



# Primeline Energy Holdings Inc.

Revised Annual Information Form  
For the Year Ended March 31, 2013

Originally dated July 29, 2013  
Revised as of August 20, 2013

# Table of Contents

DEFINITIONS .....	4
ABBREVIATIONS AND TECHNICAL TERMS.....	7
CONVERSION FACTORS.....	9
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS .....	9
PRIMELINE.....	10
Business of Primeline .....	10
History of Primeline .....	11
Petroleum Contracts .....	11
Exploration History .....	13
Dual Development and Exploration Strategy .....	13
CHINA ENERGY MARKET.....	14
Natural Gas Market in Zhejiang Province .....	15
DEVELOPMENT OF THE LS36-1 GAS FIELD.....	16
Gas Sale Agreement and Framework Agreement.....	16
CO <sub>2</sub> Sales.....	17
Development Agreements .....	17
Transfer of Operatorship for the Development .....	18
ODP .....	18
Development Progress.....	20
Development Finance .....	21
EXPLORATION .....	22
Lishui Gas Play.....	22
LS35-3-1 .....	22
Future Exploration.....	23
LS36-1 RESERVE AUDIT AND EXPLORATION PROSPECTIVITY .....	23

EQUITY AND WORKING CAPITAL FINANCING .....	28
Past Equity Finance .....	28
Working Capital Finance .....	28
Bond Issue .....	29
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION Date of Statement .....	30
Disclosure of Reserves Data .....	30
DIVIDENDS .....	41
SHARE CAPITAL .....	41
MARKET FOR SECURITIES .....	41
DIRECTORS AND OFFICERS .....	42
Corporate Cease Trade Orders .....	44
Bankruptcies .....	44
Penalties or Sanctions .....	44
SENIOR MANAGERS .....	44
CONFLICTS OF INTEREST .....	47
RISK FACTORS .....	48
Working Capital Position, Loan Facility and Bond Issue .....	48
History of Losses .....	48
Requirement for New Capital .....	48
Volatility of the Market Price of the Shares .....	48
Dependence on Key Management Personnel .....	48
Exchange Rate Risk .....	48
Risks Related to Oil and Gas Exploration and Development .....	49
Exploration Risk .....	49
Development Risk .....	49
Offshore Exploration .....	49
Financing Risk .....	49

Marketing and Distribution .....	50
Operational Risk.....	50
Lack of Diversification.....	50
Insurance.....	50
Competition for Exploration and Development Rights .....	50
Risks Related to Primeline’s Controlling Shareholder.....	51
Risks Related to Doing Business in the PRC .....	51
PRC Political and Economic Considerations .....	51
PRC Legal System and Enforcement .....	51
Environmental Considerations.....	52
Reliability of Information.....	52
LEGAL PROCEEDINGS.....	52
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	53
AUDITORS AND REGISTRAR AND TRANSFER AGENT.....	53
MATERIAL CONTRACTS.....	53
INTERESTS OF EXPERTS.....	53
ADDITIONAL INFORMATION .....	53

## DEFINITIONS

In this Annual Information Form, the following terms have the following meanings:

“Audit Committee”	the audit committee of the Board from time to time
“Blocks”	Block 25/34 and Block 33/07
“Block 25/34”	the contract area in the East China Sea offshore Zhejiang Province in China that is the subject of Petroleum Contract 25/34, with a contract area of 84.7 sq kms
“Block 33/07”	the contract area in the East China Sea offshore Zhejiang Province in China that is the subject of Petroleum Contract 33/07, with a contract area of 5,877 sq kms
“Board”	the board of directors of Primeline or the Directors present at a duly convened meeting of Directors at which a quorum is present, including a duly constituted committee
“BOEs”	means barrels of oil equivalent
“C\$”	Canadian Dollars
CDB	China Development Bank
“China” or “PRC”	the People’s Republic of China
“CNPC”	China National Petroleum Corp., a company incorporated in China
“CNOOC”	China National Offshore Oil Corporation, a company incorporated in China which is the holding company for CNOOC Ltd., COSL and Offshore Oil Engineering Co. Ltd. and listed on the Hong Kong, New York and Shanghai Stock Exchanges. References herein to CNOOC include its subsidiaries
“CNOOC China”	CNOOC (China) Limited, a subsidiary of CNOOC Ltd. which is listed on the New York and Hong Kong Stock Exchanges
“CNOOC Research”	CNOOC Research Beijing, a subsidiary of CNOOC
“COSL”	China Offshore Services Limited, a company incorporated in China and listed on the Hong Kong and Shanghai Stock Exchanges
“Companies Law”	the Companies Law 1994 (Revised), as amended, of the Cayman Islands
“Contractors”	the foreign contractors as defined in the Petroleum Contracts, namely Primeline Energy and Primeline Petroleum acting jointly

“Development”	the development of the LS36-1 Gas Field pursuant to the ODP
“Development Agreements”	the SDA, JOA and Implementation Agreement
“Directors”	the directors of Primeline
“EIA”	means the Environmental Impact Assessment relating to the Development
“Exchange”	the TSX Venture Exchange
“Feasibility Study”	the feasibility study for the commercialisation of LS36-1 completed by Primeline and CNOOC in December 2007
“Framework Agreement”	the framework agreement dated July 7, 2010 entered into between Zhejiang Gas and CNOOC China in relation to the sale of gas from the LS36-1 Gas Field and which replaced the Gas Sale Agreement
“Gas Sale Agreement”	the agreement in principle dated October 27, 2008 entered into between Zhejiang Gas and CNOOC China in relation to the sale of gas from the LS36-1 Gas Field
“Implementation Agreement”	the agreement dated March 17, 2010 between CNOOC, Primeline and PPC relating to the implementation of the development of the LS36-1 Gas Field
“JOA”	the Joint Operating Agreement dated March 17, 2010 between CNOOC China, Primeline and PPC setting out the detailed terms on which LOC will act as operator for the development and production operations for the LS36-1 Gas Field
“LS35-3-1”	the gas discovery well located within the Block, approximately 14.5 miles south west of LS36-1, which was drilled in April and May 2010
“LS36-1”	the gas discovery, which was delineated by 3D seismic and two successful wells, (LS36-1-1 and LS36-1-2) located in the Block approximately 100km from the coast of Zhejiang Province, China
“LS36-1 Gas Field”	the accumulation of gas within the LS36-1 geological trap
“Lishui Basin”	the geological basin located in the western part of East China Sea where LS36-1 and LS35-3-1 are located
“Lishui Gas Play”	LS36-1, LS35-3-1 and related analogous prospects and leads in the immediate surrounding area
“LOC”	CNOOC China Limited Lishui Operating Company, a wholly owned subsidiary of CNOOC China

“McDaniel”	McDaniel & Associates Consultants Ltd. of Calgary
“MOA”	the Memorandum of Agreement dated July 15, 2011 between PECL, PPC and CNOOC relating to the amendment of Petroleum Contract 25/34 and the grant of Petroleum Contract 33/07
“NDRC”	the National Development and Reform Commission of China
“NI 51-101”	National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities adopted by the Canadian Securities Administrators
“ODP”	the Overall Development Program relating to the development of the LS36-1 Gas Field
“Petroleum Contract 25/34”	the Petroleum Contract dated March 24, 2005 entered into between CNOOC, PECL and PPC in respect of Block 25/34, as amended
“Petroleum Contract 33/07”	the Petroleum Contract dated June 15, 2012 entered into between CNOOC, PECL and PPC in respect of Block 33/07
“Petroleum Contracts”	Petroleum Contract 25/34 and Petroleum Contract 33/07
“Primeline” or “PEHI”	Primeline Energy Holdings Inc., a company incorporated under the Companies Law
“Primeline Energy” or “PECL”	Primeline Energy China Limited, a company incorporated under the Companies Law and a wholly owned subsidiary of Primeline
“Primeline International” or “PIHI”	Primeline International (Holdings) Inc., a company incorporated in the British Virgin Islands which is wholly owned by Victor Yiou-Hwa Hwang
“Primeline Operations” or “PEOIL”	Primeline Energy Operations International Limited, a company incorporated under the Companies Law and a wholly owned subsidiary of Primeline
“Primeline Petroleum” or “PPC”	Primeline Petroleum Corporation, a company incorporated in the British Virgin Islands which is wholly owned by Victor Yiou-Hwa Hwang and accordingly an affiliate of Primeline
“Prospective Resources”	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development.
“Rights Offering”	the offering by Primeline of rights to subscribe for 47,020,623 Shares at \$0.50 per Share which closed on May 6, 2010
“RMB”	Chinese Renminbi, the lawful currency of China

“SDA”	the Supplemental Development Agreement dated March 17, 2010 between CNOOC, Primeline and PPC relating to the development of the LS36-1 Gas Field
“SEDAR”	the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators
“Senior Managers”	the senior managers of Primeline
“Shareholder”	a holder of Shares
“Shares”	shares of a nominal or par value of US\$0.001 each in the capital of Primeline
“Sinopec”	China Petroleum and Chemical Corp. (NYSE:SNP, www.sinopec.com.cn/)
“Stock Option Plan”	the stock option plan of Primeline
“US\$” or “\$”	US Dollars
“USA” or “US”	United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“Zhejiang Gas”	Zhejiang Natural Gas Development Company Limited, a company incorporated in China which owns and operates the Zhejiang Provincial natural gas grid.

## **ABBREVIATIONS AND TECHNICAL TERMS**

“2D”	Seismic data recorded along discrete tracks
“3D”	A set of numerous closely-spaced seismic lines that provide a high spatially sampled measure of subsurface reflectivity
“AVO”	Amplitude Variation with Offset
“bbls”	Barrels of oil
“bbls/d”	Bbls per day
“Bcf”	Billion(10 <sup>9</sup> ) cubic feet
“bcm”	Billion (10 <sup>9</sup> ) standard cubic metres



“Contingent Resources”	Quantities of natural gas estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies.
“DHIs”	Direct hydrocarbon indicators
“DST”	Drill Stem Test
“ft”	Feet
“HSE”	Health, Safety and Environment
“Km”	Kilometre
“Sq Km”	Square kilometre
“LNG”	Liquefied Natural Gas
“MD”	Measured Depth
“m”	Metres
“Mcf”	Thousand (10 <sup>3</sup> ) standard cubic feet
“MMbbls”	Million (10 <sup>6</sup> ) Barrels
“MMcf”	Million (10 <sup>6</sup> ) standard cubic feet
“MMcf/d”	Million (10 <sup>6</sup> ) standard cubic feet per day
“Prospective Resources”	Quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development.
“Reserves”	<p>Estimated remaining quantities of oil and natural gas and released substances anticipated to be recoverable from known accumulations, as of a given date, based on analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions which are generally accepted as being acceptable.</p> <p>Estimated remaining quantities of oil and natural gas and released substances anticipated to be recoverable from known accumulations, as of a given date, based on analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions which are generally accepted as being acceptable.</p> <p>Reserves are classified according to the degree of certainty associated with the estimates</p>

- Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

“Tcf” Trillion (10<sup>12</sup>) standard cubic feet

“TD” Total Depth

## CONVERSION FACTORS

1 km	Equals	0.621 miles
1 cubic metre	Equals	35.31 standard cubic feet
1 cubic metre	Equals	6.29 barrels
1 sq km	Equals	247.1 acres
1 RMB	Equals	US\$0.163 and C\$0.167 as of July 29, 2013.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Revised Annual Information Form is dated August 20, 2013. Unless otherwise stated, information is presented as at March 31, 2013. It should be read in conjunction with Primeline’s audited consolidated financial statements and related notes for the year ended March 31, 2013.

Except for historical information, the following disclosures contain statements which may be considered to be forward-looking information. Such statements are made based on management’s judgment and expectations, and assumptions which management believes to be reasonable. Forward-looking information is usually identified by words such as “could”, “expects”, “intends”, “estimates”, “projects”, “believes”, “may”, “likely” and “potential”, and is inherently subject to risks and uncertainties beyond management’s and Primeline’s control. Material factors that could cause actual results to differ from any conclusions contained in forward-looking information include the results of exploration; whether deferred exploration costs are ultimately recovered; whether Primeline’s assets, including estimated resources and reserves, can be realised; possible decreases in future oil and gas prices; possible increases in estimated costs of future production; the results of negotiations with Chinese municipal, provincial and other regulatory authorities; changes in government legislation and regulations; various operational factors; and whether new financing may be procured or new exploration partners obtained to enable Primeline to continue its

exploration activities. Some of the material factors and assumptions applied in drawing such conclusions are the prospectivity for discovery of the Lishui Gas Play outside the three wells which it presently contains, and the remainder of the Block; that a ready and profitable market will exist for oil and gas which may be discovered in such areas, and that infrastructure for bringing such oil and gas to market may be constructed on economic terms; that government approval of the ODP will be obtained; that a binding agreement for the issue of bonds to GEMS will be entered into; that a binding agreement for financing Primeline's share of the costs of the Development will be entered into with CDB; the timing of first gas production from the LS 36-1 Gas Field; that if construction of a natural gas grid in Zhejiang Province is completed, gas demand in that region will continue to expand; that a final gas sale contract can be concluded with Zhejiang Gas on acceptable terms; that pipelines presently planned for will in fact be constructed; that China will continue to adopt more market-based pricing systems; and that environmental surveys and other studies necessary for production of oil and gas will be completed according to present timelines. Actual results may differ materially from those anticipated in the forward-looking statements.

## **PRIMELINE**

Primeline was incorporated and registered with limited liability as an Exempt Company under the Companies Law of the Cayman Islands on March 31, 1995. Its registered office is located at PO Box 309, Uglund House, South Church Street, George Town, Cayman Islands. Primeline has offices in Hong Kong, London and Shanghai. Its Hong Kong office (the head office) is located at Hong Kong Parkview, 88, Tai Tam Reservoir Road, Hong Kong, PRC. Its London office is located at Parkview House, Fourteen South Audley Street, London W1K 1HN, UK and its Shanghai office is located at 22N, Cross Region Plaza, 899 Ling Ling Road, Shanghai, 200030, PRC.

Primeline Energy is a wholly owned subsidiary of Primeline and was also incorporated under the Companies Law in Cayman Islands. It is a party to the Petroleum Contracts and holds a 75% share of the Contractors' interest in both Petroleum Contracts.

Primeline Operations is a wholly owned subsidiary of Primeline and was also incorporated under the Companies Law in Cayman Islands. It has been appointed Operator under Petroleum Contract 33/07. Primeline has no other subsidiaries.

Primeline International, a company controlled by Mr. Victor Hwang, the Chairman and President of Primeline, holds Shares representing 49.42% of Primeline's issued and outstanding Shares. Mr. Hwang also holds directly Shares representing 3.64% of Primeline's issued and outstanding Shares and owns and controls Primeline Petroleum, the company which holds the remaining 25% Contractors' interest in the Petroleum Contracts.

