

Primeline Energy Holdings Inc.
Consolidated Financial Statements
March 31, 2017

31 July 2017

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

We have audited the consolidated financial statements of Primeline Energy Holdings. Inc., for the year ended 31 March 2017 which comprise the Consolidated Statements of Loss and Comprehensive Loss, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members, as a body, in accordance with our agreed terms of engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

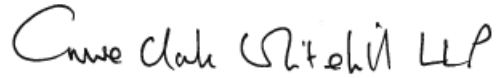
Opinion on financial statements

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2017 and of its loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards.

Other matter

During the year ended 31 March 2017 the company changed its auditor and as such the audit of the financial statements for the year ended 31 March 2016 was performed by the company's previous auditors who expressed an unqualified opinion on those statements on 1 August 2016, although their report contained an emphasis of matter paragraph in respect of going concern.

A handwritten signature in black ink that reads "Crowe Clark Whitehill LLP". The signature is written in a cursive, slightly slanted style.**Crowe Clark Whitehill LLP**

Chartered Accountants

London

United Kingdom

Crowe Clark Whitehill LLP is a limited liability partnership registered in England and Wales (with registered number OC307043)

Primeline Energy Holdings Inc.
Consolidated Statements of Financial Position
As at March 31, 2017 and 2016
(In RMB)

	Notes	March 31, 2017 RMB'000	March 31, 2016 RMB'000	March 31, 2017 CAD\$'000 (Note 3.5 (c))
Non-current assets				
Exploration and evaluation assets	6	479,461	459,222	92,902
Property, plant and equipment	7	1,629,729	1,822,201	315,778
Restricted cash	8	51,252	28,425	9,931
Restricted bank deposits	3.17	-	150,000	-
		<u>2,160,442</u>	<u>2,459,848</u>	<u>418,611</u>
Current assets				
Cash and cash equivalents		307,418	150,570	59,566
Restricted bank deposits	3.17	150,000	-	29,064
Trade receivables	18	8,121	11,717	1,573
Prepaid expenses and other receivables		17,375	10,517	3,367
Inventories		7,518	13,342	1,456
		<u>490,432</u>	<u>186,146</u>	<u>95,026</u>
Total assets		<u>2,650,874</u>	<u>2,645,994</u>	<u>513,637</u>
Equity attributable to shareholders				
Share capital	9	1,326	1,270	257
Share premium and reserves		849,676	846,516	164,635
Accumulated deficit		(538,605)	(408,075)	(104,361)
Total equity		<u>312,397</u>	<u>439,711</u>	<u>60,531</u>
Non-current liabilities				
Long term bank loan	10	1,426,148	-	276,332
Accounts payable	17	103,170	17,647	19,989
Convertible bonds	12	114,845	102,487	22,252
Decommissioning liabilities	8	157,996	152,801	30,614
		<u>1,802,159</u>	<u>272,935</u>	<u>349,187</u>
Current liabilities				
Bank loans	10	303,941	1,743,940	58,892
Accounts payable and accrued liabilities	20	198,896	189,408	38,540
Deferred Revenue	16	33,481	-	6,487
		<u>536,318</u>	<u>1,933,348</u>	<u>103,919</u>
Total liabilities		<u>2,338,477</u>	<u>2,206,283</u>	<u>453,106</u>
Total shareholders' equity and liabilities		<u>2,650,874</u>	<u>2,645,994</u>	<u>513,637</u>

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

Approved by the Board of Directors

“Ming Wang”

Director

“Brian Chan”

Director

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

Primeline Energy Holdings Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended March 31, 2017 and 2016
(In RMB)

	Notes	Year Ended March 31		
		2017 RMB'000	2016 RMB'000	2017 CAD\$'000 (Note 3.5 (c))
Revenue				
Oil and gas	16	480,891	178,554	93,178
Interest and other income	11	7,771	9,904	1,506
Exchange gain (loss), net		(99,319)	(72,145)	(19,244)
Expenses				
Production Costs		77,138	92,577	14,946
Cost of makeup gas	17 (ii)	95,244	-	18,455
General and administrative expenses		23,081	13,920	4,472
Depletion and depreciation		228,924	171,265	44,357
Bank interest expenses		87,428	90,723	16,940
Amortization of transaction costs for issuance of convertible bonds		2,863	1,861	555
Accretion	8	5,195	5,024	1,007
		<u>519,873</u>	<u>375,370</u>	<u>100,732</u>
Loss and comprehensive loss		<u>(130,530)</u>	<u>(259,057)</u>	<u>(25,292)</u>
		RMB	RMB	CAD
Basic and diluted loss per share		<u>(0.700)</u>	<u>(1.475)</u>	<u>(0.136)</u>
Weighted average number of common shares outstanding		<u>186,572,601</u>	<u>175,676,642</u>	<u>186,572,601</u>

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

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

	Attributable to equity owners of the company						Total RMB '000
	Share Capital	Share Premium	Contributed Surplus Reserve	Share Option Reserve	Shares Purchase Warrants Reserve	Deficit	
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	
Balance – April 1, 2015	1,030	484,967	217,897	69,679	950	(149,018)	625,505
Shareholder loan conversion to shares	193	40,145	18,719	-	-	-	59,057
Share based payments Convertible bonds conversion options (Note 12)	-	-	-	1,268	-	-	1,268
Bond interest accrued	18	1,429	-	-	-	-	1,447
Issue shares in payment of share finder fee	29	2,439	-	-	-	-	2,468
Shareholder loan conversion costs	-	(146)	-	-	-	-	(146)
Shareholder contribution	-	-	363	-	-	-	363
Loss and comprehensive loss for the year	-	-	-	-	-	(259,057)	(259,057)
Balance – March 31, 2016	1,270	528,834	236,979	79,753	950	(408,075)	439,711
Share based payments	-	-	-	102	-	-	102
Bond interest accrued	56	3,058	-	-	-	-	3,114
Loss and comprehensive loss for the year	-	-	-	-	-	(130,530)	(130,530)
Balance – March 31, 2017	1,326	531,892	236,979	79,855	950	(538,605)	312,397
Balance –March 31, 2017, in CAD\$'000 (Note 3.5(c))	257	103,061	45,917	15,473	184	(104,361)	60,531

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

Primeline Energy Holdings Inc.

