.

4. Financial Summary

4.1. Financial Position

As at March 31, 2019, the Company held cash resources of RMB61,521,937 (CAD$12,216,429). Total assets were RMB1,674,659,776 (CAD$332,537,684).

As at March 31, 2019, the amount outstanding under the Syndicate Facility was US$166.5 million (CAD$222,341,642). The principal amount outstanding under the New Bonds was US$11.3 million (CAD$14,895,480) and under the New B Bonds was US$9.3 million (CAD$12,170,068).

4.2. Financial Performance

Selected Annual Information

The following information was extracted from the Company's consolidated audited financial statements:

Years Ended March 31, (In thousands except for net loss per share and dividend)	2019 CAD '000	2019 RMB '000	2018 RMB '000	2017 RMB '000
Total revenues	73,935	372,338	504,820	480,891
Cost of makeup gas (for 2015 and 2016 take or pay payment)	-	-	(23,190)	(95,244)

Operating and production expense	(19,290)	(97,146)	(92,427)	(77,138)
General and administrative expense	(10,997)	(55,379)	(33,073)	(23,081)
EBITDA, before exchange difference	43,865	220,905	365,647	293,199
Depletion and depreciation	(70,288)	(353,972)	(385,074)	(228,924)
Exchange difference Gain/ (Loss)	(16,545)	(83,319)	126,901	(99,319)
Bank interest expense	(14,453)	(72,785)	(75,996)	(87,428)
Makeup gas cost interest expense	(1,104)	(5,559)	(4,207)	NIL
Net profit/ (loss)	(59,883)	(301,568)	19,028	(130,530)
Per basic share	(0.304)	(1.530)	0.099	(0.700)
Per diluted share	(0.304)	(1.530)	0.099	(0.700)
Total assets	332,539	1,674,659	2,141,059	2,650,874
Total long-term financial liabilities	(34,735)	(174,923)	(1,195,128)	(1,802,159)
Cash dividends declared	-		-	-

The Company's net loss for the year ended March 31, 2019 was RMB301,567,925 (CAD$59,882,431), compared to the net profit of RMB19,027,396 for the last year.

Revenues for the year ended March 31, 2019 were RMB372,337,529 (CAD$73,935,173), which comprised RMB307 million (CAD$61 million) from Primeline's share of natural gas revenues (March 2018 – RMB426 million) and RMB65 million (CAD$13 million) from Primeline's share of by-product revenues (March 2018 – RMB79 million). This fiscal year's revenue was lower compared to last year because of the drop in natural gas and by-product production from LS 36-1 discussed in Section 3.3.

Production costs were RMB97,146,276 (CAD$19,290,365) for the year, an increase of 5.1% from RMB92,426,907 for last year due to salary increases of CCL' operations team and higher helicopter rental charges with more typhoon evaluation costs incurred. G&A expenses of RMB 55,378,619 (CAD$10,996,549) increased from RMB 33,072,688 for last year which was primarily due to the legal fees incurred in relation to the CNOOC Arbitration (See Section 3.4).

EBITDA (a non-GAAP financial measure as described in Section 3.2) before exchange difference for the year is RMB220,904,786 (CAD$43,865,129), compared to RMB365,646,824 for the last year. The decrease in EBITDA is mainly attributable to the decreased revenue (See table in Section 3.2).

The depreciation charge of RMB353,971,699 (CAD$70,288,264) relating to oil and gas properties was calculated on a unit of production basis over the proved and probable reserves of LS36-1. The decrease of RMB31,102,326 in depreciation charge from RMB385,074,025 incurred in fiscal 2018 was mainly due to the reduction of gas production quantity from 257 mmcm in last year to 210 mmcm this year (See Section 3.3).

The foreign exchange loss incurred during the year was RMB83,319,218 (CAD$16,544,722), due to the translation effects on the Company's US dollar denominated Syndicate Facility loan and convertible bonds, as a result of a weaker Chinese currency against the US dollar compared to last year when a foreign exchange gain of RMB126,900,568 was recorded.

Exploration expenditure of RMB41,795,378 (CAD$8,299,320) was incurred during the year, which was comprised mainly of technical evaluations and management of RMB245,801 (CAD$48,809), interest on the funding of exploration expenditure of RMB28,812,646 (CAD$5,721,336), project administration of RMB2,931,744 (CAD$582,157) and salaries and benefits of RMB9,522,777 (CAD$1,890,941). These amounts were capitalized as exploration and evaluation assets.