Primeline's authorized share capital is US\$500,000.00 divided into 500,000,000 Shares and the current issued capital is 94,041,246 Shares. The Shares are listed on the Exchange.

## **Business of Primeline**

Primeline is an independent oil and gas exploration and production company focusing exclusively on oil and gas opportunities in China during the last 20 years with first gas production expected within the next 12 months. It holds exploration and development rights in the East China Sea pursuant to two Petroleum Contracts, both entered into between CNOOC, PECL, a wholly owned subsidiary of the Company, and PPC, an affiliated company wholly owned by Mr. Victor Hwang, the Company's Chairman, President and majority shareholder.

Block 25/34 covers 84.7 sq km, being the development and production area for the LS36-1 Gas Field for which CNOOC is the Operator holding a 51% interest with the Company and PPC holding interests of 36.75% and 12.25% respectively.

Block 33/07 covers an offshore area of 5,877 sq km (1.45 million acres) enclosing Block 25/34 and the Contractor's interest is shared 75%/25% by the Company and PPC. Another wholly owned subsidiary of the Company, PEOIL, is

the operator for Block 33/07. 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.

Petroleum Contract 33/07 is effectively a continuation of Primeline's activities in the Lishui Basin in the East China Sea under Petroleum Contract 25/34 which, in turn, was a continuation of its activities under the previous petroleum contract for Block 32/32 which was also essentially the same area covering the Lishui Basin. Primeline and CNOOC are implementing a rolling development and exploration strategy in the Lishui Basin with CNOOC operating the LS36-1 Development under Petroleum Contract 25/34 and Primeline leading the effort on exploration under Petroleum Contract 33/07. The strategy is to establish the first production infrastructure in the southern East China Sea which will provide an anchor for ongoing exploration and development work in the remainder of the petroliferous Lishui Basin.

The LS36-1 Development is progressing smoothly with first gas expected around the end of 2013 or early 2014 which will bring cash inflow to the Company and establish access to the dynamic local gas market in Eastern China. The confirmation of the market and the creation of the production facility will significantly enhance the value of any production from LS36-1 Gas Field's incremental reserves and prospective resources, and also of any additional resources which may be discovered, in the Lishui Gas Play and elsewhere within Block 33/07.

Primeline presently has 25 employees.

## **History of Primeline**

PPC was originally established by the Hwang family in 1993 to capitalise on upstream petroleum business opportunities generated by China's dynamic economic growth. In December 1994, PPC signed a petroleum contract with CNOOC for a contract area of 4,500 sq km in the East China Sea known as Block 32/32.

In April 1995, PPC assigned 75% of its interest in the petroleum contract for Block 32/32 to PECL. At the same time, PPC and PECL jointly designated PEOIL as the operator of Block 32/32.

In July 1995 Primeline acquired all of the shares of PECL and PEOIL and Primeline's shares were listed under the symbol PEH on the Vancouver Stock Exchange, which has since become the TSX Venture Exchange in Canada.

In 1997, Primeline made the LS36-1 gas discovery and became the first international oil company to discover a commercial quantity of gas in the East China Sea, other international majors having failed in their efforts in the Chinese Fourth Rounding Bidding in the East China Sea. Primeline joint-ventured with CNOOC on the appraisal of the discovery in 2000 and 2001, but, due to natural gas market conditions in China at the time, did not proceed with the development of LS36-1.

In March 2005, the petroleum contract for Block 32/32 was allowed to lapse and Petroleum Contract 25/34 was entered into. Block 25/34 encompassed a larger area while including the material parts of the original Block 32/32.

As a result of an improvement in market conditions, Primeline and CNOOC began the process of developing the LS36-1 Gas Field in 2007 and, in 2009, completed the initial ODP for the LS36-1 development and, in 2010, signed the Development Agreements with CNOOC, which defined the development area for the LS36-1 gas field, comprising 84.7 sq kms, and appointed CNOOC as Operator for the Development. The Development is now virtually completed and first gas is expected around the end of 2013/early 2014.

In June 2012, Petroleum Contract 33/07 was entered into allowing Primeline to continue the exploration work in the same area under a better coordinated rolling development and exploration program.

## **Petroleum Contracts**

Primeline and its affiliate company, PPC, are parties to and are jointly designated as Contractors under the Petroleum Contracts.

Petroleum Contract 25/34 provided for an initial exploration period with a development period and a production period for each commercial development. The exploration period was originally for seven years commencing on May 1, 2005, split into three phases lasting three, two and two years respectively. However, as a result of subsequent amendment agreements, the first phase was extended to four years with the second and third phases remaining at two years each. The first phase ended on April 30, 2009 and Primeline elected to proceed to the second phase, which was due to end on April 30, 2011 although that was subsequently extended to July 31, 2011.

In March 2010, following the completion of the ODP and confirmation of the commerciality of the LS36-1 Gas Field, CNOOC and Primeline entered into the Development Agreements which are supplemental to Petroleum Contract 25/34 and which set out the terms on which the parties agreed to proceed with the Development. See “Development Agreements”.

In July 2011, CNOOC, Primeline and PPC entered into the MOA which further amended Petroleum Contract 25/34 so that no further operations would be carried out under that contract, save only for the continuing development and productions operations in relation to the LS36-1 Gas Field, and the contract area was relinquished save for the development area for the LS36-1 Gas Field of 84.7 sq kms.

Subsequently, on June 15, 2012, pursuant to the MOA, CNOOC, Primeline and PPC entered into Petroleum Contract 33/07 on the following basis:

**Area:** The exploration area under Petroleum Contract 33/07 covers the same area as that previously held under Petroleum Contract 25/34 but with an additional adjacent area to the east making a new area of 5,877 sq kms. The new area was designated as Block 33/07.

**Term:** Petroleum Contract 33/07 granted a seven-year exploration period divided into three exploration periods of three, two and two years each with a minimum work commitment in the first phase of two wells to 2.500m plus 600 sq kms of 3D seismic. The commitment for each of the second and third phases is one well to 2.500m.

Future discoveries in Block 33/07 (and any CNOOC self financed discoveries nearby if there is spare capacity and subject to payment of operational costs) will enjoy the right to free use of the production facilities to be built for the LS36-1 Gas Field.

All other terms are the same as Petroleum Contract 25/34 and Petroleum Contract 33/07 is held by Primeline and PPC in the same proportions in which they hold Petroleum Contract 25/34, being 75/25. Thus, the Contractors are responsible for all costs incurred during the exploration phases with the option to terminate Petroleum Contract 33/07 at the end of each phase. The production period is for 15 years, extendable to 20 years, in relation to each commercial development. Petroleum Contract 33/07 is on favourable fiscal terms with no royalties being payable on production below 194MMcf/d and no government production sharing below 340 MMcf/d for each production field within the Block.

Petroleum Contract 33/07 was approved by the Ministry of Commerce of China and became effective on November 1, 2012.

Accordingly, Primeline, PPC and CNOOC are proceeding with the Development under Petroleum Contract 25/34 and, in addition, Primeline and PPC are continuing with the exploration effort under Petroleum Contract 33/07 under which they continue to have a significant exploration area around the LS36-1 Gas Field for a further seven years.

Block 25/34, its replacement, Block 33/07, and the development and production area relating to the LS36-1 Gas Field, which continues to be held under Petroleum Contract 25/34, are Primeline’s only oil and gas properties and Primeline’s business is therefore entirely economically dependent on the Petroleum Contracts. Because the Blocks are within the jurisdiction of the PRC, Primeline’s business is entirely dependent on foreign operations. See “Risk Factors”.

## Exploration History

Primeline's primary asset is its 75% share of the Contractors' interests under the Petroleum Contracts in relation to the Blocks. Block 25/34 covers a total area of 84.7 sq kms in the Lishui Basin in the East China Sea, comprising the development area for the LS36-1 Gas Field. Block 33/07 effectively covers the same area as the previous Block 25/34 (before relinquishment under the MOA) but is slightly larger with a total area of 5,877 sq kms, with a water depth of between 75 and 90 metres. Block 33/07 is located approximately 100 km from the coast of Zhejiang Province.

The area covered by the Block was explored by different Chinese companies in the 1980s. Various sets of seismic data were shot by the Ministry of Geology ("MOG") and CNOOC and two wells were drilled by MOG, Lingfeng-1 (1985) and Shimentan-1 (1987), both encountering hydrocarbons.

Primeline carried out a detailed technical evaluation of the area of the Block between 1994 and 1997 (when it was designated Block 32/32) using different vintages of seismic data and reprocessed seismic data. Based on the interpretation of over 7,000 km of seismic data and regional evaluation, Primeline selected LS36-1 as the target for its first exploration well in the Block.

LS36-1-1 was spudded on July 25, 1997 and reached a TD of 3,300m. The well encountered 543 m of gross hydrocarbon-bearing section, of which 105.8 m was interpreted as potential pay zones. The well flowed 9.86 MMcf/d of gas and 117bbls/d of condensate through a 48/64" choke from the top reservoir section of 24m. LS36-1-1 was then plugged and abandoned as a gas discovery.

In 1998, Primeline completed a 233 sq km 3D seismic survey of the area surrounding LS36-1-1. The data was processed and interpreted in 1999.

LS36-1-2 was spudded on June 1, 2000 and reached a TD of 2,900 m. The well encountered and confirmed similar reservoir quality and characteristics to LS36-1-1. From a single test zone in the upper Palaeocene reservoir, the well flowed at a stabilised rate of 12.25 MMcf/d of natural gas and 189bbls/d of condensate through a 7/8" choke.

In late 2001, a second appraisal well (LS36-1-3) was drilled. LS36-1-3 was an aggressive step out well, 7 km away from LS36-1-1, and failed to encounter any hydrocarbons.

LS36-1-1 and LS36-1-2 have proven a hydrocarbon system in the Lishui Basin, much of which is inside the Block. Near the existing discovery (within a 20km radius) there are several prospects and leads that have similar geological and geophysical characteristics, including similar seismic attributes Primeline acquired an additional 550 sq km of 3D seismic in 2005 which, merged with the previous 3D seismic data, covers a total 3D seismic area of 737 sq km. Primeline has carefully evaluated the prospectivity of the 3D area and has mapped out several prospects. These nearby prospects and leads in the basin system near LS36-1-1 have been the main focus of Primeline's exploration and development programme.

As part of that programme, Primeline drilled an exploration well at one of the prospects, LS35-3-1, which was spudded on April 12, 2010 and reached a TD of 2,908m and which also resulted in a hydrocarbon discovery. See "Exploration" and "LS35-3-1" below.

See "Future Exploration" below.

## Dual Development and Exploration Strategy

Primeline and CNOOC are pursuing a dual strategy of developing the LS36-1 Gas Field, based on the currently confirmed resources, and, at the same time, continuing to explore the prospects and leads identified within the Block. Following the execution of the Development Agreements, CNOOC is responsible for the development and production operations relating to the LS36-1 Gas Field, having been appointed as Operator for such operations,

whilst Primeline, as Operator under Petroleum Contract 33/07, is focusing its efforts on step out exploration of the nearby prospects to expand the current resource base.

The Directors believe the confirmation of the market for gas from the Block by the execution of the Gas Sale Agreement and Framework Agreement, and the creation of the production facility for the LS36-1 Gas Field significantly enhance the potential value of any additional resources which may be discovered in LS36-1 itself and, more importantly, greatly enhance the value of any additional resources which may be discovered in the Lishui Gas Play and beyond.

The hydrocarbon discovery at LS35-3-1 confirmed Primeline's belief that hydrocarbons have migrated to the channel systems in the west flank of the Lishui Basin and Primeline is now refining its evaluation of the remaining potential of the Lishui Basin and the numerous prospect leads which it has already identified. Following Petroleum Contract 33/07 becoming effective, Primeline plans to shoot additional 3D seismic before implementing any future exploration drilling.

## **CHINA ENERGY MARKET**

Historically, natural gas has not been a major fuel in China, but its share in the country's energy mix is now rapidly increasing. In 2012, natural gas represented about 5% of the entire energy mix (up from 3% in 2007 and 4% in 2009), compared with the world average of 24%. The Chinese Government has recently announced plans to raise this percentage to 8% by 2015. Total consumption in 2012 was circa 147 bcm so the proposed target represents a total of circa 262 bcm (9 Tcf) in 2015. Rapid development of the natural gas industry is now one of China's strategic policies in order to help resolve its acute energy shortage and to achieve its target for pollution reduction. Part of this strategy is to encourage the transportation of gas from west China and other countries around China, including Russia and the Central Asian countries, where there are significant resources, to east China where demand is highest and the energy shortage is most acute.

China's first major West to East Gas Pipeline, built by CNPC, parent company of Petrochina Ltd. (NYSE:PTR, [www.petrochina.com.cn](http://www.petrochina.com.cn)), was completed on October 1, 2004 and now carries approximately 12 bcm of gas per annum from the Tarim Basin along a 4,000 km pipeline which terminates at Shanghai. There were initial concerns that there would be insufficient demand for the gas, but now demand exceeds supply with a total of 115 bcm of natural gas having been supplied via this pipeline by the end of 2012.

In order to respond to increasing demand, there are now three new long distance gas pipelines from west China to east China, two of which are to supply gas to Zhejiang Province. One is being developed by CNPC and one by Sinopec.

In August 2007, CNPC announced proposals for a Second West to East pipeline with a capacity of 30 bcm per annum. The pipeline, which will be over 8,000 km, is planned to run from Turkmenistan through Xinjiang to Guangzhou in southern China, branching at Nanchang to run east to Shanghai and passing through western and northern Zhejiang Province. Construction was commenced in February 2008 with its main line completed in June 2011. CNPC signed agreements in July 2007 to import 30 bcm of natural gas per annum over 30 years from Turkmenistan to supply this pipeline. Although the aggregate design capacity for First and Second West to East pipeline reaches 47 bcm per annum, CNPC triggered the construction of Third West to East Pipeline in October 2012 in order to fulfil the booming natural gas requirement in East China.

On March 29, 2010, Sinopec announced that the construction of a natural gas pipeline running from south west Sichuan Province to Shanghai had been completed. This new pipeline, with a total pipeline capacity of 17 bcm, currently supplies 12 bcm per annum to cities along the pipeline, including northern Zhejiang Province.

In the past, the Chinese Government has held state-set gas prices based on local costs and thus below international LNG market levels. However, strong demand for gas, coupled with pollution targets, has meant that China has been

forced to obtain supplies from foreign sources at market prices. As a result, there has been significant upward pressure on prices. Since May 2005, NDRC has been periodically adjusting prices for onshore natural gas products and LNG prices in China, as the result of converging on Far East LNG spot prices. China is currently buying LNG on the spot market and CNPC and CNOOC have recently reported signing long term LNG supply contracts at prices close to oil equivalent. In December 2012, CNOOC signed an agreement worth US\$1.93 billion to buy LNG from BG Group and increased its stake in BG's LNG project in Australia. Under the agreement, CNOOC will purchase five million metric tons of LNG annually from BG Group, starting from 2015 for 20 years.

