Primeline Energy Holdings Inc.
Management Discussion and Analysis
September 30, 2017
Primeline Energy Holdings Inc. (TSX Venture-PEH) (“the Company”)

Contents

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 action with China National Offshore Oil Corporation **("CNOOC"),** a Chinese State oil company, such as Primeline's belief that it will be successful in obtaining an injunction restraining CNOOC and CNOOC (China) Ltd. ("**CCL"**) from giving effect to the purported termination of Petroleum Contract 25/34, that it will ultimately be successful in the CNOOC Arbitration, and that Primeline's banking Syndicate will not demand immediate repayment of all amounts owed under the Syndicate Facility. However, they also relate to issues which might arise before the conclusion of the arbitration, such as: the financing of, and the results of, the Company's exploration programme; assumptions that production and sale from LS36-1 will proceed in accordance with 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. Primeline may not obtain the injunction it is seeking, and, if not, CNOOC and CCL's termination of Petroleum Contract 25/34 as of January 15, 2008 will be effective. If Primeline does obtain the injunction it is seeking, it nevertheless may ultimately be unsuccessful in the CNOOC Arbitration. If it is successful in the CNOOC Arbitration, Primeline may not be able to enforce the award of the arbitral tribunal. In any of those events, Primeline's banking Syndicate may demand immediate repayment of all amounts owed under the Syndicate Facility. This 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. Sufficient cash flow and/or external finance may not be available to the Company for exploration and it may then be in breach of its obligations under Petroleum Contract 33/07 (see Section 2). Any such event 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 quarterly unaudited consolidated financial statements for the quarter ended September 30, 2017, which are prepared in accordance with International Financial Reporting Standards **("IFRS")** as issued by the International Accounting Standards Board **("IASB").**

1.3. Date

The effective date of this MD&A is November 29, 2017. 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 quarters ended September 30, 2017 and 2016 and the Company's financial condition at September 30, 2017 and March 31, 2017.

All monetary amounts in this MD&A are expressed in Chinese Yuan Renminbi **("RMB")** unless otherwise noted. Canadian dollar **("CAD$")** equivalents are provided for information only. Such presentation in CAD$ is not in accordance with IFRS and should not be construed as a representation that the RMB amounts shown could be readily converted, realized or settled in CAD$ at the date of these financial statements or any other date. The exchange rate of CAD$ to RMB published in the South China Morning Post on September 30, 2017 was RMB 5.325 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 first exploration phase under Petroleum Contract 33/07 expired in April 2016 when Primeline entered into the second exploration phase, which is for a period of two years, in order to enable it to continue with its exploration operations in the Lishui Basin.

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

During 2010-2014, CCL, as Operator, carried out the development work of LS36-1 including the production platform, subsea pipeline, development wells and onshore processing terminal. Trial production from LS36-1 commenced on July 8, 2014 and commercial production 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 September 30, 2017 was RMB 1,947 million (CAD$366 million) including the management charge for CNOOC's carry 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**")

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

During the quarter under review, natural gas was produced from LS36-1 with no significant technical problems and a total of approximately 61.4 million cubic metres ("**mmcm**") of natural gas was delivered to Zhejiang Gas under the Gas Sales Contract. Prior to the quarter under review, 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. Primeline also resolved its dispute with China Oilfield Services Limited ("**COSL**") but its arbitration proceedings against CNOOC and CCL continue. 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 the East China Sea in 1997. LS36-1 has now been in production and selling gas to Zhejiang Gas for approximately three years.

During the quarter ended September 30, 2017 the Company, together with its partner CNOOC has:

- produced gas from LS36-1 with no significant technical problems and delivered approximately 61.4 mmcm (Company's share is 49% or 31.1mmcm) of natural gas gross to Zhejiang Gas under the Gas Sales Contract;

In addition, the Company has:

- continued the exploration work in Block 33/07 following the 2015 drilling programme with the continuation of the post well evaluation work.

Primeline's total oil and gas revenue for the quarter under review was RMB108.6million (approximately CAD$20 million), as compared to RMB135 million (approximately CAD$25 million) for the previous quarter. EBITDA (a financial measure which does not have any standardized meaning under the 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) for the quarter was RMB86.1 million (CAD$16 million) (see the reconciliation between net loss and EBITDA below). After the substantial depreciation charge of RMB90.4 million (approximately CAD$17 million), which was partially offset by a foreign exchange gain, as a result of the changes in the RMB/US$ exchange rate, of RMB 36.5million (approximately CAD$7 million), the Company's quarterly net profit was RMB10.5 million (approximately CAD$2 million) representing a significant improvement from the net loss of RMB48 million (approximately CAD$9 million) for the same quarter of previous year. (see Section 4).