Consolidated Statements of Cash Flows

For the year ended March 31, 2017 and 2016

(in RMB)

	Notes	March 31, 2017 RMB'000	March 31, 2016 RMB'000	March 31, 2017 CAD\$'000 (Note 3.5 (c))
Cash flows from operating activities				
Loss for the year		(130,530)	(259,057)	(25,292)
Items not involving cash				
Gain on disposal of property, plant and Equipment	7	-	(150)	-
Interest income		(7,771)	(9,086)	(1,506)
Cost of makeup gas	17 (ii)	95,244	-	18,455
By product inventory		1,919	(2,630)	372
Depletion and depreciation	7	228,924	171,265	44,357
Other finance income		-	(668)	-
Finance costs		92,623	95,747	17,947
Amortization of transaction costs for issuance of convertible bonds		2,863	1,861	555
Stock-based compensation	9	31	746	6
Unrealized foreign exchange loss		99,551	73,842	19,289
		<u>382,854</u>	<u>71,870</u>	<u>74,183</u>
Changes in non-cash working capital items:				
Trade receivables and prepaid expenses		3,937	25,947	763
Deferred Revenue	16	33,481	-	6,487
Accounts payable and accrued liabilities		3,390	(14,706)	657
Inventory		(378)	(1,059)	(73)
		<u>40,430</u>	<u>10,182</u>	<u>7,834</u>
		<u>423,284</u>	<u>82,052</u>	<u>82,017</u>
Cash flows from investing activities				
Oil and gas development assets	7	(29,891)	(8,842)	(5,792)
Expenditures on exploration and evaluation assets	6	(9,546)	(27,294)	(1,850)
Restricted cash		(22,827)	(22,765)	(4,423)
Disposal of property, plant and equipment	7	-	150	-
Interest received		571	1,886	111
		<u>(61,693)</u>	<u>(56,865)</u>	<u>(11,954)</u>
Cash flows from financing activities				
Share issue costs		-	(146)	-
Loan drawdown		38,000	173,400	7,363
Loan repayment		(145,374)	(135,450)	(28,168)
Interest paid		(100,290)	(91,441)	(19,432)
Legal fees for issuance of convertible bonds		(129)	(1,170)	(25)
Issuance costs of convertible bonds		-	(4,738)	-
Issuance of convertible bonds		-	114,740	-
		<u>(207,793)</u>	<u>55,195</u>	<u>(40,262)</u>
Increase in cash and cash equivalents		<u>153,798</u>	<u>80,382</u>	<u>29,801</u>
Effect of foreign exchange rate on cash and cash equivalents		<u>3,050</u>	<u>1,237</u>	<u>590</u>
Cash and cash equivalents - Beginning of period		<u>150,570</u>	<u>68,951</u>	<u>29,175</u>
Cash and cash equivalents - End of period		<u>307,418</u>	<u>150,570</u>	<u>59,566</u>

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

1. Nature of Operations and Going Concern

Primeline Energy Holdings Inc. (the Company) was incorporated under the Companies Law of the Cayman Islands on March 31, 1995. The Company is in the business of exploration, development and production of offshore oil and gas properties in the People's Republic of China ("PRC").

The Company owns exploration, development and production rights in the East China Sea in relation to Petroleum Contract 25/34 and Petroleum Contract 33/07. The Petroleum Contracts were entered between China National Offshore Oil Corporation (CNOOC) and the Company's wholly owned subsidiaries Primeline Energy China Ltd. (PECL) and Primeline Petroleum Corporation (PPC).

Block 25/34 is the development and production area for LS36-1 and CNOOC China Ltd. (CCL), CNOOC's subsidiary, is the Operator with a 51% interest, and PECL and PPC hold 36.75% and 12.25% interests respectively. CCL's subsidiary CNOOC (China) Ltd Lishui Operating Company (LOC) completed the development work relating to the LS36-1 gas field in 2014, and trial gas production from LS36-1 commenced on July 8, 2014. On October 29, 2014, CCL, on behalf of itself and as sales agent for PECL and PPC, signed the LS36-1 Natural Gas Sales and Purchase Contract ("GSC") with Zhejiang Gas, which superseded the Gas Sale Agreement-in principle and the subsequent Framework and Amendment Agreements signed in 2008, 2010 and 2011, and confirmed the commercial terms including, inter alia, gas quality, take-or-pay principles, base price and annual quantity. The terms of the GSC were the basis for PECL and PPC's US\$274 million syndicate facility ("Syndicate Facility") signed the following month and from which PECL and PPC repaid CNOOC for the carried share of the development cost in December 2014.

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

In April 2016, the Company commenced arbitration before the China International Economic and Trade Arbitration Commission (CIETAC) against Zhejiang Gas (the "Zhejiang Gas Arbitration") for its failure to comply with payment obligations under the GSC relating to both the base price and the take-or-pay obligation in relation to natural gas deliveries for the 2015 and 2016 contract years. The Company also commenced arbitration, in June 2016, against CNOOC and CCL, in respect of CCL's mismanagement in relation to the development of LS36-1 and failures to comply with its responsibilities as Operator of Petroleum Contract 25/34, and breach of fiduciary duties as agent under the GSC (the "CNOOC Arbitration").