These developments are clearly indicative of a maturing gas market with a more market-driven pricing system which should benefit the development of Priemeline's Blocks in the long term. It is also apparent that a nation-wide gas grid is in the process of being established in China and the east China region, as the most industrialised region, will be the frontrunner for this improved gas infrastructure.

## **Natural Gas Market in Zhejiang Province**

CNOOC China and Zhejiang Gas entered into the Gas Sale Agreement in 2008 and, subsequently, the Framework Agreement in 2010, under which Zhejiang Gas agreed to purchase gas from the LS36-1 Gas Field for distribution through the gas grid which is currently under construction in Zhejiang Province.

Zhejiang Province has a total population of approximately 56 million and a land area of 101,800 sq km. It rates as the 4th largest provincial economy within China and has enjoyed double digit annual growth during the last 30 years. The 2012 total GDP was RMB 3,461 billion (US\$ 334 billion) or approximately US\$ 10,052 per capita. Its import and export size and growth are impressive, reaching US\$ 312 billion in 2012. Zhejiang Province has almost no primary energy supply except for its hydro-energy potential and more than 90% of its energy needs have to be imported from outside. In 2010 and 2011 respectively, the energy production in Zhejiang province was 14.9 and 13.5 million tons of Standard Coal Equivalent (SCE), whereas its energy consumption reached 168.7 and 178.3 million tons of SCE. Energy consumption in Zhejiang Province relies heavily on coal (61.3% in 2010 and 60.8% in 2011), then oil (22.1% in 2010 and 22.5% in 2011), with hydro and nuclear energy at 7% and natural gas at only 2.8% in 2011 (2.4% in 2010), far below the national level of 5% in 2012 and miniscule compared with the average international level of 24% in the total energy mix.

Zhejiang Province currently has a natural gas grid of 330km in the northern part of the Province serving the major cities in the area, including Hangzhou, Huzhou, Jiaxing and Shaoxing, and which is fed by the first and second West to East Gas pipelines, together with gas from Sichuan. This gas grid is owned and operated by Zhejiang Gas. In August 2007, following the announcement of the proposed Second West to East Gas Pipeline, the Zhejiang Provincial government decided that a gas grid should be established in the southern part of Zhejiang Province in order to utilise gas from the proposed pipeline. As a result, the gas distribution strategy of Zhejiang Province was changed and Zhejiang Gas is now constructing a gas grid which will extend throughout the Province linking the existing grid to other major cities within Zhejiang Province, including Wenzhou. This expanded grid has been connected to the Second West to East Gas Pipeline, the Sichuan Gas to East Pipeline constructed by Sinopec in 2010 and to LNG imports which come on stream in 2013. Zhejiang Province is planning to expand its gas grid to 1,500km and 4,100km by 2015 and 2020 respectively. The total natural gas consumption through the Zhejiang provincial grid in 2011 was 4.3bcm per annum, and in 2012 4.7bcm per annum, and is expected to grow very rapidly over the next 10 years with the expansion of the provincial gas grid.

Following finalisation of the plans for the construction of the provincial gas grid by Zhejiang Gas in 2007, it became possible for gas from LS36-1 to be supplied to the proposed Provincial gas grid via a connection at Wenzhou, which resulted in the Gas Sale Agreement being entered into with the Provincial Grid in 2008 which formally started the Development. Wenzhou is the closest major city to LS36-1 and is situated on the coast only 140 km away from the discovery. Wenzhou's current gas usage is restricted to LPG and small scale locally sourced LNG.



The development of this provincial grid presents an exciting opportunity for Primeline in that, rather than endeavouring to create a gas utilisation market in a greenfield situation in Wenzhou alone, it will now be possible to supply to a rapidly developing market via the grid which is to be established serving all the major cities in the Province and beyond. It is apparent from other natural gas grids in China that once supply has been established then there is rapid expansion of demand.

## **DEVELOPMENT OF THE LS36-1 GAS FIELD**

LS36-1 has a relatively small resource and was previously regarded as sub-commercial. However, having regard to the general escalation of world oil and gas prices, the continued economic growth of China and the rapid growth of gas infrastructure in China, in early 2007 Primeline and CNOOC decided to commence work on establishing its commerciality.

In October 2008, following the completion of the Feasibility Study, CNOOC China and Zhejiang Gas entered into the Gas Sale Agreement. The Gas Sale Agreement was an agreement in principle which defined the general terms on which Zhejiang Gas agreed to purchase the future production of natural gas from the LS36-1 Gas Field. Subsequently, on July 7, 2010, CNOOC China and Zhejiang Gas entered into the Framework Agreement which set out the terms of the gas sale arrangements in more detail and which replaced the Gas Sale Agreement. See “Gas Sale Agreement and Framework Agreement”.

Following execution of the Gas Sale Agreement, Primeline and CNOOC commenced preparation of the ODP for the stand alone development of the LS36-1 discovery. Following completion of the ODP in December 2009, the Contractors and CNOOC confirmed the commerciality of the LS36-1 Gas Field and agreed to proceed with the Development. Subsequently, on March 17, 2010, Primeline, PPC and CNOOC entered into the SDA and the other Development Agreements which confirmed the agreement of CNOOC to take a 51% interest in the Development and set out the basis on which the parties have agreed to proceed with the Development. See “Development Agreements”.

Since then, CNOOC as operator has been carrying out detailed engineering design, procurement and fabrication and the full development construction operations of the LS36-1 Development in order to maintain the development schedule of first gas by end 2013/early 2014. As at the date of this AIF, the Development is about 95% complete and is on schedule and on budget.

## **Gas Sale Agreement and Framework Agreement**

In October 2008, CNOOC China and Zhejiang Gas entered into the Gas Sale Agreement. In doing so, CNOOC China acted on its own behalf and on behalf of Primeline Energy and Primeline Petroleum. The Gas Sale Agreement was an agreement in principle which defined the general terms on which Zhejiang Gas agreed to purchase the future production of natural gas from the LS36-1 Gas Field, including the quality of the gas, take-or-pay principles, base price, annual quantity and delivery schedule. The principles set out in the Gas Sale Agreement governed the further negotiation of the more formal Framework Agreement. During the ODP process Primeline, CNOOC China and Zhejiang Gas negotiated the detailed terms of the gas sale, including the delivery point, delivery profile, final delivery gas price, and payment terms, which detailed terms are incorporated in the formal Framework Agreement which is dated July 7, 2010 and which replaced the Gas Sale Agreement.

CNOOC and Zhejiang Gas have also entered into a further agreement which supplements the Framework Agreement. The Framework Agreement specifies the base gas price at a delivery point at the terminal and the supplemental agreement provides for a revised delivery point and increased delivery pressure, together with an increased gas price at the delivery point to compensate for the increase in the development costs caused by such changes.

The Framework Agreement will in due course be replaced by the final gas sale contract, which is currently in the course of negotiation and is expected to be finalised prior to the first delivery of gas.

CNOOC entered into a separate agreement with Primeline and PPC confirming that Primeline's and PPC's share of the gas (being 36.75% and 12.25% respectively) from the LS36-1 Gas Field will be sold through CNOOC on the same terms as those in the Gas Sale Agreement and the Framework Agreement.

## **CO2 Sales**

The raw gas in LS36-1 contains CO<sub>2</sub> which must be extracted as part of the treatment process before sale of the natural gas into the Zhejiang provincial gas grid. China is imposing tighter environmental controls and the current regulations require that the CO<sub>2</sub> extracted from natural gas must be properly dealt with. Under the ODP it is intended that the CO<sub>2</sub> should be extracted and then liquefied to create food grade liquid CO<sub>2</sub> which can be sold into the local market. Primeline commissioned a detailed market research report to assess the market for liquid CO<sub>2</sub>, which report confirmed that there is a rapidly growing market for CO<sub>2</sub> products in the East China region with applications including metal processing, fabrication (particularly in the ship building industry) and numerous uses in the food industry.

In December 2009 Primeline and CNOOC concluded initial negotiations with the three largest CO<sub>2</sub> distribution companies in Zhejiang and Fujian Provinces which resulted in Framework Distribution Agreements ("CO<sub>2</sub> Agreements") being signed between CNOOC and each of the three distribution companies. In entering into the CO<sub>2</sub> Agreements, CNOOC acted on its own behalf and on behalf of Primeline and PPC. A separate agreement was entered into between CNOOC, Primeline and PPC outlining the terms of authorisation for CNOOC to sell the CO<sub>2</sub> on behalf of Primeline and PPC pursuant to the CO<sub>2</sub> Agreements.

Final CO<sub>2</sub> Sales Agreements, based on the Framework Distribution Agreements, are currently being negotiated.

Under the CO<sub>2</sub> Agreements the distribution companies agreed to purchase, on a take or pay basis, an aggregate amount of liquid CO<sub>2</sub> representing the initial proposed production from the LS36-1 Gas Field. The CO<sub>2</sub> Agreements define the general terms on which the distribution companies will buy and distribute the liquid CO<sub>2</sub> to be produced from the LS36-1 Gas Field. These three companies will sell the liquid CO<sub>2</sub> into the East China market, each being granted an exclusive distribution area. The ODP contains plans for a dock facility adjacent to the gas processing terminal which is intended to be used to facilitate the transportation of the liquid CO<sub>2</sub> by sea and which is currently under construction with completion estimated to be about the end of 2013.

On the basis of the price agreed for the sale of the liquid CO<sub>2</sub> it is anticipated that the full cost of the creation and operation of the CO<sub>2</sub> production facilities will be covered with a small profit.

## **Development Agreements**

On March 17, 2010, Primeline, PPC, CNOOC and CNOOC China signed the Development Agreements which comprise the SDA, the JOA and the Implementation Agreement and which set out the basis on which CNOOC, Primeline and PPC agreed to proceed with the development of the LS36-1 Gas Field.

Under the SDA, which was entered into between CNOOC, Primeline and PPC, CNOOC formally confirmed that it would exercise its right under Petroleum Contract 25/34 to take its full participating interest of 51% in the LS36-1 Gas Field, so that the respective participating interests in the development of and production from the LS36-1 Gas Field are 51% CNOOC, 36.75% Primeline and 12.25% PPC. The development and operating costs will be borne by the parties in their respective participating interests.

Pursuant to the SDA:

LOC, a wholly owned subsidiary of CNOOC China, was appointed as the Operator for the development and production operations for the LS36-1 Gas Field;

a development area of 84.7 sq kms surrounding the LS36-1 Gas Field was carved out of Block 25/34;

the production period for the LS36-1 Gas Field was agreed to be for a minimum of 15 years from the commencement of commercial production and can be extended in the event that additional gas resources are discovered within Block 25/34 which can be tied into the production facilities established for LS36-1; and

the production facilities will be owned by the parties jointly in the proportions of their participating interests until full cost recovery and the parties shall have the continuing right, until the end of the production period, to use the production facility assets in respect of any additional resources which may be discovered within Block 25/34 and which can be tied into such production facility assets. The MOA states that this provision will be extended to include additional resources discovered in Block 33/07 and this has subsequently been confirmed by the terms of Petroleum Contract 33/07.

The SDA was ratified by the Ministry of Commerce of the People's Republic of China on June 13, 2010, when the SDA became effective.

The JOA, which was entered into between CNOOC China, Primeline and PPC, sets out the basis on which CNOOC China agreed to establish a project management team in Shanghai under LOC in order to carry out the development and production operations. In particular, it provided that Primeline may appoint certain key members to the project management team who will be involved in all procurement and operational decisions and grants Primeline a significant degree of control over how those operations are carried out with all major decisions being by unanimous decisions of the parties. The JOA is supplemental to the SDA.

In the Implementation Agreement, Primeline, PPC and CNOOC agreed that the development preparation work needed to be implemented immediately in order that the Development can be completed in time to deliver first gas to Zhejiang Gas in accordance with the agreed target date and it was agreed that CNOOC would be responsible for such initial preparation work in order to maintain the target. The Implementation Agreement set out the agreed principle that as much of the procurement of the Development as possible should be contracted using long term procurement contracts established by CNOOC in order to achieve cost savings so that the Development could be delivered as economically and efficiently as possible. CNOOC also agreed that Primeline and PPC shall have no obligation to fund cash calls in relation to their share of the costs of the Development until three months after notification of the grant of ODP approval by the Chinese government.

## **Transfer of Operatorship for the Development**

As referred to above, the Development Agreements transferred the operatorship for the development and production operations for the LS36-1 Gas Field from PEOIL to LOC, which has been established as a wholly owned subsidiary of CNOOC China, which is, in turn, a subsidiary of CNOOC. Various benefits were expected to flow from this transfer of operatorship. Firstly, CNOOC has an established project management team which has considerable relevant experience and could be mobilised with minimum delay. Secondly, as a subsidiary of CNOOC, LOC is able to procure the services and equipment required for the development of the LS36-1 Gas Field on the basis of existing CNOOC long term procurement contracts with various contractors which, together with other operational efficiencies, should result in cost savings for the Development. LOC acts as operator only in respect of the development and production operations for the LS36-1 Gas Field; PEOIL acts as operator under Petroleum Contract 33/07.

## **ODP**

Primeline commenced work on the ODP in November 2008. The ODP, which comprises a formal development engineering plan, backed up by survey results and environmental studies, together with a full economic analysis of the Development, is required to be filed with the Chinese Government, acting through the NDRC, for confirmation. An Environmental Impact Assessment for the Development is required to be filed as part of the ODP submission

and the approval process for the EIA has been significantly tightened recently as part of China's efforts to improve environmental controls. This, coupled with the necessity to find and acquire an alternative terminal site, resulted in additional work being required in order to finalise these regulatory documents which, in turn, resulted in significant delay in filing the ODP with the NDRC.

Primeline and CNOOC Research entered into a technical services agreement in February 2009, under which CNOOC Research undertook to take overall responsibility for the compilation and technical approval of the ODP, including management of the various surveys and third party services and the technical design and analytical work. The contracting of third party studies and surveys was jointly managed by CNOOC Research and Primeline through normal tendering and negotiation procedures. The most important survey work was the pipeline route survey and platform site survey. Other survey work included environmental surveys for the platform, pipeline, terminal and jetty, the site survey for the terminal and the fishery resources survey. CNOOC Research was responsible for obtaining technical approval of the ODP from all appropriate Chinese State Authorities. Under the terms of Petroleum Contract 25/34, the costs of the ODP were borne by Primeline and PPC in the proportions 75/25 up to the point at which the operatorship for the Development was transferred to CNOOC pursuant to the Development Agreements. Subsequently, the costs of revising and filing the ODP have been borne by CNOOC.