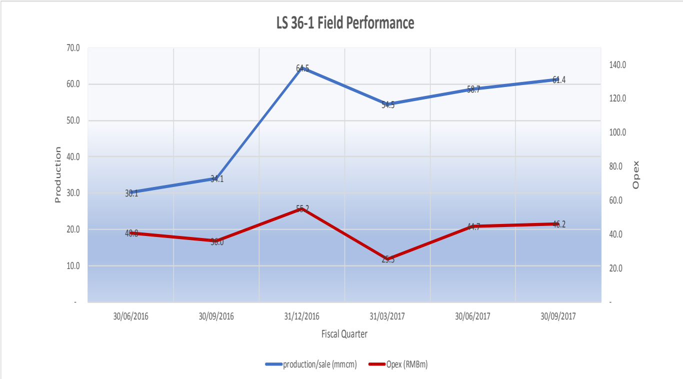
Reconciliation between Net Profit (Loss) and EBITDA of the Company as follows:

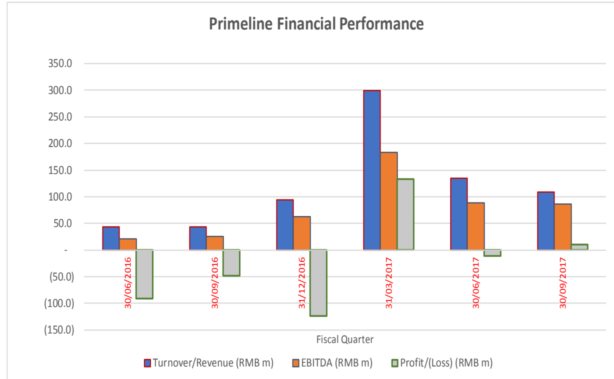
	For the quarter ended			
	September 30, 2017		September 30, 2016	
	RMB	CAD$	RMB	CAD$
Net Profit (Loss) under IFRS	10,538,316	1,979,026	(48,149,986)	(9,042,251)
Add:				
Depletion and depreciation	90,429,474	16,982,061	42,702,942	8,019,332
Bank interest expenses	19,541,616	3,669,787	23,191,269	4,355,168
Other finance costs	2,051,063	385,176	2,001,244	375,820
Foreign exchange (gain) loss	(36,503,781)	(6,855,170)	5,284,264	992,350
EBITDA	86,056,688	16,160,880	25,029,733	4,700,419

3.2. Analysis of Performance of last quarter and compared to previous quarters

The operation and financial results in the quarter under review were generally in line with or better than the Management expectation at the time.

The following charts show the results of the operation and financial performance in the past 6 quarters.





3.3. Production and Continued Development

During the quarter under review, the production facility of LS36-1 operated safely and smoothly without major technical issues and the Operator, CCL, continued with work on the development, including the completion of the development of a dock for transporting sales of by-products. The total gross gas sales for the quarter ended September 30, 2017 were 61.4 mmcm (Company's share is 49% or 30.1mmcm).

3.4. Disputes with Operator

As previously reported, due to the events in the past few years, the Company was in arbitration against Zhejiang Gas with regards to the Gas Sales Contract, which was settled on March 1, 2017. The Company is also in arbitration with CNOOC and CCL under Petroleum Contract 25/34.

Primeline had commenced arbitration proceedings against CNOOC and CCL in May 2016 under the dispute resolution provisions of Petroleum Contract 25/34 and in accordance with the UNCITRAL Arbitration Rules 1976 ("**CNOOC Arbitration**") Primeline appointed an arbitrator and on June 6, 2016 filed the formal Notice of Arbitration in accordance with the UNCITRAL Arbitration Rules 1976 and the arbitration clause under Petroleum Contract 25/34, CNOOC appointed their arbitrator on August 6, 2016 and the tribunal (3 arbitrators) was formed on August 30, 2016 and the seat of arbitration was fixed to be in Singapore. The CNOOC Arbitration includes claims in respect of CCL's breach of fiduciary duty and good faith and wrongful conduct as Primeline's agent under the Gas Sales Contract , in relation to CCL's mismanagement and failure to comply with its responsibilities as operator, which mismanagement resulted in delay of completion of the development of the LS 36-1 gas field and commencement of production, leading to loss of revenue, increased cost and the project falling below its design level, and in relation to CNOOC's position as guarantor of CCL.

At the time of the settlement of the disputes with Zhejiang Gas, CNOOC and Primeline confirmed that the CNOOC Arbitration would continue.