Arbitration proceedings against CNOOC and CCL were commenced by Primeline on May 24, 2016 under the dispute resolution provisions of Petroleum Contract 25/34 and in accordance with the UNCITRAL Arbitration Rules 1976 ("CNOOC Arbitration") and relating to CCL's breach of good faith and wrongful conduct as Primeline's agent in

dealing with Zhejiang Gas's breach of the GSC due to its conflicts of interest, and in relation to CCL's mismanagement as operator of LS36-1, and CNOOC's position as guarantor of CCL, which mismanagement resulted in delay of completion of the Development and commencement of production, leading to loss of revenue, increased cost and the project falling below its design level.

Due to the severe effect on the Company's cash flow caused by the Zhejiang Gas dispute, the Company failed to make payment to China Oilfield Services Limited (COSL) under the Turnkey Drilling Contract dated August 14, 2015 (the "Drilling Contract") between COSL and PEOIL. On September 1, 2016, COSL commenced arbitration proceedings against PEOIL before CIETAC in relation to a claim for payment under the Drilling Contract (the "COSL Arbitration"). The Drilling Contract relates to the two wells drilled by COSL for PEOIL as the operator in Block 33/07 in late 2015. The dispute between PEOIL and COSL in relation to payment under the Drilling Contract is part of the overall operational and commercial issues the Company had encountered in the last two years referred to above. CNOOC owns 64.4% of CCL, 50.5% of COSL and 30% of Zhejiang Gas.

On March 1, 2017, following extensive negotiations, the Company, CCL and Zhejiang Gas entered into agreements to settle the Zhejiang Gas Arbitration. The settlement is based on a pricing arrangement that results in Primeline receiving for its share of gas (i) at the original price agreed under the GSC for gas delivered up to December 31, 2016; and (ii) at price which represents a reduction of about 7% from the GSC price, fixed from January 1, 2017 for the rest of the GSC delivery period. On March 20, 2017, the Company received approximately RMB 256 million (CAD50 million) net of VAT for its share of all outstanding unpaid or partly paid amounts due for natural gas already delivered to the end of 2016 and for the 2015 and 2016 take-or-pay payments, plus RMB 12 million (CAD\$ 2.3 million) relating to the difference between the agreed price and the price previously paid from January 1, 2017 to February 29, 2017. In consideration of Zhejiang Gas making the settlement payment the Company withdrew the Zhejiang Gas Arbitration.

Primeline then signed a settlement agreement with COSL on April 5, 2017 and paid RMB116 million (CAD\$ 22.5 million) in settlement of all amounts due to COSL, following which COSL applied to CIETAC to withdraw the COSL Arbitration on April 7, 2017 and CIETAC confirmed termination of such proceedings on May 26, 2017.

CNOOC and Primeline agreed that the settlement of Zhejiang Gas Arbitration and the COSL Arbitration would not affect or halt the CNOOC Arbitration, which includes claims in respect of CCL's mismanagement in relation to the development and production of LS36-1 and breach of fiduciary duties as agent under the GSC.

In accordance with the procedure of the CNOOC Arbitration, Primeline formally filed the Statement of Claim together with all supporting documents on April 25, 2017 and is currently waiting for the defence statement from CNOOC/CCL, which is due on or before September 11, 2017.

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

concern, the Company must successfully generate sufficient operating cash flows to satisfy its ongoing obligations and future contractual commitments, including the principal and interest payments due on its outstanding debt (Note 10 and 12). The principal risks in this respect are that revenues fall as a consequence of reduced production or that outgoings increase as a consequence of unplanned capital or revenue expenditure, resulting in the group having insufficient cash resources to meet interest payments and repayments of principal on its debt. Management prepares detailed budgets and closely monitors expenditure to ensure the group has sufficient working capital for its needs and maintains strategies for mitigating actions which could be taken in the event that receipts for sales gas and condensates are lower than anticipated.

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

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective as of March 31, 2017. These consolidated financial statements were authorized for issue by the Board of Directors on July 31, 2017.

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

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

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

3. Summary of Significant Accounting Policies

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

3.1 Property, plant and Equipment ('PP&E')

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

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

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

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

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

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

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

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

3.2 Depletion, Depreciation, Amortization (DD&A)

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

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

3.3 Asset Retirement Obligations (ARO)

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

3.4 Exploration and evaluation assets (E&E)

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

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

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

Upon determination that the technical feasibility and commercial viability of an oil and gas resource is established, E&E assets attributed to those reserves are first tested for impairment and then reclassified to oil and gas development and production assets

within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

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

3.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Convenience Translation into CAD\$

The CAD\$ amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. The financial information presented in CAD\$ has been translated from RMB using a convenience translation at the rate of RMB 5.161 to CAD\$1, which is the exchange rate published in South China Morning Post as of March 31, 2017. Such presentation is not in accordance with IFRS and should not be construed as a representation that the RMB amounts shown could be readily converted, realized or settled in CAD\$ at this or at any other rate.

3.6 Impairment of non-current assets

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

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

3.7 Financial assets and liabilities

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

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

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

3.8 Cash and cash equivalents

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

3.9 Trade payables

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

3.10 Conversion of debt to equity

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

3.11 Share capital

Shares are classified as equity. Incremental costs directly attributable to the issue of new Shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

3.12 Current and deferred income tax

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

The income tax charge is calculated based on the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company and its subsidiaries operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities. As the Company and its subsidiaries are domiciled in an income tax-exempt jurisdiction and are in a taxable loss position in the PRC, there is no current income tax.

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

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

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

3.13 Share-based payments

The Company has a share-based compensation plan, details of which are disclosed in Note 9. The Company applies the fair value based method of accounting to recognize the expenses arising from stock options granted to employees and non-employees. The fair value is determined using the Black – Scholes option pricing model, which requires the use of certain assumptions including future stock price volatility and expected life of the instruments.