CNOOC Research has produced the overall development programs for over 40 previous offshore developments and is the most authoritative body for such work in China. CNOOC Research established a team of about 40 technical personnel for this ODP project from 28 disciplines, including reservoir engineering, facilities engineering, drilling production and economics.

As part of the ODP, Primeline and CNOOC worked with the Wenzhou Municipal Authority to secure the land for the landing point for the proposed offshore pipeline and the onshore gas processing terminal and, following an initial delay arising out of the necessity to change the site selected for the terminal, the site for the terminal was acquired by CNOOC China in October 2011 and it was agreed that the land will be leased to CNOOC, Primeline and PPC, acting jointly under Petroleum Contract 25/34, for the purposes of the Development. The acquisition of the terminal site allowed all designs to be finalised for submission of the ODP to the Chinese Government. The technical work for the ODP, supported by completed surveys and additional study results, was completed in July 2009 and Primeline and CNOOC held a joint review meeting in late July in Shanghai to review the initial results. Following that initial review, additional work was carried out and the final review by CNOOC Head Office was held in August 2009. Following the review and acceptance of the ODP technical work in late August 2009, CNOOC Research finalised the ODP report and prepared the supporting documentation required for government approval. The supporting documentation included an occupational hazard assessment, a safety assessment report and the EIA.

With the resolution of the terminal issue and confirmation of the point of delivery to Zhejiang Gas, CNOOC moved onto revision and finalisation of the ODP for submission to the NDRC and, in particular, to the completion of the EIA for the new terminal site and the gas pipeline route between the terminal and the delivery point, which was the main outstanding document required for that submission. The EIA was completed in early 2011 and approved by CNOOC in March 2011. The EIA was then submitted to the State Oceanic Administration (SOA) for approval in September 2011. However, the SOA approvals procedures were delayed as a result of an offshore oil seepage in June 2011 in Bohai Bay, Northern China and it took until May 2012 for the EIA to be finally approved by the SOA, clearing the path for the regulatory approval for civil construction.

The safety assessment approval for the Development was granted on June 28, 2011; the occupational hazard assessment approval was granted on December 13, 2011 and the pipeline route approval was granted on February 27, 2012 by relevant government departments. The final ODP was filed with the NDRC for confirmation on May 30, 2012. Subsequently, NDRC appointed China National Petroleum Corporation Consulting Limited ("CNPC Consulting") to review the LS36-1 Development's ODP. The review meeting was held in Beijing in August 2012 when the expert panel critically reviewed the ODP and passed the ODP with minor comments. The formal review report was then submitted by CNPC Consulting to NDRC. NDRC subsequently requested additional information in

relation to the terminal site which CNOOC supplied in July 2013 and CNOOC and Primeline are now waiting for the confirmation of approval of the ODP. Separately, the preliminary ocean area usage approval was granted by SOA on February 4, 2013.

## Development Progress

With the execution of the Development Agreements in March 2010, CNOOC commenced the Development as operator. However, it then became apparent that the site originally selected for the construction of the gas processing terminal would not be suitable and work then commenced on identifying and acquiring a suitable alternative site for the terminal. In November 2010, following acquisition of the alternative terminal site in October, CNOOC commenced the engineering design whilst the documentation for submission of the ODP was being finalised. Pursuant to the Implementation Agreement, CNOOC agreed to progress and be responsible for the preparation work for the development operations until such time as all government approvals had been obtained so that the Development schedule could be maintained. The Joint Management Committee established by CNOOC and Primeline and the CNOOC Investment Committee approved the Development in July 2011 and since then CNOOC, as the operator, has been carrying out detailed engineering design, procurement, fabrication and installation for the Development.

With the terminal land issue finally resolved, the basic engineering design for the terminal was completed in November 2011, following completion of the design for the pipeline and platform in July 2011. A final review meeting was held in Shanghai in November 2011 when CNOOC and Primeline accepted the basic design work. Detailed design commenced July 2011 and fabrication commenced in October 2011.

With progress being made in obtaining the regulatory approval on environment matters, CNOOC proceeded with the full development operations in order to maintain the agreed development schedule.

To date, CNOOC has carried out the following work on the Development:

- Completed the engineering design and procurement of the Development
  - Completed the laying of the offshore pipeline in September 2012, and the offshore section of the sales gas pipeline in April 2013
  - Completed the platform jacket fabrication and completed the installation of the platform jacket in July 2012
  - Completed the phase one development drilling and completion work for four producing wells in April 2013
- Completed the fabrication of the platform topsides, and successfully installed it on the platform jacket in May 2013  
Completed the majority of the engineering work for the onshore gas processing terminal.

The platform, offshore pipeline and the terminal achieved mechanical completion in June 2013 and the production operation team has been working on the platform and terminal since June 2013, carrying out production preparation and commissioning work.

The remainder of the development construction work, which will be carried out in next few months, consists of:

- the completion of the last 3.6 km (onshore section) of the sales gas pipeline in order to connect to the Zhejiang Provincial Gas Pipeline and gas distribution facility in Wenzhou
- the completion of a small jetty next to the terminal for the transportation of CO<sub>2</sub> and hydrocarbon liquid products
- the completion of commissioning of the platform, terminal and pipeline
- the completion of joint commissioning of the production facility including the wells trial production

So far, the total development engineering work is anticipated to be in line with the time schedule as planned three years ago, and is on budget.

Once all development commissioning is completed, the connection to the provincial gas grid and Wenzhou city local grid will be implemented. CNOOC and Primeline are working closely with Zhejiang provincial government, Zhejiang Gas Development Co. and Wenzhou Municipality Government and other entities to ensure a smooth connection process. Full gas production is expected around the end of 2013, early 2014.

## Development Finance

In May 2010, PECL and PPC, and CDB entered into a loan memorandum to confirm the terms on which CDB agreed to provide a loan facility for PECL and PPC's share of the costs of the Development. PECL, PPC and CDB negotiated a revised loan memorandum ("Loan Memorandum"), to take into account the various changes and progress made in relation to the Development since 2010, which was signed on November 2, 2012 and which replaced the previous loan memorandum. Pursuant to the Loan Memorandum, CDB agreed in principle to provide a loan facility to PECL and PPC, as joint borrowers, in order to fund a portion of their respective shares of the costs of the Development.

The Loan Memorandum provides that the principal amount of the loan is to be US \$300,000,000 and states that the loan is to bear interest at a floating rate of six month LIBOR plus 480 basis points, rising to 510 basis points upon expiration of the support letter from Mr. Victor Hwang referred to below, subject to final negotiation. The loan is to have a term of 11 years, consisting of an availability period of one year (from the date of the first drawdown) and a repayment period of 10 years. The proceeds of the loan are to be used only for the Development.

The investment budget for the Development under the ODP is approximately RMB 4,564 million including the development costs of RMB 3,811 million, accredited exploration costs which Primeline expended in Block 25/34 and future abandonment costs. CNOOC's share of the development costs is approximately RMB 1,943 million and PECL and PPC's share is approximately RMB 1,867 million. The loan amount of US\$300 million equates to approximately RMB 1,873 million. The Loan Memorandum provides that PECL and PPC are collectively required to contribute an amount, referred to as "project equity", towards the total investment amount quoted in the ODP, which project equity amount is stated to be RMB ¥493 million. PECL and PPC have between them already invested approximately RMB 454 million, being the exploration expenditure incurred in relation to Block 25/34, which amount is included in the ODP investment budget, and therefore the amount required to be contributed in the future by them as "project equity funding" is approximately RMB 39 million (approximately US\$ 6.3 million). PECL will be required to contribute 75% of this amount, being RMB 29 million (approximately US\$ 4.7 million). The Company is currently reviewing its options with respect to financing the "project equity" contribution from PECL.

The Loan Memorandum was subject to the approval of CDB's credit committee and various conditions precedent for entry into a legally binding loan agreement are set out in the Loan Memorandum, including approval of the ODP by the NDRC and a support letter from Mr. Victor Hwang confirming his undertaking to arrange for additional funding to be made available to PECL and PPC to the extent necessary to ensure the completion of the Development, that the design production level specified in the ODP is reached and that PECL and PPC are able to timely repay principal and interest on the loan until such time. Such support is to cease once such production level has been achieved.

Primeline has been informed that the CDB credit committee has approved in principle the granting of the loan substantially on the terms of the Loan Memorandum, subject to concluding arrangements with Primeline for the provision of additional security to cover the period until the Development reaches the design production level specified in the ODP in addition to that provided for in the Loan Memorandum. Primeline and CDB are now in the process of negotiating and finalising the formal loan agreement and the security arrangements and documentation.

CDB (<http://www.cdb.com.cn>) is a financial institution in China under the direct jurisdiction of the State Council with net assets over US\$1 trillion. It is primarily responsible for raising funding for large infrastructure projects. Debt issued by CDB is fully guaranteed by the central government of the People's Republic of China. CDB is one of the biggest issuers of bonds in China. CDB's mission statement reads "CDB provides medium to long term

financing facilities that assist in the development of a robust economy and a healthy prosperous community, it aligns its business with national economic strategy and allocates resources to break through bottlenecks in China's economic and social development. CDB carries out its mission by supporting the development of national infrastructure, basic industry, key emerging sectors and national priority projects ...". The nature of Primeline's business accordingly qualifies for support from CDB.

The formal loan agreement will be signed after the approval of the ODP by the NDRC. However, under the terms of the agreements relating to the Development entered into by the Company, PPC and CNOOC in March 2010, Primeline has no obligation to provide funding for the Development until after such approval has been obtained.

## **EXPLORATION**

### **Lishui Gas Play**

During 2006/2007, Primeline completed the acquisition of 550 sq kms 3D seismic data. That data was then merged with the previous 3D data to make a total full fold data set of 737 sq kms, covering LS36-1 and nearby prospects. The data was then evaluated in order to define prospects and possible drilling locations in the area adjacent to LS36-1. Primeline's evaluation confirmed the existence of channel and canyon systems and several sizeable prospects were mapped in this area. Geophysical features associated with LS36-1, including AVO anomalies and bright spots, were also found on these prospects.

Following completion of 3D seismic interpretations, Primeline agreed with CNOOC that the two best locations for exploration drilling in the Block, were LS35-3 and LS30-3 and completed the well design and surveyed both well sites.

#### **LS35-3-1**

LS35-3 is approximately 14.5 km from the LS36-1 discovery and is one of several channel system prospects Primeline identified in the area adjacent to the LS36-1 Gas Field. On March 5, 2010 Primeline entered into a turnkey drilling contract for exploration well LS35-3-1 within the LS35-3 prospect. The well was spudded on April 12, 2010 and reached a TD of 2,908m.

At TD, Primeline implemented a programme of electric logging and conducted a formation evaluation logging programme including Vertical Seismic Profiling, Reservoir Characterisation Instrument and side wall coring. Three target zones were tested. Zone 1 comprised good quality porous sand of over 44m, somewhat better in quality than at the LS36-1 Gas Field, but had no indication of hydrocarbons. The most probable reason for the lack of hydrocarbons in Zone 1 is thought to be up-dip leakage from this sand level at this stratigraphic trap location. Zone 2 comprised sandstone with mudstone interbeds and had limited indications of hydrocarbons. Zone 3 also comprised sandstone with mudstone interbeds but had two zones of potential pay gas which were subject to drill stem testing (DST). There was no flow of hydrocarbons to the surface on DST 1 but on DST 2, conducted over a depth range of 2,794–2,802m MD, gas flowed naturally to the surface and was flared continuously and steadily for over 7 hours. A second flow period was attempted after an 18 hour shut-in but was unsuccessful because the test valve was blocked by formation sand. Gas samples were collected at the wellhead and fluid samples were collected from the wellbore for laboratory analysis. The test programme ended on May 29 and the LS35-3-1 well was declared as a gas discovery although the levels of gas found were insufficient for the discovery to be regarded as commercial.

This discovery is significant in that it confirms that hydrocarbons have migrated to and are trapped in the west flank of the West Lishui Basin, the majority of which is inside Block 33/07. Three channel systems have been mapped and delineated in Primeline's 3D area, with others recognised to the north of that area which is covered by 2D seismic data. The LS35-3-1 discovery is also the first surface flow of natural gas from a low permeability reservoir in the southern East China Sea. This is significant, not only for further exploration in the Block, but also for upside

in the Development. The LS36-1 Gas Field has over 200 metres of gas-bearing low-permeability reservoirs which are directly below the gas zone being developed.

Success in flowing gas at reasonable rates from these deeper, tighter reservoirs could convert some of the gas-in-place in the lower sands at LS36-1 Gas Field into producible reserves. Any gas produced from these lower zones would significantly enhance the economics of the Development as production would be through the same infrastructure, which will be financed by the production from the upper zone.

Trap integrity is now the biggest exploration prospect-specific risk going forward. Finding Zone 1 to be water bearing at LS35-3-1 was a setback to Primeline's concept of using high seismic amplitudes coupled with AVO seismic attributes as a direct indicator of hydrocarbons. The rock physics from LS35-3-1 has confirmed that water filled porous sands will also generate an AVO response. Primeline is continuing with traditional mapping and trap definition techniques to reduce the exploration risk.

## **Future Exploration**

The current 3D seismic area is only 15% of the total area of the Block 33/07, which covers the majority of the Lishui West Basin. In and around this basin there are a total of seven previously drilled wells (in addition to Primeline's discovery wells) that had various forms of hydrocarbon shows and flows. Primeline believes that channel and canyon systems are likely to extend along the basin margin and could be developed as future drilling targets. As a result, Primeline believes there are likely to be significant additional hydrocarbon resources in the West Lishui Basin to be discovered and this has been confirmed by the hydrocarbon discovery at LS35-3-1.

During 2008, Primeline furthered its regional geological and geophysical evaluation of Block 25/34 and the Lishui Basin with a selective re-processing of 2D seismic data as the 23,000 km of 2D seismic data available to Primeline is of various vintages spanning over 20 years. A total of 3,517 km 2D seismic data were reprocessed based on parameters fixed after an extensive testing programme. The reprocessing was completed in November 2008 and interpretation was completed in 2009.

Following the drilling of the LS35-3-1 exploration well, Primeline conducted a detailed post well evaluation of the data gathered in the well and re-evaluated the remainder of the Block using the new data. Proving the presence of trapped hydrocarbons on the Western Flank of the Lishui Basin supports Primeline's hydrocarbon source generation and migration model. The low CO<sub>2</sub> levels at LS35-3-1 also supports Primeline's view that the CO<sub>2</sub> present at the LS36-1 Gas Field is a result of localised and late CO<sub>2</sub> generation in isolated areas and that CO<sub>2</sub> is not regionally present throughout the basin.

Primeline has re-evaluated some of the different prospect types previously recognised and under the Petroleum Contract for 33/07, Primeline will shoot additional 3D seismic before implementing any future exploration drilling.