In accordance with the procedure as set by the tribunal for the CNOOC Arbitration, Primeline filed the Statement of Claim together with all supporting documents on April 25, 2017, in which Primeline has claimed that CNOOC and CCL have committed multiple material breaches of the Petroleum Contract 25/34 which entitle it to relief including termination of the contract and other related arrangements, which claim is to be determined by the arbitral tribunal in its final award. Primeline believes CNOOC and CCL have a significant conflict of interest in relation to their dealings with Zhejiang Gas (in that CNOOC has an ownership interest in Zhejiang Gas) which has contributed to the above breaches contrary to the provisions of Petroleum Contract 25/34 and PRC law (including the principles of good faith).

In accordance with the procedure fixed by the tribunal, CNOOC and CCL filed their Statement of Defence and Counterclaim on October 17, 2017 and the parties exchanged details of documents requested for disclosure on November 6th, 2017. Primeline is due to file its Response to the Statement of Defence and Counterclaim on or before March 26, 2018. The final hearing of the CNOOC Arbitration is scheduled for mid-September 2018.

As part of their defence and counterclaim, CNOOC and CCL have put in a counterclaim against Primeline in the order of RMB400 million, and served a notice purporting to terminate Petroleum Contract 25/34 with effect from January 15th, 2018, based on claims that Primeline should not have served a termination notice in the arbitration, was not entitled to pursue certain other claims in the arbitration and should pay disputed amounts of approximately RMB117 million.

Petroleum Contract 25/34 provides that the claimed termination of the contract by either party on grounds of alleged unremedied material breach of contract must have been judged and determined by a final award of the arbitral tribunal pursuant to the provisions set out in the contract. Therefore, the relief claimed by Primeline includes a final award to determine and confirm Primeline's right to terminate Petroleum Contract 25/34, and affiliated arrangements, and to order CNOOC and CCL to pay Primeline in the order of RMB2.19 billion, which represents Primeline's wasted expenditure in connection with the LS36-1 gas field, plus costs. 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, under which Primeline has a 49% interest in the LS36-1 gas field, continues in effect.

Primeline does not believe that CNOOC and CCL have any valid grounds on which to terminate the Petroleum Contract and the amount claimed to support their counter termination notice is far from material considering the size of the project (in the order of several RMB billions). Further, in any event, under the Petroleum Contract, any purported termination by CNOOC and CCL must be determined by final award of the arbitral tribunal in the CNOOC Arbitration, after a merits hearing. Primeline has pointed out this contractual requirement to CNOOC and CCL but it was informed by CNOOC and CCL that they intended to terminate and cease to comply with Petroleum Contract 25/34 and related agreements effective on January 15, 2018, without following the contractual mechanism for termination (i.e. without the prior determination of the tribunal by final award in the CNOOC Arbitration).

Primeline regards CNOOC and CCL's purported termination as an act constituting a further breach of Petroleum Contract 25/34.

Since CCL is the Operator and agent for sales of production from LS36-1 gas field and collects and distributes the revenue, such purported unilateral termination by CNOOC and CCL on 15 January 2018, if unrestrained, will give rise to immediate and serious financial consequences for Primeline, including under the terms of the Syndicate Facility. In particular, it will give rise to the immediate occurrence of one or more event(s) of default under the Syndicate Facility, triggering acceleration of all amounts owed. Such acceleration would likely result in Primeline's insolvency and seizure of its assets.

Primeline therefore requested the arbitral tribunal to set a hearing date at the earliest practicable time and related procedural directions for an application on its behalf for urgent interim relief from the arbitral tribunal to restrain CNOOC and CCL from giving effect to their purported termination by ceasing to comply further with the Petroleum Contract on January 15, 2018. The arbitral tribunal responded to Primeline's request and confirmed that it will hear the application for an interim injunction and the hearing date has been fixed for January 5, 2018 in Singapore. CNOOC and CCL indicated that they will oppose Primeline's application for interim relief. CNOOC and CCL have also proposed certain alternative arrangements which are not, however, workable or acceptable to Primeline. (see Section 9 Subsequent Event)

Such interim relief is sought in order to ensure that any purported termination by CNOOC and CCL cannot be effected unilaterally in the manner they intend to do but must be subject to review and determination (confirmation or rejection) by final award of the tribunal as part of the CNOOC Arbitration. Further announcement will be made to update the progress.

The Company will continue to seek a negotiated resolution of the dispute with CNOOC and CCL but, if the matters go to the completion of arbitration, the Management believes the terms of the 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 and that together with a gradually improving economic climate the Company's financial and operation setting will be improved to provide a base for future expansion.

3.5. Corporate Finance

Following the settlement of the dispute with Zhejiang Gas and restoration of normal production and cash flow, on April 11, 2017 Primeline appointed CLSA Singapore Pte Ltd (together with its associates, "CLSA") for the provision of strategic and financial advisory services.

Due to the uncertainty created by the CNOOC Arbitration, Primeline and CLSA agreed, in October 2017, to suspend such corporate finance activities until more progress and clarity is achieved in the arbitration.