The Company's working capital deficiency as at March 31, 2019 was RMB1,371 million (CAD$272 million) compared to RMB314 million as at March 31, 2018. The increase in working capital deficiency was largely due to the decrease in cash resulting from decreased production from LS 36-1 and the reclassification of syndicated loans (see section 3.5) from non-current liabilities to current liabilities. Primeline's view is that the decrease in production is due to CCL's failure to drill for additional gas in order to maintain the production level in accordance with the design of the LS 36-1 Gas Field, and the work plan approved by the JMC in 2013. These disputes are the subject of the CNOOC Arbitration. Remediation of the working capital deficiency will likely be dependent on receipt of a favourable award in the CNOOC Arbitration, or upon Primeline persuading CCL to take measures to restore and maintain the originally designed production level. The Syndicate Banks have confirmed to the Directors that they understand the position of Primeline in the CNOOC Arbitration and will try as far as possible to support Primeline in meeting the expenses necessary to maintain its normal operations.

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

The Company's financial statements are reported under IFRS issued by the IASB. The following tables provide highlights from the Company's financial statements for the past nine quarters:

Quarter Ended	**March 31, 2019 CAD$**	**March 31, 2019 RMB**	**December 31, 2018 RMB**	**September 30, 2018 RMB**	**Jun 30, 2018 RMB**
Revenue	13,454,565	67,757,189	74,573,903	101,262,780	128,743,657
Accrued make up gas cost	NIL	NIL	NIL	NIL	NIL
Operating and production	(3,149,190)	(15,859,320)	(29,084,283)	(29,585,062)	(22,617,611)
General & Administration	(902,226)	(4,543,610)	(6,087,211)	(39,880,782)	(4,867,015)
Exchange (Loss) Gain	5,449,363	27,442,992	(2,127,893)	(49,844,465)	(60,047,852)

Depreciation	(13,015,170)	(65,544,395)	(71,228,472)	(100,565,640)	(116,633,192)
Accrued makeup gas cost interest expense	(275,228)	(1,386,049)	(1,418,663)	(1,418,663)	(1,335,866)
Finance costs	(3,756,882)	(18,919,660)	(22,471,037)	(18,297,862)	(19,933,994)
Net (Loss) Profit	(2,182,524)	(10,991,190)	(57,470,948)	(138,045,908)	(96,317,881)
Per basic share	(0.011)	(0.055)	(0.291)	(0.706)	(0.492)
Per diluted share	(0.011)	(0.055)	(0.291)	(0.706)	(0.492)
Total assets	332,537,684	1,674,659,776	1,714,466,500	1,919,670,742	1,959,482,927

Quarter Ended	**Mar 31, 2018 RMB**	**Dec 31, 2017 RMB**	**Sept 30, 2017 RMB**	**Jun 30, 2017 RMB**	**Mar 31, 2017 RMB**
Revenue	134,118,879	126,920,570	108,628,681	135,152,008	299,543,547
Accrued cost of makeup gas	NIL	NIL	NIL	(23,190,491)	(95,243,492)
Operating and production	(19,779,949)	(28,101,366)	(22,652,170)	(21,893,422)	(12,498,661)
General & Administration	(16,861,945)	(8,173,961)	(3,007,542)	(5,029,240)	(10,085,423)
Exchange Gain/(Loss)	40,143,762	30,371,575	36,503,781	19,881,450	25,515,809
Depreciation	(103,736,153)	(95,513,931)	(90,429,474)	(95,394,467)	(56,036,848)
Accrued makeup gas cost interest expense	(4,207,367)	NIL	NIL	NIL	NIL
Finance costs	(17,829,115)	(21,231,789)	(21,592,679)	(23,585,021)	(20,242,949)
Net income (loss)	12,296,885	7,012,869	10,538,316	(10,820,673)	132,774,029
Per basic share	0.063	0.037	0.055	(0.057)	0.701
Per diluted share	0.063	0.037	0.055	(0.057)	0.701
Total assets	2,141,059,500	2,191,582,314	2,439,027,719	2,461,767,477	2,650,873,830

The Company's results for the quarter ended March 31, 2019 were a loss of RMB10,991,190 (CAD$2,182,524) compared to the profit of RMB12,296,885 for the same quarter last year. The variance was mainly due to the reduced production from September 2018 as mentioned above. Exploration expenditures of RMB8,148,894 (CAD$1,618,128) were incurred during the quarter, which were comprised mainly of technical evaluations and management of RMB13,049 (CAD$2,591), interest on funding of deferred exploration expenditures of RMB3,153,649 (CAD$626,221), project administration of RMB866,614 (CAD$172,084) and salaries and benefits of RMB4,082,342 (CAD$810,632). These

amounts were capitalized as exploration and evaluation assets.