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

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

3.14 Revenue recognition

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

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

Under take-or-pay contracts, the Company makes a long-term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not the customer takes delivery. Where there is a subsequent physical delivery obligation revenue is deferred and recognized in future periods on delivery until the obligation to deliver expires at which time any remaining unrecognized revenue is recognized in full.

3.15 Per share amounts

Basic earnings (loss) per share are computed per IAS 33 by dividing the net earnings or loss for the period by the weighted average number of Common Shares ("Common

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

3.16 Borrowing costs

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

3.17 Restricted Cash/Restricted Bank Deposit

Restricted Cash is held for security for decommissioning costs and is reported in the balance sheet and cash flow separately. If the expected duration of the restriction is less than twelve months, then it is shown in current assets. The detail of the decommissioning costs is reported in Note 8.

Restricted Bank Deposit is cash held on deposit in the amount of RMB150,000,000 (CAD\$29,064,135) which has been held in a debt service reserve account on a 3-year term for servicing the Syndicate Facility and RMB Banking Facility (see Note 10) since December 2014, which can be accessed with penalty loss of interest and/or permission of the Syndicate Facility banks. RMB130 million of the restricted bank deposit is due to mature in December 2017 and the other RMB20 million is due to mature in January 2018.

3.18 Trade receivables

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

3.19 Inventories

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

3.20 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has the rights to variable returns from its involvement with the entity and can affect that return through its power over

the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All subsidiaries, as listed below, have been consolidated into the Company's consolidated financial statements.

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

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

PPC became a subsidiary on August 14, 2015 – for the retroactive effect of such consolidation refer to Note 3 in the consolidated financial statements as at March 31, 2016.

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

Interests in Joint Operations

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

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

The Company and CNOOC's participation in the development and production activities of LS36-1 is through a joint operation without establishing a separate legal entity for this arrangement. The joint operation has engaged LOC, wholly owned by CCL as the Operator for the project. LOC is accountable to the JMC, in which both CCL and the Company have equal voting rights and decision-making power.

The Company's share of the results, assets and liabilities from LS36-1 under the joint operation are incorporated in these consolidated financial statements. The Company

recognizes, on a line –by – line basis in the consolidated financial statements, its share of the assets, liabilities, revenues and expenses of this joint operation incurred jointly with other parties.

3.21 Segmental reporting

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

3.22 Accounting estimates

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

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

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

3.22.2. Impairment of Non-Financial Assets

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

The determination of the recoverable amount for impairment purposes involves the use of numerous assumptions and estimates. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices, operating costs and future capital expenditures, marketing supply and demand,

forecasted crack spreads, growth rate, discount rate and, in the case of oil and gas properties, expected production volumes. Expected production volumes take into account assessments of field reservoir performance and include expectations about proved and probable volumes and where applicable economically recoverable resources associated with interests which are risk-weighted utilizing geological, production, recovery, market price and economic projections. Either the cash flow estimates or the discount rate is risk-adjusted to reflect local conditions as appropriate. Future revisions to these assumptions will impact the recoverable amount. Please refer to Note 7 for more details.

3.22.3. ARO

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

3.22.4. Fair Value of Financial Instruments

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

3.22.5 Income Taxes

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

3.22.6 Legal, Environmental Remediation and Other Contingent Matters

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

3.23 *Key Judgements*

Management makes judgments regarding the application of IFRS for each accounting policy. Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include successful efforts and

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

3.23.1. Impairment of Financial Assets

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

3.23.2. CGUs

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

3.23.4. RMB as Functional Currency

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

3.23.5. Exploration and evaluation costs ("E&E")

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

Expenditures related to wells that do not contain reserves or where no future activity is planned are expensed as exploration and evaluation expenses. Exploration and evaluation costs are excluded from costs subject to depletion until technical feasibility and commercial viability is assessed or production commences.

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

4 Changes in accounting standards

New, Amended and Future IFRS Pronouncements

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

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

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

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

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

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

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

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

5 Financial risk management

5.1 Financial risk factors

The Company finances its operating activities by managing the Syndicate Facility, short term bank loan, cash and cash equivalents, accounts receivable, accounts payable and

accrued liabilities, cash calls payable, advances from a related party and convertible bonds.

Fair values of assets and liabilities are amounts at which these items could be exchanged in transactions between knowledgeable parties. Fair value is based on available public market information or when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates, which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at the specific point in time and in the respective geographic locations and may not be reflective of future values.

The fair value of the financial assets and current liabilities approximates their carrying value given the short maturity of these instruments.

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

(a) Currency risk

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

	March 31, 2017	March 31, 2016
Cash and cash equivalents of:		
- CAD\$ '000	2	101
- US\$ '000	165	11,221
- GBP '000	5	18
- HK\$ '000	161	151
Bank loans and interest of US\$ '000	(233,743)	(256,900)
Convertible bonds of US\$ '000	(18,238)	(18,000)

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

	March 31, 2017 RMB'000	March 31, 2016 RMB'000	March 31, 2017 CAD\$'000
- CAD\$	1	51	1
- US\$	(173,073)	(185,406)	(33,535)
- GBP	4	17	1
- HK\$	14	13	3

(b) Credit and trade receivables risk

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

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

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

(c) Liquidity risk (Note 1)

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

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk relating to the Syndicate Facility which carries a floating interest rate of US\$ 6 month LIBOR plus 3.35%.

5.2 Capital management (Note 1)

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

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

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

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

6 Exploration and evaluation assets

	Exploration and RMB'000
Balance at April 1, 2015	306,267
Additions	152,955
Balance at March 31, 2016	459,222
Additions	20,239
Balance at March 31, 2017	479,461
	CAD\$'000
Balance at March 31, 2017 in CAD\$ (Note 3.5 (c))	92,902

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

Upon entering phase two of the exploration, the Company relinquished 25% of the prior contract area under the Petroleum Contract. The contract area now is 4,397 sq. km and the commitment is to drill one well before May 1, 2018.