3.6. 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 is anticipated to allow the Company to capitalise on its access to the Chinese gas market through exploration in the remainder of the Lishui Basin.

During the quarter under review, Primeline continued its evaluation of the remaining prospectivity in Block 33/07, planning for the next round of exploration work, Primeline also acquired a small area of 3D seismic data to the south of the Block 33/07 from CNOOC to aim such effort.

3.7. Investor Relations

On August 15, 2017, the Company appointed Frontier Consulting Ltd., part of the Merchant Capital Group, ("FronTier") as its new investment relations and marketing consultant.

FronTier is an investor relations group with a home office in Toronto, Canada. FronTier will assist the Company by increasing market awareness for the Company using a number of financial market communications initiatives. Under the terms of the engagement, FronTier has been retained for a 12-month period at $87,000 per annum plus direct expenses, to be paid from general corporate funds.

In addition, FronTier was granted an option to purchase 400,000 shares in the capital stock of the Company at an exercise price of $0.20 per share. These options, which comply with the requirements of TSX Venture Exchange Policy 3.4, are subject to a quarterly vesting schedule over a twenty-four-month period and are otherwise be in accordance with the Company's Stock Option Plan.

Prior to the grant of options described above, FronTier had no interest, directly or indirectly, in Primeline or its securities.

4. Financial Summary

4.1. Financial Position

As at September 30, 2017, the Company held cash resources of RMB217,205,550 (CAD$40,789,775) plus a bank deposit of RMB150,000,000 (CAD$28,169,014) in a debt service reserve account for servicing the Syndicate Facility. Total assets were RMB2,439,027,719 (CAD$458,033,374).

As at September 30, 2017, the amount outstanding under the Syndicate Facility is US$230 million (CAD$287,014,085), Short term RMB banking facilities with Shanghai Pudong Development bank are RMB104,425,690 (CAD$19,610,458) and the Bonds issued to GRF are US$18 million (CAD$22,461,972).

4.2. Financial Performance

The Company's net profit for the quarter ended September 30, 2017 was RMB10,538,316 (CAD$1,979,026), compared to the net loss of RMB48,149,986 for the same quarter last year.

Revenues for the quarter ended September 30, 2017 were RMB108,628,681 (CAD$20,399,752), which comprised RMB94 million (CAD$18 million) from Primeline's share of natural gas revenues (September 2016 – RMB38 million) and RMB15 million (CAD$3 million) from Primeline's share of by-product revenues (September 2016 – RMB6 million). Revenue in the same quarter last year was RMB44,004,308 which was much lower compared to this year, mainly due to the fact that during the dispute period revenues were booked at the price Zhejiang Gas actually paid which was at significant discount to the contract price.

Production costs were RMB22,652,170 (CAD$4,253,929) for the quarter, an increase of 29% from RMB17,624,654 for the same quarter last year. The increase was mainly due to the increase in natural gas produced and delivered to Zhejiang Gas from 34.06 mmcm to 61.4 mmcm. G&A expenses were

RMB3,007,542 (CAD$564,797), which is slightly down from RMB3,211,430 for the same quarter last year.

EBITDA (a non-GAAP financial measure as described in Section 3.1) before exchange difference for the quarter is RMB86,056,688 (CAD$16,160,880), as compared to RMB25,029,738 (CAD$4,700,419) for the same quarter last year. The change largely reflects the increase in revenue.

The depreciation charge of RMB90,429,474 (CAD$16,982,061) relating to oil and gas properties was calculated on a unit of production basis over the proved and probable reserves of LS36-1 gas field. The foreign exchange gain of RMB36,503,781 (CAD$6,855,170) was mainly due to the translation effects on the Company's US dollar denominated bank loan.

Exploration expenditures of RMB6,811,968 (CAD$1,279,243) were incurred during the quarter, which were comprised mainly of technical evaluations & management of RMB702,138 (CAD$131,857), interest on funding of deferred exploration expenditures of RMB2,897,374 (CAD$544,108), project administration of RMB897,127 (CAD$168,475) and salaries and benefits of RMB1,742,349 (CAD$327,202). These amounts were capitalized as exploration and evaluation assets.

The Company's long-term financial liabilities consist of the Syndicate Facility and the Bonds. See Section 3.4. As of November 29, 2017, the Company was in full compliance with all long-term financial liabilities.