5. Risk and 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 in respect to safety and the environment that require continuous vigilance. However, the production operations in relation to LS36-1 are carried out by CCL which accordingly has primary responsibility for such operations. In relation to exploration operations under Petroleum Contract 33/07, the Company seeks to minimise the operational risks by carefully planning 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 and Production Risk

Primeline's results of operations and financial condition are dependent on the prices received for its natural gas, crude oil and by products, including LPG, light oil and condensate production. Lower prices will adversely affect the value and quantity of Primeline's oil and gas reserves. All of Primeline's natural gas production is currently sold to Zhejiang Gas. Therefore, the majority of Primeline's revenue is currently dependent on the one contract, being the Gas Sales Contract. The Gas Sales Contract is between CCL (as agent for Primeline and 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 alter or 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. If the CNOOC Arbitration is concluded adversely to the Company's expectations, that would likely have a material adverse effect on the Company's business, financial condition and cash flow (See Section 3.4).

Due to the decrease in production from LS 36-1 (see Section 3.3), unless the terms of the Gas Sale Contract are revised as a result of the current discussions between CCL and Zhejiang Gas (see section 3.3.2), Primeline may be liable for its share of a 10% penalty, and may be unable to fulfill its delivery obligations

under the Gas Sales Contract. The position of Primeline is that such potential default under the Gas Sales Contract is a result of the various failures by CCL which are the subject of the CNOOC Arbitration and that accordingly CCL should be liable for any such penalty in the event that Zhejiang Gas makes any claim in respect thereof.

5.2.3 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.

5.2.4 Risks Relating to the CNOOC Arbitration

Primeline is engaged in the CNOOC Arbitration (see Section 3.4). While Primeline believes its legal position is good and that it will be successful in the CNOOC Arbitration, the outcome of such proceedings is inherently uncertain and no assurance can be given of Primeline's success. Primeline may not be successful in the CNOOC Arbitration. CNOOC and CCL may be successful in their counterclaim, so that Petroleum Contract 25/34 is terminated without substantial damages being received, thus depriving Primeline of its only source of revenue. If Primeline is successful in the CNOOC Arbitration, it may nonetheless be unable to enforce the award of the arbitral tribunal. If either of these events were to occur, that would likely have a material adverse effect on Primeline's business, financial position and cash flow.

5.2.5 Volatility of the Market Price of the Shares

The market price of the 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 developments in the CNOOC Arbitration, 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.

5.2.6 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 Primeline, Mr. Hwang, and the Chief Executive Officer of Primeline, Mr. Andrew Biggs. Accordingly, the loss of these key executives or one or more other key members of management could have a material adverse effect on Primeline.

5.2.7 Exchange Rate Risk

Primeline is exposed to currency risk to the extent that it holds cash deposits primarily denominated in RMB, with a small amount in US$, whereas accounts payable by reference to various currencies are denominated primarily in US$ and RMB. For instance, the Syndicate Facility is denominated in US$, and serviced from cash income from operations in RMB. Therefore, fluctuation between exchange rates for US$, in which Primeline holds the majority of its debt instruments, and RMB, in which Primeline has income, 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 this risk.

5.2.8 Exploration Risk

Oil and natural gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. If the second exploration phase of Petroleum Contract 33/07 is extended (see Section 3.7), 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. In particular, 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.

5.2.9 Reservoir Performance Risk

Lower than projected reservoir performance at LS36-1, such as that recently experienced (see Section 3.3), 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. In order to maintain the Company's future production of natural gas and by-products 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. In order 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.

5.2.10 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 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 a number of 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 particular 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.

5.2.11 Unplanned Shutdowns and Pipeline Interruptions

Unplanned shutdowns and closures of facilities or platform may limit and 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.

5.2.12 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.