7 Property, plant and equipment

In accordance with Petroleum Contract 25/34, the production period for LS36-1 will be for a minimum of 15 years from the commencement of commercial production and may be extended by agreement between the parties if additional gas resources are discovered which can be conveniently tied into, transported and processed using the production facility.

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For the years ended March 31, 2017 and 2016
(in RMB)

	Oil & Gas Properties	Computer & Office Equipment	Total	Total
	RMB'000	RMB'000	RMB'000	CAD\$'000
(Note 3.5 (c))				
COST				
At April 1, 2015	2,079,858	20	2,079,878	402,999
Additions	12,242	-	12,242	2,372
Disposal	(458)	-	(458)	(89)
At March 31, 2016	2,091,642	20	2,091,662	405,282
Additions	36,423	29	36,452	7,063
Disposal	-	-	-	-
At March 31, 2017	2,128,065	49	2,128,114	412,345
DEPLETION AND, DEPRECIATION				
At April 1, 2015	98,636	18	98,654	19,115
Charge for the year	171,265	-	171,265	33,184
Disposal	(458)	-	(458)	(89)
At March 31, 2016	269,443	18	269,461	52,210
Charge for the year	228,918	6	228,924	44,357
Disposal	-	-	-	-
At March 31, 2017	498,361	24	498,385	96,567
CARRYING VALUES				
	RMB'000	RMB'000	RMB'000	CAD\$000
At April 1, 2015	1,981,222	2	1,981,224	383,884
At March 31, 2016	1,822,199	2	1,822,201	353,072
At March 31, 2017	1,629,704	25	1,629,729	315,778

As at March 31, 2017, the Company reviewed the carrying amounts of its oil and gas assets for indicators of impairment, changes in future liquids prices, future costs and reserves. Based on this review, the Company's LS36-1 CGU was tested for impairment

in accordance with the Company's accounting policy. The recoverable amount of the CGUs was estimated based on the FVLCD using a scenario weighted discounted cash flow model. Key assumptions by management included significant judgement around the estimates of proved, probable and certain prospective resources, consistent with the independent engineer's reserve report and using the oil price forecast contained in the report. Other key inputs include estimate of the future cash price received by the Company from Zhejiang Gas, gas quality, liquids and by-products yields, take-or-pay principles, annual quantity from the GSC, and a discount rate of 10%. The assessment is sensitive to the discount rate applied but the recoverable amount of the GUS would not be impaired if a discount rate of 12% was used.

8 Decommissioning Liabilities

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

	March 31, 2017	March 31, 2016	March 31, 2017
	RMB'000	RMB'000	CAD\$'000
			(Note 4)
Balance, beginning of year	152,801	147,777	29,607
Accretion	5,195	5,024	1,007
Balance, end of year	<u>157,996</u>	<u>152,801</u>	<u>30,614</u>

The total undiscounted future asset retirement obligations, including costs to reclaim and abandon wells and facilities in the years in which such costs are expected to be incurred is estimated by CNOOC and stated in the Overall Development Plan for LS 36-1 to be RMB 417,820,000. The Company's share of the liability is RMB204,731,800.

At March 31, 2017, the Company's share of the liability in the principal amount of RMB 204,731,800 (CAD\$39,669,018) which has a net present value of RMB157,996,444 (CAD\$30,613,533) (assuming the liability is settled in 10 years and using an estimated risk-free nominal interest rate of 3.4% which equates to the long-term yield on PRC government bond). The Company's share of the decommissioning liability has been determined to be non-current. Financing costs relating to the accretion of the decommissioning liabilities are RMB5,195,241 (CAD\$1,006,635).

Cash contributed to by the Company and held as security for the decommissioning costs is reported in the balance sheet as restricted cash of RMB51,251,550 (CAD\$9,930,546).

9 Share Capital and Share Options

a) Share Capital

	Number of shares	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000	Total CAD\$'000
Balance – as at April 1, 2015	157,460,869	1,030	484,967	485,997	94,167
Shareholder loan converted to Shares i)	21,218,535	193	40,145	40,338	7,816
Issue of shares in payment of Bond interest accrued	1,960,716	18	1,429	1,447	281
Issue shares in payment of share finder fee	3,140,775	29	2,439	2,468	478
Shareholder loan conversion costs	-	-	(146)	(146)	(28)
Balance – as at March 31, 2016	183,780,895	1,270	528,834	530,104	102,714
Bond interest accrued	6,128,954	56	3,058	3,114	604
Balance – as at March 31, 2017	189,909,849	1,326	531,892	533,218	103,318

- i) On June 5, 2015, the balance of the Company's shareholder loans of US\$10.1667 million from Mr. Hwang was converted into 21,218,535 Shares at a conversion price of CAD\$0.58 per share with TSX-V approval.

(b) Share Purchase Options

The Company has a stock option plan (“the Plan”), pursuant to which the directors are authorized to grant options to purchase up to 10% of the issued and outstanding Common Shares from time to time. The options enable the directors, officers, consultants and employees of the Company to acquire Common Shares. The board of directors, subject to TSX-V policy, sets the exercise price of a share option. Options granted under the Plan may have a maximum term of ten years and, subject to any vesting restrictions imposed by the TSX-V, shall vest over such period as is determined by the board of directors at the grant date.