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	**September 30, 2017 CAD$**	**September 30, 2017 RMB**	**June 30, 2017 RMB**	**Mar 31, 2017 RMB**	**Dec 31, 2016 RMB**
Revenue	20,399,752	108,628,681	135,152,008	299,543,547	93,774,062
Cost of makeup gas	NIL	NIL	(23,190,491)	(95,243,492)	NIL
Operating and production	(4,253,929)	(22,652,170)	(21,893,422)	(12,498,661)	(27,042,914)
General & Administration	(564,797)	(3,007,542)	(5,029,240)	(10,085,423)	(5,498,942)
Exchange Gain/(Loss)	6,855,170	36,503,781	19,881,450	25,515,809	(75,239,422)
Depreciation	(16,982,061)	(90,429,474)	(95,394,467)	(56,036,848)	(87,508,875)

Finance costs	(4,054,963)	(21,592,679)	(23,585,021)	(20,242,949)	(24,294,355)
Net Profit (loss)	1,979,025	10,538,316	(10,820,673)	132,774,029	(123,929,407)
Per basic share	0.010	0.055	(0.057)	0.701	(0.662)
Per diluted share	0.010	0.055	(0.057)	0.701	(0.662)
Total assets	458,033,374	2,439,027,719	2,461,767,477	2,650,873,830	2,409,393,283

Quarter Ended	**Sep 30, 2016 RMB**	**Jun 30,2016 RMB**	**Mar 31,2016 RMB**	**Dec 31, 2015 RMB**	**Sep 30, 2015 RMB**
Revenue	44,004,308	43,568,666	60,869,960	85,935,717	24,687,210
Cost of makeup gas	NIL	NIL	NIL	NIL	NIL
Operating and production	(17,624,654)	(19,972,247)	(15,440,331)	(35,888,944)	(24,693,583)
General & Administration	(3,211,430)	(4,285,749)	(5,699,597)	(1,806,756)	(3,194,803)
Exchange Gain/(Loss)	(5,284,264)	(44,310,676)	20,037,818	(55,303,872)	(37,945,847)
Depreciation	(42,702,942)	(42,674,932)	(70,112,006)	(76,643,060)	(19,463,485)
Finance costs	(25,192,513)	(25,756,443)	(26,860,068)	(24,219,287)	(23,927,339)
Net income (loss)	(48,149,986)	(91,224,536)	(35,001,257)	(105,633,910)	(82,071,761)
Per basic share	(0.259)	(0.496)	(0.199)	(0.608)	(0.690)
Per diluted share	(0.259)	(0.496)	(0.199)	(0.608)	(0.690)
Total assets	2,489,742,462	2,514,917,385	2,645,993,506	2,821,779,989	2,621,986,456

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 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 arbitration, the outcome of such proceedings is inherently uncertain and no assurance can be given of Primeline's success. CNOOC and CCL are seeking to terminate Petroleum Contract 25/34 and Primeline has applied to the arbitral tribunal for an injunction restraining CNOOC from their purported termination. If Primeline's application for an injunction is not successful, termination of the contract will immediately give rise to one or more events enabling the Syndicate to declare that an event of default has occurred under the Syndicate Facility, potentially triggering acceleration of all amounts owed. Such acceleration would likely result in Primeline's insolvency. Even if Primeline succeeds in its injunction application, it 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. (See Section 5.2.18).

5.2.2 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. First, the production operations in relation to the LS36-1 gas field 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 these operational risks by carefully designing and building its facilities and conducting its operations in a safe and reliable manner. Failure to manage the risks effectively could result in potential fatalities, serious injury, interruptions to activities or use of assets, damage to assets, environmental impact, or loss of license to operate. Enterprise risk management, emergency preparedness, business continuity and security policies and programmes are in place for all operating areas and are adhered to on an ongoing basis. The Company, in accordance with industry practice, maintains insurance coverage against losses from certain of these risks. Nonetheless, insurance proceeds may not be sufficient to cover all losses, and insurance coverage may not be available for all types of operational risks.

5.2.3 Commodity Price Volatility

Primeline's results of operations and financial condition are dependent on the prices received for its natural gas and by products, including LPG 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 could have a material adverse effect on the Company's business, financial condition and cash flow. (See Section 3.4)

5.2.4 History of Losses

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

5.2.5 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.

5.2.6 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 variations in the operating results of Primeline, results of its oil and gas exploration activities, material announcements by Primeline or its competitors of exploration developments, strategic partnerships, joint ventures or capital commitments, general economic and political conditions in China and in the oil and gas industry, and regulatory developments. The price at which an investor purchases or acquires Shares may not be indicative of the price of the Shares that will prevail in the trading market.

5.2.7 Dependence on Key Management Personnel

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

5.2.8 Exchange Rate Risk

Primeline is exposed to currency risk to the extent that it holds cash deposits primarily denominated in 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.

5.2.9 Exploration Risk

Oil and natural gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. Primeline's exploration expenditures with respect to Block 33/07 may not result in new discoveries of oil or natural gas in commercially viable quantities. If exploration costs exceed estimates, or if exploration efforts do not produce results which meet expectations, exploration efforts may not be commercially successful, which could adversely impact the 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.