Exploration drilling is planned for 2104 after establishing production from LS36-1.

Since November 2012, Primeline has been working closely with CNOOC in trying to secure a 3D seismic boat for the 3D seismic acquisition work. The seismic work will be implemented as soon as the boat is secured.

## **LS36-1 RESERVE AUDIT AND EXPLORATION PROSPECTIVITY**

In early 2007 Primeline took steps to register the reserves for the LS36-1 Gas Field with the Chinese State Reserve Committee (these are not Reserves within the meaning of NI 51-101). Primeline commissioned CNOOC to prepare a reserve report for the LS36-1 discovery in accordance with the Chinese government regulations in order to obtain "Development Reserves" status. The reserve report, which is an essential component of any official development plan submission as well as the fundamental basis for any discussions relating to a gas sale contract, was approved by the State Reserve Committee on July 5, 2007. It should be noted that the existence of a reserve report approved



under Chinese government regulation does not mean Primeline has Reserves within the meaning of NI 51-101, as these are two different regulatory regimes.

At the same time, in order to comply with Canadian reporting requirements, Primeline retained McDaniel to carry out an independent resource audit. 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. In July 2007, McDaniel submitted to Primeline its independent resource estimate for Block 25/34 for filing with the appropriate Canadian securities regulatory authorities and the Exchange in accordance with NI 51-101. Such resource estimate has subsequently been updated annually having regard to the progress made in relation to the Development.

The Company appointed McDaniel to update its independent evaluation of its assets, including the LS36-1 Gas Field and Block 33/07, following completion of the initial development drilling in April 2013, for the financial year ending March 31, 2013. McDaniel has been the independent engineering auditor for the Company since 2007 and has witnessed the full progress of the Development from feasibility study, ODP, to currently approaching completion. They have reviewed the full current development status, including the engineering, development drilling and commercial progress, as well as ODP report and the Gas Sale Agreement and Framework Agreement, as at March 31, 2013 and have updated their evaluation of the natural gas and natural gas liquid reserves located in the LS36-1 Gas Field in accordance with the standards set out in Canadian National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook (COGEH). McDaniel's evaluation estimates that the LS36-1 Gas Field has total project recoverable Proved Reserves of 50.4 Bcf of natural gas and 2.5 MMbbl of natural gas liquids, and Proved + Probable Reserves of 66.9 Bcf of natural gas and 3.5MMbbl of natural gas liquids, which translates to Company net Proved + Probable Reserves of 25.8Bcf of gas and 1.4MMbbl of natural gas liquids. The total Proved and Probable BOE for the Project is 14.7MMbbl and net to the Company is 5.7MMbbl. The total Proved + Probable + Possible BOE for the Project is 19.1MMbbl, and net to Company at 7.3MMbbl, with gas converted to oil in the rate of six thousand cubic feet of gas to one barrel of oil (6 Mcf : 1bbl) and 1 barrel of LPG to one barrel of oil (1bbl : 1bbl). 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.

#### Summary of Reserves (1) (2)

<u>Reserve Category</u>	<u>Natural Gas Reserves</u>			<u>LPG Reserves (3)</u>		
	<u>Property</u>	<u>Company</u>	<u>Company</u>	<u>Property</u>	<u>Company</u>	<u>Company</u>
	<u>Gross</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Gross</u>	<u>Net</u>
	<u>MMcf</u>	<u>MMcf</u>	<u>MMcf</u>	<u>Mbbl</u>	<u>Mbbl</u>	<u>Mbbl</u>
Total Proved Reserves	50,380	18,515	19,732	1,888	694	739
Probable Reserves	16,564	6,087	6,054	621	228	227
Proved Plus Probable Reserves	66,944	24,602	25,786	2,509	922	966
Possible Reserves	20,575	7,561	7,536	771	283	282
Proved + Prob. + Poss. Reserves	87,519	32,163	33,323	3,280	1,205	1,249

  

<u>Reserve Category</u>	<u>Condensate &amp; Oil Reserves</u>			<u>BOE Reserves (4)</u>		
	<u>Property</u>	<u>Company</u>	<u>Company</u>	<u>Property</u>	<u>Company</u>	<u>Company</u>
	<u>Gross</u>	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Gross</u>	<u>Net</u>
	<u>Mbbl</u>	<u>Mbbl</u>	<u>Mbbl</u>	<u>Mbbl</u>	<u>Mbbl</u>	<u>Mbbl</u>
Total Proved Reserves	655	241	269	10,940	4,021	4,297
Probable Reserves	359	132	137	3,740	1,375	1,373
Proved Plus Probable Reserves	1,014	373	406	14,680	5,395	5,670
Possible Reserves	259	95	99	4,460	1,639	1,637
Proved + Prob. + Poss. Reserves	1,274	468	505	19,140	7,034	7,308

- (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.

Under the reporting definitions, there is a 90% probability under a specific set of economic conditions that the quantities actually recovered will equal or exceed the estimated Proved Reserves and a 50% probability that the quantities actually recovered will equal or exceed the estimated 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 estimated Proved plus Probable plus Possible Reserves.

Based on the Framework Agreement with Zhejiang Gas and their view of the full product price, together with the development costs spent to date and commercial arrangements made by Primeline relating to the Development, McDaniel estimates a net present value before tax for the LS36-1 project's Proved + Probable Reserves, net to Primeline, of US\$115 million at a discount rate of 5% and US\$203million, again net to Primeline, when the Possible Reserves in LS 36-1 are included. It should be noted that these estimated net present values are not estimates of fair market value.

#### ESTIMATED COMPANY SHARE OF NET PRESENT VALUES OF THE RESERVES

AS OF MARCH 31, 2013

\$M US (1) (2) (3) (4)

	Net Present Value Discounted At				
	0%	5%	10%	15%	20%
<b>Before Income Taxes</b>					
<b>Total Proved Reserves</b>	72,879	40,269	14,958	(4,982)	(20,899)
Probable Reserves	98,145	74,890	58,664	47,057	38,565
<b>Total Proved &amp; Probable Reserves</b>	171,023	115,158	73,622	42,075	17,666
Possible Reserves	125,466	88,689	64,710	48,604	37,487
<b>Total Proved &amp; Probable &amp; Possible Reserves</b>	296,490	203,847	138,332	90,679	55,154
<b>After Income Taxes</b>					
<b>Total Proved Reserves</b>	68,038	36,547	12,050	(7,287)	(22,750)
Probable Reserves	73,577	56,536	44,660	36,169	29,957
<b>Total Proved &amp; Probable Reserves</b>	141,616	93,083	56,710	28,882	7,207
Possible Reserves	94,065	66,636	48,785	36,811	28,555
<b>Total Proved &amp; Probable &amp; Possible Reserves</b>	235,680	159,719	105,495	65,693	35,763

- (1) Based on forecast prices and costs at April 1, 2013 (see Price Forecasts in Table 9).
- (2) Interest expenses and corporate overhead etc. were not included.
- (3) The net present values may not necessarily represent the fair market value of the reserves.
- (4) Company Share of Net Present Values are after the deduction of Chinese Corporation Tax.

In their 2012 report, McDaniel assigned no Proved Reserves and the Probable Reserve of gas was 119Bcf for the project and 44Bcf net to the Company. Following the development progress and development drilling results, Proved Reserves have now been assigned but the Proved + Probable is reduced, compared to the previous evaluation. The downward adjustment of the reserves is partly as a result of a reduction in the northern part of the field where the development drilling results showed a reduced structural elevation in that part of the field causing

most of the developed reservoir there to be below a conservative gas water contact. All initial production will now come from the southern part of the field where sufficient well capacity has been assured to meet the contracted gas deliverability. Developed reserves are not assigned as McDaniel noted that there are still significant expenditure to be spent on the Development as of March 31, 2013 (although subsequently works were largely completed as noted above). McDaniel's current Proved + Probable reserves is very similar to the reserves used by CNOOC in the ODP.

Additionally, McDaniel evaluates that there are substantial Prospective Resources in the lower geological section beneath the developed zone which as yet cannot be assigned as Reserves under COGEH guidelines. McDaniel has estimated 143 Bcf of unrisks mean and 72 Bcf of risks mean Prospective Resources within the LS36-1 gas field with an average chance of success of over 50% or over 70% for the upper three main sands. McDaniel states that "Primeline intends to drill the prospective resources from the production platform using some of the 5 unused drilling slots, and, if successful, the resources could be upgraded to reserves and added to the production stream". There are also other candidate prospects for drilling from the platform to which McDaniel estimates unrisks and risks mean Prospective Resources of 47Bcf and 16Bcf respectively. McDaniel noted that there is spare production capacity built into the LS36-1 Development which could cope with future expansion. Experience in the oil industry in general has shown that once infrastructure is established in a basin, additional resources will be found to tie into that infrastructure.

McDaniel also evaluated the 3D area surrounding the LS36-1 and assessed that within the three prospects close to LS36-1 Development in the 3D area, there could be a mean unrisks Prospective Resources of 499 Bcf with a chance of success ranging between 14% and 28%.

Management believes the risks estimates of Prospective Resources have been appropriately risks for chance of discovery, if drilled. However, the values have not yet been additionally risks for the chance of development. On this basis, following the guidelines in the COGE Handbook and NI 51-101, the risks mean estimate of Prospective Resources should be considered to represent partially risks volumes. There is no certainty that any portion of the Prospective Resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the Prospective Resources. If the Prospective Resources are developed, there is no certainty as to the timing of such development.

Primeline Energy Holdings Inc.  
**LS36-1 Development Area & Block 33/07 - People's Republic of China**  
**Summary of Resource Estimates - Property Gross Values (1) (2) (3)**  
 Effective March 31, 2013

Table 10

Prospective Resources - Natural Gas		Prospective Resources - Unrisked (1)				Risked (2)	Chance of Success %
		Low MMcf	Median MMcf	Mean MMcf	High MMcf	Resources Mean MMcf	
Prospect	Zone						
LS36-1	Paleocene - M1-0	2,725	5,513	6,370	11,087	4,644	73
LS36-1	Paleocene - M1-1 South	1,759	3,965	4,779	8,931	3,484	73
LS36-1	Paleocene - M2	5,046	14,464	18,934	38,513	11,360	60
LS36-1	Paleocene - M3	14,187	31,725	37,210	67,032	26,047	70
LS36-1	Paleocene - L1	8,351	23,772	32,862	69,109	16,431	50
LS36-1	Paleocene - L2	2,379	5,363	6,444	11,822	2,577	40
LS30-8	Paleocene - M2	9,136	27,070	36,195	73,148	7,601	21
<b>LS36-1 Development Area (Sub-total)</b>		<b>43,584</b>	<b>111,871</b>	<b>142,794</b>	<b>279,641</b>	<b>72,145</b>	
LS30-3	Paleocene - M1-1	14,631	32,007	38,820	71,810	10,870	28
LS30-3	Paleocene - M1-2	43,387	178,831	315,221	727,991	88,262	28
LS29-2	Paleocene - M1-2	19,016	47,306	60,442	117,561	14,506	24
LS29-3	Paleocene - M1-2	7,090	22,601	32,984	70,620	7,124	22
LS35-1	Paleocene - M1-2	14,592	38,521	51,441	105,723	7,407	14
<b>Block 33/07 (Sub-total)</b>		<b>98,715</b>	<b>319,266</b>	<b>498,907</b>	<b>1,093,706</b>	<b>128,170</b>	
<b>Total (3)</b>		<b>142,299</b>	<b>431,137</b>	<b>641,701</b>	<b>1,373,347</b>	<b>200,314</b>	

  

Prospective Resources - Condensate		Prospective Resources - Unrisked (1)				Risked (2)	Chance of Success %
		Low Mbbl	Median Mbbl	Mean Mbbl	High Mbbl	Resources Mean Mbbl	
Prospect	Zone						
LS36-1	Paleocene - M1-0	27	65	79	149	58	73
LS36-1	Paleocene - M1-1 South	17	47	60	118	44	73
LS36-1	Paleocene - M2	52	171	237	497	142	60
LS36-1	Paleocene - M3	144	374	465	897	325	70
LS36-1	Paleocene - L1	75	251	365	792	182	50
LS36-1	Paleocene - L2	20	57	72	141	29	40
<b>LS36-1 Development Area (Sub-total)</b>		<b>335</b>	<b>965</b>	<b>1,277</b>	<b>2,594</b>	<b>780</b>	
LS30-3	Paleocene - M1-1	176	454	584	1,143	164	28
LS30-3	Paleocene - M1-2	553	2,505	4,732	11,025	1,325	28
LS29-2	Paleocene - M1-2	233	667	909	1,878	218	24
LS29-3	Paleocene - M1-2	74	265	408	901	88	22
LS35-1	Paleocene - M1-2	146	452	646	1,363	93	14
<b>Block 33/07 (Sub-total)</b>		<b>1,182</b>	<b>4,343</b>	<b>7,279</b>	<b>16,310</b>	<b>1,888</b>	
<b>Total (3)</b>		<b>1,517</b>	<b>5,308</b>	<b>8,557</b>	<b>18,903</b>	<b>2,668</b>	

- (1) There is no certainty that any portion of the prospective 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 partially risked prospective resources that have been risked for chance of discovery, but have not been risked for chance of development.
- (3) Total based on an arithmetic aggregation of all the Prospect/Zones and as such there is >90 percent chance of exceeding the overall Low Total and <10 percent chance of exceeding the overall High Total

McDaniel & Associates  
 Consultants Ltd.

McDaniel commented that “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 5 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. The initial production plateau from 1P, 2P and 3P reserves may then be extended and/or the production level can be increased subject to reserve volumes and market demand.”

The effective date of McDaniel’s evaluation is March 31, 2013. A summary of the McDaniel’s report is available on Primeline’s website: <http://www.pehi.com>.

## **EQUITY AND WORKING CAPITAL FINANCING**

### **Past Equity Finance**

Prior to April 4, 2006 and completion of the private placement referred to below, Primeline and its operations were funded entirely by shareholder loans from Primeline International. After conversion of those loans into equity, Primeline’s operations have been funded from the net proceeds of the private placement and the subsequent Rights Offering and, more recently, by loan facilities from Mr. Victor Hwang, the chairman and controlling shareholder of Primeline, details of which are set out below.

On April 4, 2006, Primeline completed a private placement of 16,666,666 units at C\$1.50 per unit for gross proceeds of C\$25 million. Each unit consisted of one Share and one half of one common share purchase warrant. Each whole warrant entitled the holder to acquire one additional Share at a price of \$2.00 per Share for the two years following the closing of the private placement. All of the warrants subsequently lapsed unexercised. In connection with the private placement, Primeline International converted C\$7.9 million of debt owed to it by Primeline into 5,266,667 units, at a conversion price of C\$1.50 per unit.