5.2.13 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. Larger companies have the ability to manage their risk by diversification. However, Primeline currently lacks diversification, in terms of both the nature and geographic scope of business. As a result, factors affecting the oil and gas industry or China in general or Blocks 25/34 and 33/07 in particular are likely to impact Primeline more acutely than if its business were more diversified.

5.2.14 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.

5.2.15 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, foreign owned companies, which, in particular, 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.

5.2.16 Risks Related to Primeline's Controlling Shareholder

Primeline is controlled by Mr. Hwang, its Chairman and President, who directly and indirectly through PIHI owns Shares representing approximately 65.5% of the votes attaching to all of the Shares. Mr. Hwang has the ability to 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.

5.2.17 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 licenses to operate.

5.2.18 Partner Misalignment

CCL, as joint venture partner, operates all of Primeline's producing assets. Primeline is at times dependent upon CCL 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. Primeline is currently involved in a dispute with its partners CNOOC and CCL. See Section 3.4.

5.2.19 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. In particular, 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 as a result 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 as a result 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 relatively 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 will have to meet higher environmental quality standards as the economy of the PRC expands and its level of environmental consciousness increases in the future.

5.2.20 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. The majority of current cash balances are held at a Chinese financial institution in RMB and US$, primarily for the purpose of debt servicing requirements relating to the Syndicate Facility.

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

	March 31, 2019	March 31, 2018
Cash and cash equivalents of:		
- CAD$ '000	1	1
- US$ '000	376	8,220
- GBP '000	1	1
- HK$ '000	330	177
Bank loans and interest of US$ '000	(169,406)	(210,285)
Convertible bonds of US$'000	(21,075)	(18,238)

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

	March 31, 2019	March 31, 2018	March 31, 2019
	RMB'000	RMB'000	CAD$'000
- CAD$	1	1	1
- US$	(127,846)	(139,584)	(25,386)
- GBP	1	1	1
- HK$	28	14	6

5.3.2. Credit and trade receivable 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 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 is exposed to considerable credit and trade receivables risk. At March 31, 2019, no amounts owing in respect of gas delivered to Zhejiang Gas were overdue by more than 30 days. However, as referred to above (section 3.3.2), on January 10, 2018 CCL issued an invoice in relation to a take or pay shortfall in the amount of RMB50.7m on but Zhejiang Gas has refused to make payment of such invoice which remains in dispute.

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. 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. However, as noted above, the Company is currently in default under the Syndicate Facility and is reliant upon the continuing support of the Syndicate Banks to release funds to maintain normal operations, and as at the date of approval of the consolidated financial statements for the year ended March 31, 2019 there are material uncertainties in relation to liquidity risk. See Note 1 thereto. In common with businesses engaged in such activities, financing may be required in relation to any future development work and exploration commitments (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 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%. The Company does not hedge against this risk. An increase in US$ 6-month LIBOR of 0.1% would have increased interest payable in the year ended March 31, 2019 by approximately RMB2.1 million.

6. Liquidity and Capital Resources

6.1 Liquidity

The Company had a working capital deficiency of RMB1,371 million (CAD$272 million) as at March 31, 2019 compared to RMB314 million as at March 31, 2018 (See Section 4.2).

The Company's 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 and/or that it will be successful in the CNOOC Arbitration.

The CNOOC Arbitration, CNOOC's counterclaim and the possibility of termination of Petroleum Contract 25/34 pursuant to either the Company's claim in the CNOOC Arbitration or CNOOC's counterclaim, constitutes a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

In order to continue as a going concern, the Company must either successfully generate sufficient operating cash flows, or obtain an award of damages in the CNOOC Arbitration, that is in either case sufficient to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on its outstanding debts.

The principal risks in this respect are if the Company is unsuccessful in the CNOOC Arbitration but CNOOC and CCL are successful in their counterclaim, so that Petroleum Contract 25/34 is terminated without substantial damages being received thus depriving Primeline of its only source of revenue, or if revenues continue at the current reduced level or fall further as a consequence of reduced production, or if outgoings increase as a consequence of unplanned capital or operational expenditure, or if the Syndicate Banks cease to provide support to Primeline by releasing funds in order to enable it to maintain normal operations pending receipt of the award in the CNOOC Arbitration.

As set out above, since September 2018, production from LS36-1 has been substantially reduced, with the total sales gas quantity for 2019 currently forecast at the equivalent of approximately 44% of the minimum ACQ required under the Gas Sale Contract under which production from the gas field is sold. At that level of production, the gas sales revenue and Primeline's cash flow are greatly reduced and as a result, Primeline is now in default under the Syndicate Facility.