5.2.10 Reservoir Performance Risk

Lower than projected reservoir performance at LS36-1 could have a material impact on the Company's financial position, medium to long-term business strategy and cash flow. Inaccurate appraisal of large project reservoirs could result in missed production, revenue and earnings targets and negatively affect the Company's reputation, investor confidence and the Company's ability to deliver on its growth strategy. 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.

5.2.11 Reserves Data and Future Net Revenue Estimates

The reserves data contained or referenced in this MD&A are estimates only. The accurate assessment of oil and gas reserves is critical to the continuous and effective management of the Company's 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.

5.2.12 Unplanned Shutdowns and Pipeline Interruptions

Unplanned shutdowns and closures of facilities or platform may potentially have a material impact on the Company's financial condition, short-term to long- term business strategy, cash flow, and earnings.

The Company's corporate reputation is particularly vulnerable to these events. Prolonged problems may threaten the commercial viability of operations.

5.2.13 Security and Terrorist Threats

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

5.2.14 Lack of Diversification

Primeline's business focuses exclusively on the oil and gas industry in China, and therein exclusively on exploration and development of two properties, Block 25/34 and Block 33/07. 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.

5.2.15 Insurance

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

5.2.16 Competition

The oil and gas industry is highly competitive. Other companies engaged in the same line of business may compete with Primeline from time to time in obtaining capital from investors. Competitors include much larger, 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.

5.2.17 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 65.24% 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.

5.2.18 PRC Political and Economic Considerations

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

5.2.19 Partner Misalignment

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 Sections 3.4 and 5.2.1)

5.2.20 Environmental Considerations

As Primeline is involved in oil and gas exploration, it is subject to extensive environmental and safety legislation (for example, in relation to plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection) and this legislation may change in a manner that may require additional or stricter standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may be unforeseen environmental liabilities resulting from oil and gas activities that may be costly to remedy. 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 very short history of the Environmental Protection Law of PRC, national and local environmental protection standards are still in the process of being formulated and implemented. Primeline believes there are no outstanding notices, orders or directives from central or local environmental protection agencies or local government authorities alleging any breach of national or local environmental quality standards by Primeline and that Primeline has complied with all existing environmental protection laws, regulations, administrative orders and standards. Given the nature of Primeline's business, there is a possibility that Primeline 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.

5.2.21 Reliability of Information

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

5.3. Financial Risks

5.3.1. Currency risk

The Company's cash and cash equivalents outside China are principally held at large international financial institutions in interest bearing accounts. 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 period and year ended as follows:

	September 30, 2017	**March 31, 2017**
Cash and cash equivalents of:		
- CAD$ '000	1	2
- US$ '000	187	165
- GBP '000	4	5
- HK$ '000	151	161
Bank loans and interest of US$ '000	(233,038)	(233,743)
Convertible bonds of US$'000	(18,033)	(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 an increase/decrease of the Company's net (loss) income of approximately:

	September 30, 2017	March 31, 2017	September 30, 2017
	RMB'000	RMB'000	CAD$'000
- CAD$	1	1	1
- US$	(166,713)	(173,073)	(31,308)
- GBP	3	4	1
- HK$	13	14	2

5.3.2. Credit risk 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 is contractually entitled to receive 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.

5.3.3. Liquidity risk

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

5.3.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has inherent interest rate risk in the Syndicate Facility, which carries a floating interest rate of US$ 6 month LIBOR plus 3.35%. The Company does not hedge against this risk.

6. Liquidity and Capital Resources

6.1 Liquidity

The Company had a working capital deficiency of RMB80 million (CAD$15 million) as at September 30, 2017 compared to RMB45 million (CAD$8 million) as at March 31, 2017. Management believes that the Company's current working capital deficiency can be comfortably met with the operational cash flow in the next financial year.

Under Petroleum Contract 33/07, the Company has a 7.5-year exploration period divided into 3 exploration periods of 3.5, 2 and 2 years each. On May 5, 2016, Primeline agreed with CNOOC that it would enter the second exploration phase of two years under the Petroleum Contract for Block 33/07, which commenced on May 1, 2016, with a commitment to drill one well to a depth of 2500 metres by May 1, 2018. Substantial expenditures for such exploration activities may not occur before 2018. The Company may finance these expenditures when due by securing a farm in from a partner, from further financing, or a combination of these. No assurance can be given any such sources of financing will be available or, if available, will be sufficient.

The Company's interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least 12 months from the date of approval of the financial statements.