In order to fund the cost of the turnkey drilling contract for LS35-3-1 Primeline effected an offering to shareholders of rights to subscribe for 47,020,623 Shares at \$0.50 per Share. The Rights Offering closed on May 6, 2010.

The rights were issued to holders of Shares of record on April 15, 2010. Each such shareholder was entitled to one right for each Share held. One right entitled a holder to purchase one Share at a price of \$0.50 per Share. Under the Rights Offering, shareholders subscribed for and purchased 39,640,833 Shares resulting in gross proceeds of \$19,820,416.50. Under a Standby Guarantee Agreement with Primeline, Primeline International purchased the balance of 7,379,790 Shares available under the Rights Offering, for gross proceeds of \$3,689,895. Aggregate gross proceeds of \$23,510,311.50 were received by Primeline. The net proceeds of the Rights Offering were used to pay for Primeline’s share of the costs of drilling and testing the LS35-3-1 exploration well, amounting to US\$28m (Primeline’s share being US\$21m), plus associated supervision and evaluation costs, with the balance remaining being retained for working capital purposes.

### **Working Capital Finance**

On May 26, 2011, Primeline entered into an agreement with Mr Hwang under which Mr Hwang granted Primeline a loan facility of up to US\$4,000,000 which could be drawdown in multiple tranches for working capital purposes. It was subsequently agreed that the terms of the facility be amended so that the period during which such facility was available to be drawn against was extended to November 30, 2012 and that the amount drawdown should be repayable on written demand at any time after April 30, 2014. That facility has been fully drawdown. In order to provide additional working capital through to March 31, 2013, an additional working capital facility was agreed

with Mr Hwang. The amount available under this additional facility was US\$1,650,000 which was available for drawdown at any time prior to March 31, 2013 and the amount drawdown is repayable on written demand at any time after July 31, 2014. That facility has also been fully drawdown. Subsequently, on March 31, 2013, Mr. Hwang made a further facility available in the amount of US\$1,000,000, which may be drawn down at any time prior to March 31, 2014 and which is repayable on demand after July 31, 2015. Amounts owing under all three facilities are interest free. As referred to below under 'Bond Issue' the total amount owing to Mr. Hwang under such working capital loan facilities will be settled pursuant to the issue of convertible bonds to Mr. Hwang.

## **Bond Issue**

On June 5, 2013, in order to secure funds for the proposed 3D seismic programme in 2013 and future working capital, the Company entered into a non binding term sheet with GEMS, a Hong Kong based manager of private equity funds, under which a fund managed by GEMS agreed to subscribe for up to US \$15 million of unsecured convertible bonds to be issued by Primeline (the "Bonds").

The Bonds are for 3 years with one year optional extension in certain circumstances to be agreed, and are to be issued in 3 tranches of US \$5 million each, to be drawn down within 9 months following entering into binding documentation. The first tranche must be drawn down within 1 month of binding documentation. Interest will be payable semi-annually at 7%, to be paid in cash at the rate of 4.5% per annum, plus in Common Shares at the rate of 2.5% per annum at option of the Company. The Bonds will be convertible at the option of the holder at any time from 12 months from the date of issue to maturity into Common Shares at a conversion price of CAD \$0.57 per share for the first tranche, CAD \$0.785 per share for the second tranche, and CAD \$1.00 per share for the third tranche. The Company will have the right to require conversion of some of the Bonds in circumstances to be agreed. On redemption, Primeline will be required to pay such amount as results in an aggregate return to GEMS of 10% per annum as of the date of redemption, with an additional premium in the event of a change of control.

GEMS will be entitled to nominate one voting member, and one alternate or observer to Primeline's board of directors. GEMS will have the right to participate in all further issuances of common shares, or securities convertible into common shares, by the Company, on a basis pro rata to its holding of common shares assuming conversion of the issued Bonds. The Company will pay GEMS a fee consisting of 1.88% of the principal amount of the Bonds in cash payable at the time of drawdown of the first tranche and 1.88% in Common Shares payable within 3 or 6 months from first drawdown.

Issue of the Bonds will be subject to customary conditions including satisfactory completion of due diligence, receipt of all required regulatory approvals, absence of adverse material change and approval of GEMS' Investment Committee.

If the Company enters into binding documentation with GEMS with respect to the Bonds, the Company will have 12 months exploration work and working capital fully funded.

On June 19, 2013 the Company's Chairman, President and major shareholder, Victor Hwang agreed to convert all his outstanding interest free working capital loan of US\$6.65 million to the Company into convertible bonds to be issued on the same terms as the Bonds with a fee at the same rate and terms, save that there will be no change of control premium. The issuance of the bonds to Mr. Hwang will be effected at the same time as the Bonds and is conditional on receipt of all necessary regulatory approvals.

# STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

## Date of Statement

This Form 51-101 F1 submitted by Primeline Energy Holdings Inc. (the "Company") is dated July 29, 2013. The information provided in this statement is effective March 31, 2013. The preparation date of the information provided in this statement is July 23, 2013.

## Disclosure of Reserves Data

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE as at March 31, 2013  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES (1)(2)							
	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)
CHINA								
Proved								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-Producing	-	-	-	-	-	-	-	-
Undeveloped	241	269	-	-	18,515	19,732	694	739
Total Proved	241	269	-	-	18,515	19,732	694	739
Probable	132	137	-	-	6,087	6,054	228	227
Total Proved Plus Probable	373	406	-	-	24,602	25,786	922	966
Possible	95	99	-	-	7,561	7,536	283	282
Total Proved Plus Probable Plus Possible	468	505	-	-	32,163	33,323	1,205	1,249

RESERVES CATEGORY	NET PRESENT VALUES OF FUTURE NET REVENUE (1) (2)(3)									
	BEFORE INCOME TAXES DISCOUNTED AT (%/year)					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
	0 (\$M US)	5 (\$M US)	10 (\$M US)	15 (\$M US)	20 (\$M US)	0 (\$M US)	5 (\$M US)	10 (\$M US)	15 (\$M US)	20 (\$M US)
CHINA										
Proved										
Developed Producing	-	-	-	-	-	-	-	-	-	-
Developed Non-Producing	-	-	-	-	-	-	-	-	-	-
Undeveloped	72,879	40,269	14,958	(4,982)	(20,899)	68,038	36,547	12,050	(7,287)	(22,750)
Total Proved	72,879	40,269	14,958	(4,982)	(20,899)	68,038	36,547	12,050	(7,287)	(22,750)
Probable	98,145	74,890	58,664	47,057	38,565	73,577	56,536	44,660	36,169	29,957
Total Proved Plus Probable	171,023	115,158	73,622	42,075	17,666	141,616	93,083	56,710	28,882	7,207
Possible	125,466	88,689	64,710	48,604	37,487	94,065	66,636	48,785	36,811	28,555
Total Proved Plus Probable Plus Possible	296,490	203,847	138,332	90,679	55,154	235,680	159,719	105,495	65,693	35,763

### Notes:

- (1) Company Gross reserves are based on a 36.75 percent working interest share of the property gross reserves.
- (2) Company Net reserves are based on a Company share of total Cost and Profit oil and, due to repayment of past costs, are greater than Company Gross.
- (3) The CO2 revenue offsets the capital and operating cost of CO2 production and therefore the value of any CO2 sales is assumed to be zero.

TOTAL FUTURE NET REVENUE  
(UNDISCOUNTED) as at March 31, 2013  
FORECAST PRICES AND COSTS

Reserves Category	Revenue (\$M US)	Royalties (\$M US)	Operating Costs (\$M US)	Development Costs (\$M US)	Well Abandonm ent Costs (\$M US)	Bonus (\$M US)	Future Revenue Before Income Tax (\$M US)	Corporate Taxes (\$M US)	Future Net Revenue After Income Tax (\$M US)
<b>CHINA</b>									
Total Proved Reserves	421,387	-	123,589	204,664	19,505	750	72,879	4,840	68,038
Total Proved Plus Probable Reserves	556,707	-	159,809	204,831	20,294	750	171,023	29,408	141,616
Total Proved Plus Probable Plus Possible	718,891	-	195,363	205,175	21,113	750	296,490	60,809	235,680

FUTURE NET REVENUE  
BY PRODUCTION GROUP  
as at March 31, 2013  
FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES(1) (discounted at 10%/year) (\$M US)	UNIT VALUE (\$/boe)
CHINA Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	937	3.48
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	14,021	3.48
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	5,274	12.98
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	68,348	12.98
Proved Plus Probable Plus Possible Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	9,561	18.93
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	128,771	18.93

Notes:

(1) The CO2 revenue offsets the capital and operating cost of CO2 production and therefore the value of any CO2 sales is assumed to be zero.

**Definitions and Other Notes**

In the tables set forth above in "Disclosure of Reserves Data" and elsewhere in this Report, the following definitions and other notes are applicable:

1. Definitions used for reserve categories are as follows:



Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- (a) an analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions (see the discussion of "Economic Assumptions" below).

Reserves are classified as follows, according to the degree of certainty associated with the estimates:

- (a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

#### **Development and Production Status**

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves in production. The developed category may be subdivided into producing and non-producing, as follows:
  - (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been in production, and the date of resumption of production must be known with reasonable certainty.
  - (ii) Developed non-producing reserves are those reserves that either have not been in production, or have previously been in production, but are shut-in, and the date of resumption of production is unknown.
  - (iii) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

#### **Levels of Certainty for Reported Reserves**

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
  - (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.
  - (c) at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.
1. A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.
  2. "Development well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
  3. "Development costs" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
    - (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
    - (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
    - (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
    - (d) provide improved recovery systems.
  4. "Exploration well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
  5. "Exploration costs" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:
    - (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
    - (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;

- (c) dry hole contributions and bottom hole contributions;
  - (d) costs of drilling and equipping exploratory wells; and
  - (e) costs of drilling exploratory type stratigraphic test wells.
6. "Service well" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.
  7. Numbers may not add due to rounding.
  8. The estimates of future net revenue presented in the tables above do not represent fair market value.

## PRICING ASSUMPTIONS

### SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS as at March 31, 2013 FORECAST PRICES AND COSTS

Year	BRENT Crude Oil Price(1) (\$US/bbl)	Sales Natural gas price(2) (\$US/Mcf)	Sales Cond. & oil price (\$US/bbl)	Sales LPG Price (\$US/bbl)	INFLATION RATE) %/Year
Forecast					
2013 (9 mo)	110.00	16.34	105.00	76.30	2.0
2014	103.50	16.34	98.40	71.50	2.0
2015	101.40	16.34	96.20	69.90	2.0
2016	100.80	16.34	95.49	69.39	2.0
2017	100.10	16.34	94.69	68.80	2.0
2018	102.20	16.34	96.68	70.25	2.0
2019	104.20	16.34	98.57	71.62	2.0
2020	106.30	16.34	100.56	73.07	2.0
2021	108.30	16.34	102.44	74.44	2.0
2022	110.60	16.34	104.62	76.02	2.0
2023	112.70	16.34	106.61	77.46	2.0
2024	115.00	16.34	108.78	79.04	2.0
2025	117.30	16.34	110.96	80.63	2.0
2026	119.60	16.34	113.13	82.20	2.0
2027	122.10	16.34	115.50	83.93	2.0
2028	124.54	16.34	117.81	85.61	2.0
2029	127.03	16.34	120.17	87.32	2.0
2030	129.57	16.34	122.57	89.06	2.0
2031	132.16	16.34	125.02	90.85	2.0
2032	134.81	16.34	127.52	92.66	2.0
Thereafter	+2.0%/yr	+ 0%/yr	+2.0%/yr	+2.0%/yr	2.0

Notes:

- (1) Based on the McDaniel & Associates Consultants Ltd. April 1, 2013 price forecast.
- (2) Natural Gas Prices excludes 5 percent VAT.

## RECONCILIATIONS OF CHANGES IN RESERVES

RECONCILIATION OF  
COMPANY GROSS RESERVES  
BY PRINCIPAL PRODUCT TYPE  
BASED ON FORECAST PRICES AND COSTS

FACTORS	LIGHT AND MEDIUM OIL			HEAVY OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)
March 31, 2012	-	671	671	-	-	-	-	43,871	43,871	-	1,133	1,133
Extensions	-	-	-	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	(539)	(298)	-	-	-	-	(37,784)	(19,269)	-	(905)	(211)
Discoveries	241	-	-	-	-	-	18,515	-	-	694	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
March 31, 2013	241	132	373	-	-	-	18,515	6,087	24,602	694	228	922

## ADDITIONAL INFORMATION RELATING TO RESERVES DATA

### Proved Undeveloped Reserves

These have been attributed based on analytical volumetric and recovery estimates and the Company's plan of development. Development is planned to continue in 2013 with first gas in around end 2013, early 2014.

Year	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	First Attributed (Mbbbl)	Booked (Mbbbl)	First Attributed (Mbbbl)	Booked (Mbbbl)	First Attributed (MMcf)	Booked (MMcf)	First Attributed (Mbbbl)	Booked (Mbbbl)
Prior thereto	-	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-
2013	241	241	-	-	18,515	18,515	694	694

### Probable Undeveloped Reserves

These have been attributed based on analytical volumetric and recovery estimates and the Company's plan of development. Development is planned to continue in 2013 with first gas in around end 2013, early 2014.

Year	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	First Attributed (Mbbbl)	Booked (Mbbbl)	First Attributed (Mbbbl)	Booked (Mbbbl)	First Attributed (MMcf)	Booked (MMcf)	First Attributed (Mbbbl)	Booked (Mbbbl)
Prior thereto	671	671	-	-	43,871	43,871	1,133	1,133
2011	-	671	-	-	-	43,871	-	1,133
2012	-	671	-	-	-	43,871	-	1,133
2013	-	132	-	-	-	6,087	-	228

### Significant Factors of Uncertainties

Aside from the potential impact of material fluctuations in commodity prices and foreign exchange rates, other significant factors or uncertainties that may affect either the Company's reserves or the future net revenue associated with such reserves include:

- Certain newly drilled or undeveloped properties may be considered less predictable insofar as estimating reserves and future net revenue are concerned until historical production performance data is available; and
- Changes to existing taxation, fiscal terms, and regulations may occur in the future.

### Future Development Costs

The development of the Reserves will be funded by a mix of project finance and equity. The Company has reached in principle agreement with a major Chinese Bank on the general terms of a proposed project facility for financing the Company's share of the cost of the Development. The proposed facility is subject to formal documentation and the Bank's credit committee approval.

Year	Forecast Prices and Costs (\$M US)		
	Proved Reserves	Proved Plus Probable Reserves	Proved Plus Probable Plus Possible Reserves
CHINA			
2013 (9 mo)	196,324	196,324	196,324
2014	-	-	-
2015	-	-	-
2016	8,340	-	-
2017	-	8,507	-
Remaining Years	-	-	8,851
Total	204,664	204,831	205,175

### PROSPECTIVE RESOURCES

The Company's prospective resources have been evaluated by McDaniel & Associates Consultants Ltd. as of March 31, 2012 and are set out below.