The Syndicate Banks have confirmed to the Directors that a default has occurred under the Syndicate Facility and requested that Primeline should use its best endeavours to fulfil its contractual obligation by repaying the outstanding amount of the principal instalment due on May 20, 2019 as soon as possible. The Syndicate Banks have confirmed that they understand the position of Primeline in the CNOOC Arbitration and will try as far as possible to support Primeline in meeting the expenses necessary to maintain its normal operations.

The Directors have reviewed the Company's financial projections including sensitivities for at least the next 12 months. Based on their assessment thereof, and on the confirmation referred to above from the Syndicate Banks, the Directors have, at the time of approving the 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.

The confirmation and indication of support from the Syndicate Banks referred to above is, however, not binding and, whilst the Directors believe that it is in the interests of the Syndicate that normal operations of the Company should be maintained at least until the award in the CNOOC Arbitration is given, so that it is likely that such support will continue, there can be no guarantee either that the Company will continue to receive the benefit of operating support from the Syndicate Banks until such time as an award is given

in the CNOOC Arbitration or that the Company will be successful in the CNOOC Arbitration.

As at March 31, 2019, the Company had total assets of RMB1,675 million (CAD$333 million) (March 31, 2018 – RMB2,141 million), which were financed by net shareholders' equity of RMB45 million (CAD$9 million) (March 31, 2018 – RMB336 million) and Syndicate Facility of RMB1,120 million (CAD$222 million) (March 31, 2018 – RMB1,315 million). The decrease in total assets from fiscal 2018 is largely due to the large deprecation charge of RMB 353,971,699.

As at March 31, 2019, the Company had an accumulated deficit of RMB821 million (CAD$163 million) (March 31, 2018 – RMB520 million).

During the year, the cost incurred in relation to exploration and evaluation assets was RMB42 million (CAD$8 million). As at March 31, 2019, the total amount of exploration and evaluation assets costs incurred and capitalized amounted to RMB547 million (CAD$109 million).

6.2 Capital Structure

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development operations under 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, 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.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends. Additional information regarding capital management is disclosed in note 5.2 of the annual consolidated financial statements as at March 31, 2019.

There are no significant exploration and development, or research and development expenditures required in the current financial period to maintain properties or agreements in good standing above and beyond the operating expenditures for LS36-1, which are expected to be funded from cash flow from operations on that asset. The Company previously had an obligation to drill one exploration well to a depth of 2500 m. on or before April 30, 2018 as the second exploration phase commitment under Petroleum Contract 33/07, but the current position is that the second exploration phase under Petroleum Contract 33/07 ended on April 30, 2018 without that obligation being fulfilled. The Company has requested an alternative work plan comprising a further 3D seismic survey be substituted for the obligation to drill the well and that the second phase of exploration be extended to April 30, 2019, but the current position is that CNOOC has not yet agreed to this request. The Company has suggested that the matter be suspended until after the result of the CNOOC Arbitration in relation to Petroleum Contract 25/34 is known. It is not possible at

this present time to estimate what, if any, capital expense might be involved under any exploration programme under Petroleum Contract 33/07 (See Section 3.7).

6.3 Transactions with Related Parties and Directors

During the year ended March 31, 2019, 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. Mark Norman, and Mr. John Li were RMB4,629,768 (CAD$919,334) (March 31, 2018 – RMB5,088,815 which includes fees paid to Mr. Stuart Joyner who left the Company in July 2017). Share based payment of RMB2,254,628 (CAD$447,702) (March 31, 2018 – RMB1,123,064) was recognized for the 9,300,000 (March 31, 2018 – 4,750,000) share options granted to these key management personnel.

ii. Share based payment of RMB146,044 (CAD$29,000) (March 31, 2018 – Nil) was recognized for the 500,000 (March 31, 2018 – Nil) share options granted to Mr. Brian Chan, an executive director of the Company.

iii. Fees and benefits paid or accrued to non-executive directors being Mr. Peter Kelty, Mr. Alan Johnson and Mr. Vincent Lien were RMB384,570 (CAD$76,364) (March 31, 2018 – RMB385,240) and share based payment of RMB438,132 (CAD$87,000) (March 31, 2018 – Nil) was recognized for the 1,500,000 (March 31, 2018 – Nil) share options granted to these non - executive directors.