To continue as a going concern, the Company must generate sufficient operating cash flows to satisfy it ongoing obligations and future contractual commitments, including the principal and interest payments due on its outstanding debt. If it fails to do so, then the Company may not have sufficient capital resources or cash flows from operations to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on the Syndicate Facility. The principal risks in this respect are if CNOOC and CCL are successful in terminating Petroleum Contract 25/34, thus depriving the Company of its only source of revenue (see Section 3.4), if revenues fall as a consequence of reduced production or if outgoings increase as a consequence of unplanned capital or revenue expenditure, resulting in the Company having insufficient cash resources to meet interest payments and repayments of principal on its debt. Management prepares detailed budgets and closely monitors expenditure to ensure the Company has sufficient working capital for its needs and maintains strategies for mitigating actions which could be taken in the event that receipts for sales gas and condensates are lower than anticipated.

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

As at September 30, 2017, the Company had total assets of RMB2,439 million (CAD$458 million) (March 31, 2017 – RMB2,651 million), which were financed by net shareholders' equity of RMB315 million (CAD$59 million) (March 31, 2017– RMB312 million), Syndicate Facility and short term bank loan of RMB1,633 million (CAD$307 million) (March 31, 2017– RMB1,730 million).

As at September 30, 2017, the Company had an accumulated deficit of RMB539 million (CAD$101 million) (March 31, 2017 – RMB539 million).

During the quarter, the cost incurred in relation to exploration and evaluation assets was RMB7 million (CAD$1 million). As at September 30, 2017, the total amount of exploration and evaluation assets costs incurred and capitalized amounted to RMB494 million (CAD$93 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 of the Petroleum Contracts, acquire additional petroleum property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its cash and cash equivalent balances, 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 expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors approves the budgets. At this stage of the Company's development, 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 interim consolidated financial statements as at September 30, 2017.

There are no significant exploration and development, or research and development, expenditures required to maintain properties or agreements in good standing above and beyond the operating expenditures for the LS36-1 Gas Field which are expected to be funded from cash flow from operations on that asset, and the requirement to drill one exploration well to a depth of 2500 m. as the second exploration phase commitment on or before May 1, 2018.

6.3 Transactions with Related Parties and Directors

During the six months ended September 30, 2017, the Company paid or accrued the following:

i. Fees and benefits paid or accrued to key management personnel of the Company being Dr. Ming Wang, Mr. Andrew Biggs, Mr. Stuart Joyner and Mr. Mark Norman were RMB2,607,389 (CAD$489,651) (September 30, 2016 – RMB3,024,715) and share based payment of RMB705,696 (CAD$132,525) (September 30, 2016 – RMB84,434) was recognized for share options granted to these key management personnel.

ii. Fees and benefits paid or accrued to directors being Mr. Victor Hwang, Mr. Brian Chan, Mr. Peter Kelty, Mr. Alan Johnson, Mr. Vincent Lien and Mr. Timothy Baldwin were RMB263,311 (CAD$49,448) (September 30, 2016 – RMB223,157).

6.4 Outstanding Share Data

As at November 29, 2017, there are 191,928,695 Shares and 5,150,000 stock options outstanding.

On August 4, 2017. Primeline granted stock options to management and employees to purchase a total of 4,750,000 common shares at an option price of $0.18 per share, exercisable until August 5, 2022, under its "rolling 10%" option plan. 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.

On August 16, 2017, Primeline 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. The options are exercisable until August 15, 2022. (see Section 3.7 above)

Before the above issuance, the Company had 450,000 options outstanding which expired on October 24, 2017.

7. Critical Accounting Estimates and Key Judgements

Primeline's interim 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 interim Consolidated Financial Statements for the six months ended September 30, 2017. 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 interim consolidated financial statements. These underlying assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances, and are subject to change as new events occur, as more industry experience is acquired, as additional information is obtained and as the Company's operating environment changes. Specifically, amounts recorded for depletion, depreciation, amortization and impairment, asset retirement obligations ("**ARO**")**,** assets and liabilities measured at fair value, employee future benefits, income taxes and contingencies are based on estimates.

7.1.1. Depletion, Depreciation, Amortization ("**DD&A"**) and Impairment
Eligible costs associated with oil and gas activities are capitalized on a unit of measure basis. Depletion expense is subject to estimates including petroleum and natural gas reserves, future petroleum and natural gas prices, estimated future remediation costs, future interest rates as well as other fair value assumptions. The aggregate of capitalized costs, net of accumulated DD&A, less estimated salvage values, is charged to DD&A over the life of the proved developed reserves using the unit of production method.

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 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 are made with respect to the timing of temporary difference reversals, how realizable tax assets are, and in circumstances where the transaction and calculations for which the ultimate tax determination are uncertain. All tax filings are subject to audit and potential reassessment, often after the passage of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

7.1.6 Legal, Environmental Remediation and Other Contingent Matters

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

7.2 Key Judgements

Management makes judgments regarding the application of IFRS for each accounting policy. Critical judgments that have the most significant effect on the amounts recognized in the interim 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 future cash flows of that asset. Objective evidence used by the Company to assess impairment of financial assets includes quoted market prices for similar financial assets and historical collection rates for loans and receivables. The calculations for the net present value of estimated future cash flows related to derivative financial assets requires the use of estimates and assumptions, including forecasts of commodity prices, marketing supply and demand, product margins and expected production volumes, and it is possible that the assumptions may change, which may require a material adjustment to the carrying value of financial assets. These calculations are subject to management's judgement.