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

	Options outstanding	Weighted Average exercise price CAD\$	Options exercisable	Weighted Average exercise price CAD\$
As at April 1, 2015	5,935,000	0.51	2,550,000	0.38
Vested	-	-	3,085,000	0.60
Expired	(625,000)	(0.47)	(475,000)	(0.41)
As at March 31, 2016	5,310,000	0.51	5,160,000	0.51
Vested	-	-	150,000	0.68
Expired	(1,575,000)	(0.32)	(1,575,000)	(0.32)
As at March 31, 2017	3,735,000	0.60	3,735,000	0.60

As at March 31, 2017, there are 189,909,849 Shares and 3,735,000 stock options outstanding and exercisable are as follows:

Exercise price	Number of outstanding options	Weighted average remaining contractual life	Number of exercisable options
As at March 31, 2016			
CAD\$0.32 (a)	1,575,000	0.32 years	1,575,000
CAD\$0.50 (b)	500,000	1.24 years	500,000
CAD\$0.60 (c)	2,785,000	1.49 years	2,785,000
CAD\$0.68 (d)	450,000	3.36 years	300,000
	5,310,000	1.08 years	5,160,000
As at March 31, 2017			
CAD\$0.50 (b)	500,000	0.24 years	500,000
CAD\$0.60 (c)	2,785,000	0.49 years	2,785,000
CAD\$0.68(d)	450,000	2.36 years	450,000
	3,735,000	0.52 years	3,735,000

- a) On July 27, 2011, the Company granted 2,100,000 options at an exercise price of CAD\$0.32 per share to directors, officers, employees and consultants, all of which had expired by July 27, 2016.

- b) On July 9, 2012, the Company granted 500,000 options at an exercise price of CAD\$0.50 per share to D&D Securities Inc. in consideration of on-going investor relations services. The options expired on June 25, 2017.
- c) On September 26, 2012, the Company granted 3,105,000 options at an exercise price of CAD\$0.60 per share to directors, officers, employees and consultants of which 320,000 options have expired and 2,785,000 expire on September 26, 2017. Share based payments of nil (2016 – RMB331,150, RMB115,901 and RMB150,521) and nil (2016 – RMB 46,661) were recognized as Directors remuneration and benefit, salary & benefit, professional fees and production costs respectively in the consolidated statement of loss and comprehensive loss. Share based payment of nil (2016 – RMB284,488) were capitalized as exploration and evaluation assets. 3,085,000 options vested on June 5, 2015 upon the conversion of shareholder loan.
- d) On August 11, 2014, the Company granted 450,000 options at an exercise price of CAD\$0.68 per share to an officer. Share based payments of RMB30,889 (CAD\$5,985) (2016 – RMB101,837) were recognized as salary and benefit in the consolidated statement of loss and comprehensive loss. Share based payment of RMB72,075 (CAD\$13,965) (2016 – RMB237,621) was capitalized as exploration and evaluation assets. All 450,000 options are vested and are due to expire on October 22, 2017.

10 Bank Loans

	March 31, 2017 RMB'000	March 31, 2016 RMB'000	March 31, 2017 CAD\$'000
Within one year	303,941	1,743,940	58,892
More than one year	1,426,148	-	276,332
Secured floating-rate bank loan	1,730,089	1,743,940	335,224

The principal amount of the Syndicate Facility is US\$274 million which is repayable over 8 years (after one year principal repayment holiday) at an all-in interest rate of 6 month LIBOR+4.7% with interest and principal repayments made bi-annually (except the first year in which there is no principal repayment). The initial two principal repayments of US\$21 million were paid on November 20, 2015 and on May 20, 2016.

As at March 31, 2016, the Company was in default of certain financial covenants under the Syndicate Facility and, as the Company was at that time in dispute with Zhejiang Gas, all amounts due were presented as current liabilities in year ending March 31, 2016.

On November 20, 2016, the Syndicate Facility banks agreed to support the Company during the Zhejiang Gas Arbitration, including inter alia to reduce the principal repayment on the Syndicate Facility in November 2016 and May 2017 to US\$1 million each, and to a reduction of the Company's interest rate margin from 470bps to 335bps over 6 month LIBOR to term.

As at March 31, 2017, following receipt of the settlement payment from the Zhejiang Gas Arbitration, the Company was deemed to be in compliance with its payment obligations under the Syndicate Facility and has reclassified the relevant amounts accordingly. Principal repayment amounts outstanding under the Syndicate Facility are as follows:

	March 31, 2017	March 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	161,515	31,295
More than 1 year, but not more than 5 years	1,247,450	241,707
More than 5 years	178,698	34,625
Total	<u>1,587,663</u>	<u>307,627</u>

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

	March 31, 2017	March 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	58,076	11,253
More than 1 year, but not more than 5 years	113,229	21,940
More than 5 years	3,543	686
Total	<u>174,848</u>	<u>33,879</u>

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On December 9 and 24, 2015, January 13, 2016 and May 10, 2016, PECL signed short term RMB banking facilities with Shanghai Pudong Development Bank (the RMB Banking Facility) reserved for LS36-1 operations. The principal amounts of the facilities are a total of RMB142.5 million at an interest rate of 4.0455% per annum. The Company made a partial principal repayment of RMB74,310 towards one of the facilities with a principal amount of RMB 21.5 million on December 24, 2016. The principal repayment dates of facilities with principal amounts of RMB 45 million, RMB21.5 million and RMB38 million were extended on the December 8, December 26, 2016 and January 13, 2017 respectively for another 12 months. The principal repayment amounts outstanding under the RMB Banking Facility based on the extended repayment schedules are as follows:

	March 31, 2017	March 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	142,426	27,597
Total	142,426	27,597

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

	March 31, 2017	March 31, 2017
	RMB'000	CAD\$ '000
Within 1 year	3,323	644
Total	3,323	644

11 Interest and other income

	Year ended March 31,		
	2017	2016	2017
	RMB'000	RMB'000	CAD\$'000
Bank interest income	7,771	9,086	1,506
Gain on disposal of property, plant and equipment	-	150	-
Other finance income	-	668	-
	7,771	9,904	1,506

12 Convertible Bonds

The term of convertible bonds is three years extendable for two one-year periods. Interest is payable quarterly at 7% per annum, of which 4.5% will be paid in cash and 2.5% in Common Shares at a deemed price per share equal to the higher of (i) the closing price of the Shares on the TSX-V on the day before; and (ii) the volume-weighted average trading price of the Shares on the TSX-V for the 10 days preceding; the interest payment date. The Bonds are convertible, at the option of the holder, at any time during the period commencing four months and a day following the date of issuance up to the date that is 10 days prior to the date of maturity of the Bonds, into Shares at conversion prices of CAD\$0.70 (Tranche A Bonds) and CAD\$0.85 (Tranche B Bonds) per Share.