iv. The Company issued the New Bonds and the New B Bonds to a company wholly owned by Mr. Victor Hwang, the Company's President, director and majority shareholder (See Section 3.6).

v. The Company made a provision of RMB3,317,850 (CAD$658,826) in respect of a departure bonus which is payable to Dr. Ming Wang pursuant to the employment termination agreement entered into with him and which was calculated in accordance with the terms of his employment agreement. Dr. Wang resigned as the Company's chief executive office on March 31, 2019 and remains as a company director. The termination agreement entered into between the Company and Dr. Wang provided that such departure bonus and his director's fee will only be payable when the award in the CNOOC Arbitration is given.

6.4 Outstanding Share Data

As at June 28, 2019, there are 208,559,959 Shares and 17,270,000 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 3 to the consolidated financial statements for the year ended March 31, 2019. 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 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.

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 less estimated salvage values, is charged to DD&A over the life of the proved and probable 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 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.

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.

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 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.

No charge has been recognised in relation to income tax because the Company had unutilised tax losses in relation to development costs. The Company considers that the realisation of income tax benefits related to its deferred income tax assets is uncertain and cannot be considered to be more likely than not. Accordingly, no deferred income tax asset has been recognised.

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

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 existence of life time expected credit losses relating to that asset. Objective evidence used by the Company to assess impairment of financial assets includes historical collection rates for loans and receivables and calculations of net present value of estimated future cash flows. This 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.

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, including in relation to exploration and evaluation activities. 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.

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 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.

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 or not the customer takes delivery. Where there is a 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.

8. Recent Accounting Standards and Changes in Accounting Policies

8.1 Recent Accounting Standards

The following new standards, amendments to standards and interpretations became effective and have been adopted by the Company.

*(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 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.

IFRS 9 introduced three new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) the impairment of financial assets and 3) general hedge accounting.

Reclassification of financial assets into the IFRS 9 categories has had no overall impact on their respective measurement bases.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39 – Financial Instruments: Recognition and Measurement. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised. IFRS 9 allows a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets. There was no impact of the change in impairment methodology on the carrying value of trade receivables.

The Company currently does not apply hedge accounting and has not done so in previous periods.

*(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. Natural gas revenue is currently recognised on delivery to the customer pipeline and as Primeline considers this to be the point at which the customer obtains control of the gas this remains the appropriate revenue recognition point under IFRS 15.

Take or pay revenue is currently recognised when volumes of gas are delivered and measured at the contract price. Revenue relating to volumes not taken, but paid for, is generally recognised at the end of the stated take-or-pay period if the customer is not able to make-up volumes in future take-or-pay periods. If the customer is entitled to make-up volumes in future take-or-pay periods, revenue is recognised either when the payment is applied to future volumes, or the right to make-up volumes expires. Although IFRS15 means that entities may be are able to recognise revenue in relation to the minimum enforceable amounts under take or pay contracts where contractual rights to receive make-up gas are not exercised in a period earlier than is currently the case, this did not result in any adjustments on adoption by the Company and is not expected to have a material impact on the future reported results of the Company.

(iii) Forthcoming standards - *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. The Company's lease commitments are disclosed in Note 14 (b) of the financial statements. The impact of recognising those operating lease commitments on the statement of financial position is not expected to be material.

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 3 to the consolidated financial statements for the year ended March 31, 2019, prepared in accordance with IFRS.

9. Subsequent Events

1. As a result of revenue being significantly reduced due to the reduction in production from the LS 36-1 gas field since September 2018, Primeline was unable to effect full repayment of the principal instalment due on May 20, 2019 and, as a result, is now in default under the terms of the Syndicate Facility. However, the Syndicate Banks indicated that, notwithstanding the default, they did not intend to take enforcement action and confirmed in writing that they would endeavor to continue to support Primeline in order to maintain production and normal operations until the award in the CNOOC Arbitration has been made. Based on that support (which was announced to the market) Primeline will endeavour to maintain normal operations whilst waiting for the award.

2. The Company made a partial repayment of the principal instalment in the amount of US$5 million to the Syndicate Banks on May 21, 2019.

10. Controls and Procedures

The Chief Executive Officer and Interim Chief Financial Officer of the Company will file a Venture Issuer

Basic Certificate with respect to the financial information contained in the unaudited quarterly interim consolidated 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