	Prospective Resources at March 31, 2013 (2) (3)				
	Low Estimate (6)	Best Estimate (7)	High Estimate (8)	Unrisked Mean	Risked Mean
Total Company (4)					
Natural Gas Resources, MMcf	52,295	158,443	504,705	235,825	73,615
Condensate Resources, Mbbl	557	1,951	6,947	3,145	980
BOE Resources, Mbbl	9,273	28,358	91,064	42,449	13,250

(1) Prospective resources were calculated probabilistically, but based on an arithmetic aggregation of the individual prospects.

(2) Each prospect has its own probability of geological success.

(3) 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.

(4) Company Gross resources are based on a 36.75 percent working interest share of the property gross resources, assuming CNOOC exercise their right to back-in and take a 51 percent interest. See "Oil and Gas Property and License Status".

(5) Low, best and high estimates follow the COGE Handbook Section 5 resources definitions and guidelines for prospective resources. The resource range presented above is "unrisked" meaning that it is valid in the event of successfully finding hydrocarbons in each and every prospect. In this case, the possible range of recoverable resources would likely lie in the range between the low estimate and the high estimate.

(6) The low estimate reported is the arithmetic sum of the individual prospect P90 quantities derived from probabilistic analysis. This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation.

(7) The best estimate is based upon the expected value, based upon the outcome of the probabilistic analysis. This is considered to be the best estimate of the quantity that will actually be recovered from the accumulation.

(8) The high estimate is the arithmetic sum of the individual P10 quantities derived from probabilistic analysis. This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation.

(9) "Risked Mean" resources are calculated based on the probability of geological success applied to the unrisked mean shown above.

The prospective resource estimates are for 5 prospects in the vicinity of the existing discovery in an area covered by 3-D seismic. Further seismic acquisition and studies over the remainder of the block (approximately 85 percent by area) could lead to the identification of additional prospects. Therefore the prospective resources detailed above do not necessarily represent the full exploration potential of Block 33/07.

July 23, 2013

**Primeline Energy Holdings Inc.**  
c/o Maples and Calder, Attorneys-At-Law  
Ugland House  
South Church Street  
Grand Cayman  
Cayman Islands  
British West Indies

Attention: The Board of Directors of Primeline Energy Holdings Inc.

Re: **Form 51-101F2**  
**Report on Reserves Data by an Independent Qualified Reserves Evaluator**  
**of Primeline Energy Holdings Inc. (the "Company")**

To the Board of Directors of Primeline Energy Holdings Inc. (the "Company"):

1. We have evaluated the Company's reserves data as at March 31, 2013. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at March 31, 2013 estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us, for the year ended March 31, 2013, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue \$M (before income taxes, 10% discount rate)			
		Audited	Evaluated	Reviewed	Total
July 23, 2013	China	-	73,622	-	73,622

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the preparation date.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

**McDANIEL & ASSOCIATES CONSULTANTS LTD.**



B. H. Emslie, P. Eng.

Calgary, Alberta

**Form 51-101F3**  
**Report of**  
**Management and Directors**  
**on Oil and Gas Disclosure**

**This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").**

1. Terms to which a meaning is ascribed in *NI 51-101* have the same meaning in this form.<sup>1</sup>
2. The report referred to in item 3 of section 2.1 of *NI 51-101* must in all material respects be as follows:

**Report of Management and Directors  
on Reserves Data and Other Information**

Management of Primeline Energy Holdings Inc. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at March 31, 2013 estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator is presented below and will be filed with securities regulatory authorities concurrently with this report.

The board of directors of the Company has

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

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<sup>1</sup> For the convenience of readers, CSA Staff Notice 51-324 *Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* sets out the meanings of terms that are printed in italics in sections 1 and 2 of this Form or in *NI 51-101, Form 51-101F1, Form 51-101F2* or Companion Policy 51-101CP.



Dated this on the 26th July 2013

*“Ming Wang”*

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Ming Wang, Chief Executive Officer and Director

*“Brian Chan”*

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Brian Chan, Director

*“Andrew Biggs”*

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Andrew Biggs, Senior Vice President

*“Peter Kelty”*

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Peter Kelty, Director

## DIVIDENDS

Primeline is authorized by its Articles of Association and the Companies Law to pay dividends but has not declared or paid any cash dividends or distributions to Shareholders in the past three years. Any future payment of dividends or distributions will be dependent upon the financial condition of Primeline and other factors which the board of directors of Primeline may consider appropriate in the circumstances.

## SHARE CAPITAL

The authorized share capital of Primeline is US\$500,000 divided into 500,000,000 Shares. The issued share capital of Primeline at the date hereof is 94,041,246 Shares. All of the issued Shares are credited as fully paid up in full as to their par value and any premium. Each Share is entitled to one vote at meetings of Shareholders and each Share is entitled to participate equally with respect to dividends and distributions on dissolution.

## MARKET FOR SECURITIES

The Shares are listed for trading on the Exchange under the symbol PEH.

The following table set out the price range for, and trading volume of the Shares as reported by the Exchange for the periods indicated.

<u>Price Range (in Canadian Dollars)</u>			
<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
April 2012	0.260	0.215	205,655
May 2012	0.240	0.200	519,875
June 2012	0.520	0.220	1,323,184
July 2012	0.450	0.370	1,738,033
August 2012	0.600	0.410	425,088
September 2012	0.620	0.540	366,499
October 2012	0.840	0.540	686,991
November 2012	0.710	0.610	570,400
December 2012	0.610	0.450	410,475
January 2013	0.550	0.460	340,483
February 2013	0.530	0.400	260,757
March 2013	0.500	0.410	275,720
April 2013	0.500	0.395	270,987
May 2013	0.420	0.355	718,950
June 2013	0.390	0.330	2,019,274

## DIRECTORS AND OFFICERS

Directors of the Company are elected at each annual general meeting of the Company and hold office until the next annual general meeting of the Company, unless the office is earlier vacated in accordance with the Articles of the Company or the Companies Law or he or she becomes disqualified to act as a director.

The only committees of the Board are the Audit Committee and the Compensation Committee.

As of the date of this Annual Information Form, the name and country of residence of each director and executive officer of Primeline, the number of the Shares beneficially owned, or controlled or directed, directly or indirectly by him, the offices held by him, his period of service as a director or officer and principal occupation during the last five years, is as follows.

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	Date First Appointed as Director	No. of Common Shares Held
<b>Victor Yiou Hwa Hwang</b> Hong Kong SAR, People's Republic of China <sup>(9)</sup> <i>Chairman, President &amp; Director</i>	Director of Financial and Strategic Development of Chyau Fwu Group <sup>(2)</sup> ; and Director and President of Primeline International, Primeline Petroleum <sup>(2)</sup> and Parkview International London Limited <sup>(2)</sup>	April 18, 1995	49,897,812 <sup>(3)</sup>
<b>Dr. Guang Ming Wang</b> People's Republic of China <i>CEO &amp; Director</i>	CEO of the Company since 2005, previously Vice-President, Exploration of the Company 1996-2005	July 12, 2000	1,638,500
<b>Brian Chi Fai Chan</b> <sup>(4)</sup> Hong Kong, SAR, People's Republic of China <i>Director</i>	General Manager of Chyau Fwu Group <sup>(2)</sup> and Director of Primeline International and a Professional Accountant <sup>(5)</sup>	April 18, 1995	Nil
<b>Alan P. Johnson</b> <sup>(4)(9)</sup> London, England <i>Director</i>	Manager of Oil Projects for Glencore UK Ltd. <sup>(6)</sup>	April 18, 1995	150,000
<b>Peter C. Kelty</b> <sup>(4)(9)</sup> Illinois, USA <i>Director</i>	Principal of Kelyard Corporation <sup>(7)</sup> and an Attorney. He is General Counsel for the Dillon Kane Group, a privately held group of companies focused on technology and financial services.	June 13, 1995	150,000
<b>Yunshi Cao</b> Beijing, People's Republic of China <i>Director</i>	Retired lawyer since June 2006; formerly General Counsel of China National Offshore Oil Corp. <sup>(8)</sup> and General Counsel, Company Secretary and Senior Vice President of CNOOC Limited <sup>(8)</sup>	September 21, 2006	Nil

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	Date First Appointed as Director	No. of Common Shares Held
<b>Vincent Lien</b> Singapore <i>Director</i>	Mr. Lien is currently a director of Wah Hin & Company; a Singapore incorporated private investment holding company, a director of the Maritime & Port Authority of Singapore, an independent non-executive director and a member of the audit committee and remuneration committee of Up Energy Development Group Limited; a company listed on the Hong Kong Stock Exchange, and an independent non-executive director of Focus Media Network Limited; a company listed on the Hong Kong Stock Exchange. Mr. Lien obtained a Bachelor degree in Business Administration from the University of New Brunswick in 1986.	April 16, 2013	Nil

**Notes:**

- (1) Information as to the place of residence, principal occupation and shares beneficially owned, directly or indirectly, or controlled or directed, has been furnished by the respective directors.
- (2) Chyau Fwu Group, Parkview International London Limited, and Primeline Petroleum are private corporations wholly owned by the Hwang family. The principal business of the first two corporations is investment holding and property development, and the principal business of Primeline Petroleum is investment in the Petroleum Contracts. See "Petroleum Contracts".
- (3) 46,473,612 of these Shares are held through Primeline International, and 3,424,200 Shares are held by Mr. Hwang directly. Mr. Hwang has control and direction over an additional 2,000,000 Shares.
- (4) Member of the Company's Audit Committee.
- (5) Mr. Chan is qualified as a Professional Accountant under the Association of Chartered Certified Accountants of the United Kingdom and Hong Kong Institute of Certified Public Accountants.
- (6) Glencore UK Ltd. is based in London, United Kingdom and is a subsidiary of Glencore International AG which is an international commodity trading company listed on the London Stock Exchange.
- (7) Kelyard Corporation is a private financial and business advisory company based in Oak Park, Illinois, USA.
- (8) China National Offshore Oil Corp. is the parent company of CNOOC Limited, a publicly listed company on the New York Stock Exchange and Hong Kong Stock Exchange.
- (9) Members of the Company's Compensation Committee.

## Corporate Cease Trade Orders

None of Primeline's directors or executive officers, have, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company that:

was subject to an cease trade order similar to a cease trade or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or

was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

## Bankruptcies

None of Primeline's directors and executive officers, or a shareholder holding a sufficient number of securities of Primeline to affect materially the control of Primeline, has within 10 years prior to the date of this Annual Information Form:

- i. been a director or executive officer of any company that, while that person was acting that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or
- ii. become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

## Penalties or Sanctions

None of Primeline's directors or executive officers, nor any shareholder holding a sufficient number of securities of Primeline to affect materially the control of Primeline have been subject to:

- i. any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- ii. any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## SENIOR MANAGERS

Primeline's senior managers are as follows:

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	No. of Common Shares Held
<b>Andrew Biggs</b>	Mr. Biggs is qualified as a solicitor in England and in Hong Kong. Between 1981 and 1998, he was a partner of	452,500

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	No. of Common Shares Held
<p>England</p> <p><i>Senior Vice President, General Counsel and Company Secretary</i></p>	<p>international law firm Richards Butler, both in Hong Kong and London. Mr. Biggs worked primarily on Hong Kong/Asian M&amp;A and corporate finance transactions. He was involved in many of the early H-share listings of mainland Chinese Companies on the Hong Kong Stock Exchange and dealt with numerous M &amp; A and financing transactions in China. In 1998, Mr. Biggs joined Hong Kong Parkview Group Ltd. as the Corporate Affairs Director and in-house counsel. Mr. Biggs has worked for Primeline full time since 2007.</p>	
<p><b>Alan Soulsby</b></p> <p>England</p> <p><i>Technical Director</i></p>	<p>Mr. Soulsby graduated from Oxford University with a degree in Physics in 1970, which he followed with a Masters in Geophysics. Since then he has had a wide and varied career in the petroleum industry. Mr. Soulsby has over 35 years of international petroleum upstream experience including managing Exploration Consultants Limited for a number of years which he was instrumental in selling to RPS Group plc in 2005. Mr. Soulsby has managed many large integrated exploration and evaluation projects including technical, cost and personnel control, all over the world. He has acted as Technical Director for Primeline since 1994. With Primeline, Mr. Soulsby has been responsible for the initial block selection and for organising the exploration programme which led to the LS36-1 discovery as well as ongoing evaluation work and development planning.</p>	<p>1,316,600</p>
<p><b>John Li</b></p> <p>Beijing, People's Republic of China</p> <p>Interim CFO</p>	<p>Mr. Li has over 30 years' experience working in various financial capacities for public and private companies. Mr. Li is a Certified Public Accountant qualified in Hong Kong and Australia, and graduated with a Masters in Practising Accounting from Monash University in Australia. Mr. Li is the CFO (China) of Beijing Chyau Fwu Properties Company Limited., which is part of the Parkview Group and owned by the family of Primeline's Chairman, President, and largest shareholder, Mr. Victor Hwang.</p>	<p>Nil</p>
<p><b>Mark Norman</b></p> <p>People's Republic of China</p> <p><i>Project Director, China Office</i></p>	<p>Mr Norman has over 25 years of experience in project management. He spent 15 years as a commercial manager for contracting organisations in the UK before moving to work on the development of a series of major international projects. He has overseen the successful delivery of a number of projects worldwide and has expertise in the delivery of complex projects. In June 2012 Mr Norman was appointed Project Director for the LS36-1 development. He is based in the Shanghai office.</p>	<p>Nil</p>