The Tranche A Bonds had a total nominal value of RMB63,940,000 (CAD\$12,389,072) at August 14, 2015. Liability component of RMB59,026,215 (CAD\$11,436,972) and equity conversion component of RMB4,913,785 (CAD\$952,099) were recognized initially. Transaction cost of RMB5,738,241 (CAD\$1,111,847), were determined at the date of issuance of the Bonds.

The Tranche B Bonds had a total nominal value of RMB50,800,000 (CAD\$9,843,054) at November 10, 2015. Liability component of RMB46,907,627 (CAD\$9,088,864) and the equity conversion component of RMB3,892,213 (CAD\$754,159) were recognized initially. Transaction cost of RMB220,709 (CAD\$42,765), were determined at the date of issuance of the Bonds.

The fair value of the liability component included in the Bonds was calculated using a market interest rate for an equivalent non-convertible Bond. The liability component is subsequently stated at amortized cost until extinguished on conversion or maturity of the Bond. The residual amount, representing the value of the equity conversion component, is included in shareholder's equity in convertible bonds reserves.

	<u>March 31, 2017</u>		
	<u>RMB'000</u> <u>Tranche A</u>	<u>RMB'000</u> <u>Tranche B</u>	<u>RMB'000</u> <u>Total</u>
Face value	63,940	50,800	114,740
Equity component	(4,914)	(3,892)	(8,806)
Liability component on initial recognition	59,026	46,908	105,934
Transaction costs for the issuance	(8,503)	(1)	(8,504)
Amortization of transaction costs and share finder fee	4,725	-	4,725
Finance cost	7,892	4,798	12,690
Total Convertible bonds	<u>63,140</u>	<u>51,705</u>	<u>114,845</u>

13 Transactions with related parties and directors

During the year ended March 31, 2017, the Company paid or accrued the following:

- a) London office rent of nil (March 31, 2016 – RMB122,485) was paid or accrued to Falkenberg Investment Limited, a company beneficially owned by Mr. Hwang.
- b) Fees and benefits paid or accrued to key management personnel of the Company being Dr. Ming Wang, Mr. Andrew Biggs, Mr. Stuart Joyner, Mr. Mark Norman and others were RMB5,869,048 (CAD\$1,137,192) (March 31, 2016 – RMB6,278,896) and share based payment of RMB102,964 (CAD\$19,950) (March 31, 2016 – RMB681,143) was recognized for the 450,000 (March, 2016 – 2,360,000) share options granted to Mr. Stuart Joyner.
- c) Fees and benefits paid or accrued to directors being Mr. Victor Hwang, Mr. Brian Chan, Mr. Peter Kelty, Mr. Alan Johnson, Mr. Vincent Lien and Mr. Timothy Baldwin were RMB476,060 (CAD\$92,242) (March 31, 2016 – RMB502,302) and share based payment of nil (March 31, 2016 – RMB331,150) was recognized for nil (March 31, 2016 – 2,100,000) share options granted to the directors.

14 Commitments

- a) Under Petroleum Contract 33/07, the Company has a 7.5 years' exploration period divided into 3 exploration periods of 3.5, 2 and 2 years each from 2012. On May 5, 2016, Primeline elected to enter the second phase of exploration period under the Petroleum Contract for Block 33/07 with a minimum committed work programme of one exploration well during the phase.
- b) The Company entered a lease agreement in June 2015 for new premises for its Shanghai office in the PRC which covers the period from September 15, 2015 to 2018 for three years for a monthly rental fee of RMB141,757 (CAD\$27,467).

15 Fair value measurement

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

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

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

The Company does not have any financial assets or liabilities that are included in Level 1 of the fair value hierarchy.

2) *Level 2 – Significant Other Observable Inputs*

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

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

3) *Level 3 – Significant Unobservable Inputs*

Unobservable (supported by little or no market activity) prices.

The Company does not have any financial assets and liabilities that are included in Level 3 of the fair value hierarchy.

16 Revenue

	<u>Year ended March 31,</u>		
	2017	2016	2017
	RMB'000	RMB'000	CADS'000
Natural gas	450,371	159,778	87,264
CO2	-	-	-
Condensate	22,242	15,834	4,310
Light Oil	5,306	2,079	1,028
LPG	2,972	863	576
	<u>480,891</u>	<u>178,554</u>	<u>93,178</u>

Under the terms of the GSC the base price and minimum annual quantities are both fixed. During the Zhejiang Gas Arbitration in relation to the year ended March 31, 2016, the Company determined that, in accordance with IFRS revenue recognition standards, the disputed and unpaid portion of the offtake invoices issued by CCL would not be recognized as revenue from the point that Zhejiang Gas unilaterally began to apply a lower price to pay these invoices until settlement.