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.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.

7.2.4. 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.

8. Recent Accounting Standards and Changes in Accounting Policies

8.1 Recent Accounting Standards

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

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

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of the financial assets and financial liabilities. IFRS 9 was issued in November 2009 and 2010 and is effective for the periods commencing on or after January 1, 2018, with earlier adoption permitted. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

The Company is set to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 ahead of the effective date of January 1, 2018.

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

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

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

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

8.2. Changes in Accounting Policies

There were no changes in accounting policies in the period under review and a detailed listing of the Company's significant accounting policies is provided in Note 4 to the interim consolidated financial statements for the quarter ended September 30, 2017, prepared in accordance with IFRS.

9. Subsequent Events

In accordance with the procedure fixed by the tribunal in the CNOOC Arbitration, CNOOC and CCL filed their Statement of Defence and Counterclaim on October 17, 2017 and the parties exchanged details of documents requested for disclosure on November 6, 2017. Primeline is due to file its Response to the Statement of Defence and Counterclaim on or before March 26, 2018. The final hearing of the CNOOC Arbitration is scheduled for mid-September 2018.

As part of their defence and counterclaim, CNOOC and CCL have put in a counterclaim against Primeline in the order of RMB400 million, and served a notice purporting to terminate Petroleum Contract 25/34 with effect from January 15, 2018, based on claims that Primeline should not have served a termination notice in the arbitration, was not entitled to pursue certain other claims in the arbitration and should pay disputed amounts of approximately RMB117 million.

Petroleum Contract 25/34 provides that the claimed termination of the contract by either party on grounds of alleged unremedied material breach of contract must have been judged and determined by a final award of the arbitral tribunal pursuant to the provisions set out in the contract. Therefore, the relief claimed by Primeline includes a final award to determine and confirm Primeline's right to terminate Petroleum Contract 25/34, and affiliated arrangements, and to order CNOOC and CCL to pay Primeline in the order of RMB2.19 billion, which represents Primeline's wasted expenditure in connection with the LS36-1 gas field, plus costs. 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, under which Primeline has a 49% interest in the LS36-1 gas field, continues in effect.

Primeline does not believe that CNOOC and CCL have any valid grounds on which to terminate the Petroleum Contract and the amount claimed to support their counter termination notice is far from material considering the size of the project (in the order of several RMB billions). Further, in any event, under the Petroleum Contract, any purported termination by CNOOC and CCL must be determined by final award of the arbitral tribunal in the CNOOC Arbitration, after a merits hearing. Primeline has pointed out this contractual requirement to CNOOC and CCL but it was informed by CNOOC and CCL that they intended to terminate and cease to comply with Petroleum Contract 25/34 and related agreements effective on January 15, 2018, without following the contractual mechanism for termination, (i.e. without the prior determination of the tribunal by final award in the CNOOC Arbitration).

Primeline regards CNOOC and CCL's purported termination as an act constituting a further breach of Petroleum Contract 25/34.

Since CCL is the Operator and agent for sales of Production from LS36-1 gas field and collects and distributes the revenue, such purported unilateral termination by CNOOC and CCL on January 15, 2018, if unrestrained, will give rise to immediate and serious financial consequences for Primeline, including under the terms of the Syndicate Facility. In particular, it will give rise to the immediate occurrence of one or more event(s) which may entitle the Syndicate to declare the occurrence of an event of default under the Syndicate Facility, triggering acceleration of all amounts owed. Such acceleration would likely result in Primeline's insolvency and seizure of its assets.

Primeline therefore requested the arbitral tribunal to set a hearing date at the earliest practicable time and related procedural directions for an application on its behalf for urgent interim relief from the arbitral tribunal to restrain CNOOC and CCL from giving effect to their purported termination by ceasing to comply further with the Petroleum Contract on January 15, 2018. The arbitral tribunal confirmed that it will hear the application for an interim injunction and set a hearing date of January 5, 2018. CNOOC and CCL have indicated that they will oppose the application for interim relief. CNOOC and CCL have also proposed certain alternative arrangements which are not, however, workable or acceptable to Primeline.

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 interim condensed financial statements and the audited annual financial statements and respective accompanying MD&A.

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

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

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

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

The Company has a website at www.primelineenergy.com or www.pehi.com. The site features information on PEHI, new releases, background information and a technical summary of the project.

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