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	No. of Common Shares Held
<p><b>Malcolm Barrett</b></p> <p>England</p> <p><i>Development Manager</i></p>	<p>Mr. Barrett graduated from Nottingham University in 1968 with a B.Sc. in physics. He has worked in numerous locations around the world specialising in operational and production roles. Mr Barrett has worked in Asia, mainly Indonesia for over 20 years ultimately as Operations Manager of a 300 well onshore production operation. He has worked as a consultant to the oil and gas industry for the past 18 years and has been involved in Primeline’s Chinese operation since 2009.</p>	<p>Nil</p>
<p><b>Yujin Shen</b></p> <p>People’s Republic of China</p> <p><i>Senior Advisor, China Office</i></p>	<p>Mr. Shen graduated from Beijing Geological University in 1958 majoring in oil/gas exploration and development. He has accumulated nearly 50 years of experience working in the Chinese petroleum industry. From 1959 to 1981 he worked for Shan Gan Ning Oil Fields (Ordos Basin) in northwest China, during which time he engaged in field geology, geophysical surveys, drilling operations and geological administration. In 1982 he joined China Offshore Oil Nanhai West Corporation (CONHWC), a subsidiary of CNOOC, working in the Foreign Co-operation Department. In 1993 he was appointed Deputy Manager and later Manager of the Exploration Department of CONHWC, responsible for exploration in the offshore area of western South China Sea. He retired from CONHWC in December 1997 and joined Primeline as Technical Director in Primeline’s China Office. In 2002 he was appointed Chief Representative.</p>	<p>Nil</p>
<p><b>Chongxin Zhang</b></p> <p>People’s Republic of China</p> <p><i>General Manager, China Office</i></p>	<p>Mr. Zhang graduated from Beijing Petroleum Institute in 1970 majoring in Geophysics. He has over 35 years of experience working in the Chinese petroleum industry. He is a geophysicist and has had a long career with CNOOC, including 13 years as CNOOC Shanghai Vice President and 4 years as CNOOC’s Chief Representative in USA, and has considerable experience in offshore oil and gas exploration and developments, particularly in the East China Sea. Mr. Zhang joined Primeline in June 2011.</p>	<p>Nil</p>
<p><b>Grace Deng</b></p> <p>People’s Republic of China</p> <p><i>Finance Controller, China Office</i></p>	<p>Ms. Deng has over 20 years’ experience in the finance and accounting field of listed companies in Hong Kong and U.S market, including 9 years with major oil &amp; gas joint venture companies within China. She has extensive experience in joint operation oil fields in the exploration, development and production phases. She hold a MBA degree from the University of Leicester. Ms. Deng joined Primeline in 2011.</p>	<p>Nil</p>
<p><b>Judy Li</b></p>	<p>Ms Li graduated from Manchester University with a Bachelor degree in Accounting and Finance and qualified as</p>	<p>Nil</p>

Name, Place of Residence and Position with the Company <sup>(1)</sup>	Principal Occupation or Employment	No. of Common Shares Held
Hong Kong SAR, People's Republic of China <i>Financial Controller, Hong Kong Office</i>	an ICAEW Chartered Accountant (ACA) in 2007 in the UK. Ms Li joined Primeline as the financial controller in Hong Kong in 2011.	
<b>Chengzhang Wang</b> People's Republic of China <i>Financial Manager, China Office</i>	Mr. Wang has been with Primeline China since 1994 and is responsible for accounting operations, particularly the management of the Joint Account maintained under the Petroleum Contract.	Nil
<b>Mr. Nelson Jin</b> People's Republic of China <i>Procurement Manager, China Office</i>	Mr. Jin has over 20 years of experience in the development of petrochemical projects. He has worked with a number of major national and international oil and gas companies and has experience in engineering, commercial and project management and procurement. In May 2011, Mr. Jin was appointed Procurement Manager for the LS36-1 development. He is based in the Shanghai office.	Nil
<b>Dr. William Li</b> People's Republic of China <i>Project Manager, China Office</i>	Dr. Li was appointed as Project co-ordinator for the LS36-1 Development Project in 2008, based in the London office he was responsible for the project management of the design and development phases of the Project. Since 2010 he has been based in the Shanghai Office as Project Manager for the construction phase, he has considerable experience coordinating with local government and other regulatory authorities. Dr. Li has PhD degree in Electrical Engineering from Nottingham University.	Nil

**Notes:**

(1) Information as to the place of residence, principal occupation and shares beneficially owned, directly or indirectly, or controlled or directed, has been furnished by the respective senior managers.

## CONFLICTS OF INTEREST

There are potential conflicts of interest to which the directors and officers of Primeline will be subject in connection with the operations of Primeline and officers of Primeline are involved in managerial, or director positions with other oil and gas companies whose operations may, from time to time, be in indirect competition with those of Primeline or with entities which may, from time to time, provide financing to, or make equity investments in, competitors or Primeline. See "Directors and Officers". Primeline expects that any such conflicts will be resolved in accordance with the fiduciary duties of the directors and officers in question.

Primeline is controlled by Mr. Victor Hwang, its Chairman and President. Mr. Hwang is also the President and sole shareholder of PPC, the owner of 25% of the Contractors' interest under the Petroleum Contract. In some cases, the interests of Mr. Hwang or PPC may not be the same as those of Primeline's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to Primeline or its minority shareholders. See "Risk Factors"



## **RISK FACTORS**

### **Working Capital Position, Loan Facility and Bond Issue**

Primeline is presently dependant on advances under loan facilities from its Chairman, President and majority shareholder, Mr. Victor Hwang, for cash to continue operations, the aggregate amounts available under such facilities being US\$6,650,000 which has been fully drawn down. The loan facilities consist of US\$4million, US\$1.65million and US\$1million and are repayable on demand by Mr. Hwang at any time after April 30, 2014, July 31, 2014 and July 31, 2015 respectively. It has been agreed that the Company will issue up to US\$6.7 million of convertible bonds to Mr. Hwang in settlement of such working capital facilities. Primeline has also entered into a non-binding term sheet with GEMS for the issue of up to US\$15 million of convertible bonds. See “Bond Issue”.

### **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.

### **Requirement for New Capital**

Primeline will 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.

### **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.

### **Dependence on Key Management Personnel**

Primeline’s success is highly dependent upon the continued services of key managerial employees both in England and in China, including the Chairman and President of the Corporation, Mr. Victor Hwang, and the Chief Executive Officer of the Corporation, Mr. Ming Wang. The Corporation 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.

### **Exchange Rate Risk**

Primeline is exposed to currency risk to the extent that it holds cash deposits primarily denominated in HK\$, US\$ and C\$, whereas accounts payable by reference to various currencies are denominated primarily in US\$, C\$, £Sterling, HK\$ and RMB. For the year to March 31, 2013 the approximate percentages of the accounts payable are US\$ 2%, C\$ 28%, £Sterling 62%, HK\$ 8% and RMB nil%. Therefore, fluctuation in exchange rates

for US\$, in which Primeline holds the majority of its cash deposits as against C\$ and £Sterling could adversely affect Primeline and, accordingly, the market price of the Shares. Primeline believes the foreign exchange risk is currently not significant

## **Risks Related to Oil and Gas Exploration and Development**

### **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 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.

### **Development Risk**

To the extent that Primeline succeeds in discovering oil and/or natural gas, reserves may not be capable of production levels projected or in sufficient quantities to be commercially viable. On a long-term basis, Primeline's viability depends on its ability to find or acquire, develop and commercially produce oil and gas reserves. Future reserves will depend not only on the ability to develop then-existing properties, but also on the ability to identify and acquire additional suitable producing properties or prospects, to find markets for the oil and natural gas developed and to effectively distribute production into markets. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, 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-downs of connected wells resulting from extreme weather conditions, problems in storage and distribution and adverse geological and mechanical conditions. While Primeline will endeavour to effectively manage these conditions, it may not be able to do so optimally, and will not be able to eliminate them completely in any case. Therefore, these conditions could diminish revenue and cash flow levels and result in the impairment of oil and natural gas interests.

### **Offshore Exploration**

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.

### **Financing Risk**

As of July 23, 2013, Primeline had cash deposits of HK\$489,709, RMB 536,000, US\$ 33,253, £Sterling 2,773 and C\$141,096. The costs of running Primeline's general operations are estimated at approximately RMB 20,000,000 (C\$3.3m) per annum. In order to provide interim funding for working capital, Primeline entered into various loan agreements with Mr. Victor Hwang, under which Mr. Hwang granted Primeline loan facilities of an aggregate of up to US\$6,650,000. As of July 23, 2013, all of these facilities have been fully drawn down. As referred to above under "Bond Issue" it has been agreed that the Company will issue up to US\$6.65 million of convertible bonds to Mr. Hwang in settlement of such working capital facilities. In addition, Primeline has entered into a non-binding term sheet for the issuance of up to US\$15 million of convertible bonds to GEMS to finance future working capital and exploration costs. Accordingly, Primeline has sufficient funds in hand with which to continue its general operations during the coming year. However, additional finance will be required in order to fund Primeline's obligations in relation to the development proposals which are the subject of the ODP

or if Primeline was to enter into any drilling contracts. There may be various alternative financing options available to Primeline to finance its share of the cost of the development proposals and, as referred to above, Primeline has already secured an in principle offer from CDB, a major Chinese Bank, which has been approved subject to conditions by its credit committee for a project finance facility to finance its share of the costs of the Development, but it is likely that Primeline would be required to raise additional equity capital in order to finance any exploration drilling contracts: see “Development Finance”). There can be no assurance that equity or other financing will be available, on acceptable terms or at all. Primeline is exploring all possible fund-raising possibilities for its share of the costs of the Development and for the planned exploration drilling programme committed to under Petroleum Contract 33/07.

## **Marketing and Distribution**

To sell any oil or natural gas which it may produce from the LS36-1 Gas Field or elsewhere within the Block, Primeline and CNOOC will have to establish a production facility and an offshore pipeline, and make arrangements for storage and distribution to the market. Establishment of a production facility will be costly and arrangements for storage and distribution to market will ultimately depend on the completion of the construction of a province-wide gas grid, connected to Wenzhou in Zhejiang Province. The latter requirement is beyond Primeline’s control. Infrastructure development and storage and transportation facilities may be insufficient for Primeline’s needs at commercially acceptable terms. This could be particularly problematic given that operations will be conducted offshore. Primeline anticipates there will be only one gathering system and pipeline and thus Primeline’s ability to market production from the Lishui Gas Play will be subject to their reliability and operations. These factors may affect Primeline’s ability to explore and develop the Block and to store and transport any oil and gas production, and may increase expenses.

## **Operational Risk**

If Primeline’s operations offshore China are disrupted, business may experience a setback. These unexpected events may be due to technical difficulties, operational difficulties which impact the production, transport or sale of products, geographic and weather conditions, business reasons, political events or otherwise. Because Primeline is at the early stages of development, it is particularly vulnerable to these events. Prolonged problems may threaten the commercial viability of operations.

## **Lack of Diversification**

Primeline’s business focuses exclusively on the oil and gas industry in China. 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 are likely to impact Primeline more acutely than if its business were more diversified.

## **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.

## **Competition for Exploration and Development Rights**

The oil and gas industry is highly competitive. Other oil and gas companies will compete with Primeline by bidding for services needed to operate Primeline’s business in China. This competition is increasingly intense

as prices of oil and natural gas on the commodities markets have risen in recent years. Additionally, 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 multinational 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.

## **Risks Related to Primeline's Controlling Shareholder**

Primeline is effectively controlled by Mr. Victor Hwang, its Chairman and President, who directly and indirectly owns Shares representing approximately 53% of the votes attaching to all of the Shares. Mr. Hwang is also the President and sole shareholder of PPC, the owner of 25% of the Contractors' interest under the Petroleum Contract. 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 or PPC 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.

## **Risks Related to Doing Business in the PRC**

### **PRC Political and Economic Considerations**

Primeline's business operations are located in, and its revenues will be derived from, activities in the PRC. Accordingly, the business, financial condition and results of operations of Primeline could be significantly and adversely affected by economic, political and social changes in PRC. The economy of the PRC has traditionally been a planned economy, subject to five-year and annual plans adopted by the state, which set down national economic development goals. Since 1978, the PRC has been moving the economy from a planned economy to a more open, market-oriented system. The economic development of the PRC is following a model of market economy under socialism. Under this direction, it is expected that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces and the rules of market economics. However, there is no guarantee that a major turnover of senior political decision-makers will not occur, or that the existing economic policy of the PRC will not be changed. A change in policies by the PRC could adversely affect Primeline's business by changes in laws, regulations, or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports and sources of supplies, or the expropriation of private enterprises.

### **PRC Legal System and Enforcement**

The Petroleum Contracts are, and most of the material agreements which Primeline will enter into in the future with respect to oil and gas assets in China are expected to be, governed by Chinese law and many of those agreements will be with Chinese governmental entities or State-owned or controlled companies. The PRC legal system embodies uncertainties that could limit the legal protections available to Primeline and its shareholders. The outcome of any litigation may be more uncertain than usual because: (i) the experience of the PRC judiciary is relatively limited, and (ii) the interpretation of PRC laws may be subject to policy changes reflecting domestic political changes. The laws that do exist are relatively recent and their interpretation and enforcement involve uncertainties, which could limit the available legal protections. Even where adequate law exists in China, it may be impossible to obtain swift and equitable enforcement of such law or to obtain enforcement of judgments by a court of another jurisdiction. The inability to enforce or obtain a remedy under such agreements would have a material adverse impact on Primeline.

Further, many tax rules are not published, and those that are published can be ambiguous and contradictory, leaving a considerable amount of discretion to local tax authorities. The PRC currently offers tax and other preferential incentives to encourage foreign investment. However, there is no assurance that such tax and other

incentives will continue to be available. There is also no guarantee that the pursuit of economic reforms by the PRC will be consistent or effective and as a result, changes in the rate or method of taxation may have a negative effect on Primeline's operating results and financial condition.

## **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 the 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 the 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 the 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.

## **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.

## **LEGAL PROCEEDINGS**

There are no legal proceeding to which Primeline or its subsidiaries is or was a party to, or that any of Primeline's property is or was the subject of, during the most recently completed financial year, that were or are material to Primeline, and there are no such material legal proceedings contemplated that Primeline is currently aware of.

There were no: (i) penalties or sanctions imposed against Primeline or its subsidiaries by a court relating to securities legislation or by a security regulatory authority during the most recently completed financial year; (ii) other penalties or sanctions imposed by a court or regulatory body against Primeline that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements which were entered into before a court relating to securities legislation or with a securities regulatory authority during Primeline's most recently completed financial year.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed herein, Primeline is not aware of any material transaction within the last three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Primeline involving any director, executive officer or any shareholder that beneficially owns or controls or directs, directly or indirectly more than ten (10%) percent of the voting rights attached to the Shares, or any associate or affiliates of any of the foregoing.

## **AUDITORS AND REGISTRAR AND TRANSFER AGENT**

Primeline's auditors are PricewaterhouseCoopers LLP, chartered accountants, at 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C 3S7. PricewaterhouseCoopers LLP has advised that they are independent with respect to Primeline within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

Computershare Investor Services Inc. is the transfer agent and registrar of the Shares.

## **MATERIAL CONTRACTS**

There are no contracts which are currently in effect and which can reasonably be regarded as presently material to Primeline in the most recently completed financial year, except for contracts entered into in the ordinary course of business, other than those previously disclosed and filed on SEDAR.

## **INTERESTS OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Primeline during, or related to, Primeline's most recently completed financial year other than McDaniel, Primeline's independent engineering evaluator and PricewaterhouseCoopers LLP, Primeline's auditors. None of the designated professionals of McDaniel had any registered or beneficial interests, direct or indirect, in any securities or other property of Primeline.

## **ADDITIONAL INFORMATION**

Additional information relating to Primeline is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Primeline's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in Primeline's information circular dated October 19, 2012.

Further information on financial matters is contained in Primeline's audited financial statements and management discussion and analysis for the year ended March 31, 2013.

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