On March 1, 2017, following extensive negotiations, CCL and Primeline entered into settlement agreements resolving the disputes with Zhejiang Gas. The settlement was based on a pricing arrangement that resulted in Primeline receiving for its share of gas (i) the original price agreed under the GSC up to December 31, 2016; and (ii) at price which represents a reduction of about 7% from the price fixed under the GSC, fixed from January 1, 2017 for the rest of the GSC delivery period. Primeline received a total settlement of RMB 256 million (CAD\$ 50 million) net of VAT. For its share of all outstanding unpaid or

partially paid amounts due for natural gas delivered to the end of 2016 and for the 2015 and 2016 take-or-pay payments. Accordingly, Primeline recorded as revenue the settlement receipts of RMB222 million (CAD\$43 million) for the outstanding unpaid amounts from April 1, 2015 to December 31, 2016, and 2015 and 2016 take-or-pay payments for which the gas delivery to Zhejiang Gas is completed before year end in accordance with IFRS revenue recognition accounting standards. The Company recorded settlement receipts of RMB33.4 million (CAD\$6.5 million) as deferred revenue relating to take-or-pay which the gas delivery to Zhejiang Gas is to be completed after the year end. Such amounts will be recognized as revenue upon the completion of delivery. All the gas delivery related to 2015 and 2016 take-or-pay was completed on April 12, 2017.

In addition, Primeline also received settlement receipts of RMB12 million (CAD\$2 million) being the outstanding unpaid amounts for January 1, 2017 to February 28, 2017 natural gas sales, which were recorded as revenue.

17 Long term accounts payable

	<u>Year ended March 31,</u>		
	2017	2016	2017
	RMB'000	RMB'000	CAD\$'000
CNOOC management fee (i)	7,926	17,647	1,534
Cost of makeup gas (ii)	95,244	-	18,455
	<u>103,170</u>	<u>17,647</u>	<u>19,989</u>

(i) Under the repayment agreement with CNOOC in December 2014, which governs the terms and basis for the Company's contribution of its LS36-1 development cost obligations, the Company and CNOOC agreed a supplementary management fee would be added in consideration of the advance by CNOOC of those costs during the development period of 2010-2014. The initial payment of RMB 68 million was made in December 2014, and the remainder RMB 36 million fee has been accrued as a non-current account payable with the full amount capitalized as a development cost into PP&E.

(ii) As part of the settlement of the Zhejiang Gas Arbitration, Primeline agreed that CCL, on its behalf, will procure and deliver natural gas to Zhejiang Gas in compensation and settlement to Zhejiang Gas for the corresponding make-up gas quantity due in respect of the 2015 and 2016 take-or-pay payment made by Zhejiang Gas. CCL has acquired and delivered LNG in accordance with that arrangement at a gas price which management estimates to be RMB 2.17/m³. Primeline's share of the cost of LNG purchased is RMB118,433,984 (CAD\$22,948,000). It was further agreed that CCL only has right to demand payment of Primeline's share of the cost of purchase of the LNG for such purpose at a date which is no earlier than 12 months from purchase. This agreed make up gas delivery was completed on April 12, 2017. Thus, the Company has recognised its share of LNG purchase as a non-current account payable for the gas supply expense, being RMB95,243,492 (CAD\$18,458,465) relating to the proportion of gas delivered to Zhejiang Gas completed

before the year end and the remaining RMB23,190,492 (CAD\$4,493,411) relating to the proportion of gas delivered after the year end will be recognized then

18 Trade receivables

	March 31, 2017	March 31, 2016	March 31, 2017
	RMB'000	RMB'000	CAD\$ '000
Less than 30 days past due	8,121	11,717	1,573
More than 30 days past due	-	-	-
Total	8,121	11,717	1,573

The trade receivable of RMB8,120,589 as at March 31, 2017 related to the natural gas and by products sales in the month of March 2017, and it was fully received in April 2017.

19 Financial instruments

Accounting classification of financial assets and liabilities

	Financial assets	Other financial liabilities at amortized cost	Total
	RMB '000	RMB '000	RMB '000
At March 31, 2017			
Cash and cash equivalents	307,418	-	307,418
Trade receivables	8,121	-	8,121
Other receivables excluding non-financial items	16,788	-	16,788
Trade payables and other payables excluding non- financial items	-	(50,436)	(50,436)
Total (RMB'000)	332,327	(50,436)	281,891
Total (CAD'000)	64,392	(9,773)	54,619

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	Financial assets	Other financial liabilities at amortized cost	Total
	RMB '000	RMB '000	RMB '000
At March 31, 2016			
Cash and cash equivalents	150,570	-	150,570
Trade receivables	11,717	-	11,717
Other receivables excluding non-financial items	9,589	-	9,589
Trade payables and other payables excluding non- financial items	-	(45,619)	(45,619)
Total (RMB'000)	171,876	(45,619)	126,257
Total (CAD'000)	33,303	(8,839)	24,464

20 Account payable and accrued liabilities

	Year ended March 31,		
	2017	2016	2017
	RMB'000	RMB'000	CAD'000
Accrued charges and other creditors	178,250	163,780	34,538
Loan interest payables	19,012	25,399	3,684
Convertible bonds interest payables	1,634	229	318
	198,896	189,408	38,540

21. Subsequent Events

(i) The Company made a full settlement payment to COSL on April 5, 2017 and on May 26, 2017 Primeline received confirmation from CIETAC that COSL's arbitration proceedings against PEOIL in CIETAC had been formally terminated. With this, all the procedures under the March 1, 2017 settlement agreement have been completed.

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(ii) As part of the settlement of the Zhejiang Gas Arbitration, the Company agreed that CCL, on its behalf, would procure and deliver natural gas to Zhejiang Gas in compensation and settlement to Zhejiang Gas for the corresponding make-up gas quantity due in respect of the 2015 and 2016 take-or-pay payment made by Zhejiang Gas. This agreed make up gas delivery to Zhejiang Gas was completed on April 12, 2017 (See Note 17 (ii) above).