

## Initiating Report

April 10, 2008

### Recommendation

Speculative Buy

### Risk

High

### Price (April 10)

\$0.70

### 52-Week Range

\$2.50 - \$0.65

### Target Price

1-Year: \$1.00

### Potential Return

1-Year: 1.4x

### Shares O/S

Basic - 47.0 million

Fully Diluted - 53.1 million

### Market Cap

\$32.9 million

### Average Daily Volume

20-Day: 23,400

150-Day: 52,000

### Year-End

March 31

C\$	BVPS	CFPS
2006	\$0.43	\$0.00
2007	\$0.91	(\$0.00)
2008E	\$0.87	(\$0.01)
2009E	\$0.86	(\$0.01)

BVPS: Book Value Per Share

EPS: Earnings Per Share

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## PRIMELINE ENERGY HOLDINGS INC.

(\$0.70; PEH: TSX-V)



Data Source: www.BigCharts.com

### UPFRONT

With an offshore gas discovery in the East China Sea, and a half-dozen geologically promising prospects nearby, Primeline is well positioned to benefit from the growing Chinese demand for natural gas. However, near-term share performance is likely to be impacted until the Company is able to secure either a firm gas buyer commitment or a drilling rig.

### RECOMMENDATION

eResearch rates Primeline Energy Holdings Inc. ("Primeline" or the "Company") as a Speculative Buy with a one-year Target Price of \$1.00. The Company's shares are suitable only for high-risk investors.

### PROFILE

Primeline Energy Holdings Inc. is an exploration and early development stage energy company focusing on the commercial development of an offshore natural gas discovery and nearby exploration prospects in the East China Sea, in close proximity to rapidly-growing gas markets in mainland China.

### HIGHLIGHTS

- Owner/operator with a 75% interest in a 7,006 sq. km. offshore exploration concession in the East China Sea with a maximum 30-year term for exploration, development, and production
- Property contains Best Estimate (P50) Contingent Resource of 122 Bcf and risked Prospective Resource of 225 Bcf
- Production possible by 2012
- Currently \$11.6 million in cash and no debt, with the potential for additional operational funding from major shareholder
- Strong management and proven technical team with significant international and Chinese energy expertise

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## THE COMPANY

Primeline Energy Holdings Inc. is an independent energy company focusing exclusively on oil & gas exploration and upstream opportunities in China.

Primeline owns 75% of the Foreign Contractor's interest in a Petroleum Contract with China National Offshore Oil Corporation (CNOOC), the Chinese state oil company. This contract entitles Primeline to participate in the exploration, development, and production of oil and gas in Block 25/34 in the East China Sea.

Block 25/34 covers the Lishui 36-1 gas discovery Primeline made previously. There is also significant hydrocarbon potential in the remainder of the 7,006 sq. km concession.

Primeline is aiming to commercialize the existing gas discovery to supply gas to the East China gas market.

The Company is incorporated under the Companies Law of the Cayman Islands. Its corporate headquarters are located in London, England; it has an operational office in Shanghai; and a back office is located in Hong Kong.

## SIGNIFICANT SHAREHOLDER

Primeline International Holdings Inc., a company controlled by Mr. Victor Hwang, currently holds approximately 41.6% of the outstanding shares of Primeline. The total Hwang family's interest in Primeline is 49.7%. Mr. Hwang also holds the remaining 25% stake in the Block 25/34 concession through Primeline Petroleum Corp. (see below).

Victor Hwang is one of four sons of Taiwanese multi-millionaire Mr. C. S. Hwang. The Hwang family are headquartered in Hong Kong and have substantial property and other investments in Hong Kong, Singapore, and other major cities throughout the world. The family's net worth has been conservatively estimated at \$1.5 billion.

Throughout most of its existence, Primeline has enjoyed the support of its major shareholder. As of the end of fiscal 2006 (March 31), Primeline International Holdings had provided cash advances of \$8.3 million. Of this amount, \$7.9 million was subsequently converted into equity in April 2006.

## BACKGROUND

In 1993, Primeline Petroleum Corp. was formed by the Hwang family to capitalize on upstream petroleum business opportunities in the Far East, particularly in China. In that year, the company successfully secured licensed blocks in the East China Sea under the name of Cluff Oil (China) Ltd., which was a 51/49 joint venture between Primeline Petroleum Corp. and Cluff Oil Hong Kong Ltd., a company in which Primeline had a 65% stake. The following year, Primeline Petroleum Corp. signed a Petroleum Contract for Block 32/32 with China National Offshore Oil Corp. (CNOOC) and, at that time, Cluff Oil opted for non-participation.

In 1995, Primeline Petroleum Corp. assigned 75% of its interest in the Petroleum Contract for Block 32/32 to Primeline Energy China Ltd. and retained the remaining 25%. These companies jointly designated Primeline Energy Operations International Ltd. as the operator of Block 32/32.

Later in 1995, Primeline Energy Holdings Inc. acquired all of the shares of Primeline Energy China Ltd. and Primeline Energy Operations International Ltd. It also listed its shares on the Vancouver Stock Exchange (VSE).

In 1997, Primeline achieved its first major success with the Lishui 36-1 (Vicky) gas discovery, which is in Block 25/34, and two appraisal wells were subsequently drilled during 2000 and 2001. The discovery well and the first appraisal well confirmed the existence of hydrocarbon resources within the Block. These two wells had flow rates of 9.9 and 12.6 mmcf/d of natural gas, respectively.

In March 2005, the Petroleum Contract for Block 32/32 was replaced by a new Petroleum Contract for Block 25/34 in the East China Sea. The Company acquired oil and gas exploration and development rights within Block 25/34 for a maximum of 30 years. Block 25/34 is a new extensive concession covering a significantly greater area than Block 32/32 and including the material areas of the previous block and the most petroliferous area of the West Lishui Basin (gas) and the East Lishui Basin (oil). The total area of Block 25/34 is 7,006 sq km.

Under the terms of the Petroleum Contract, there is an initial seven-year exploration period, which has been sub-divided into three separate phases, with the first phase consisting of three years, followed by two succeeding two-year phases.

Since the signing of this new Contract, Primeline Energy Holdings Inc.'s strategy has been to:

1. secure fast track development of the Lishui (Vicky) 36-1 gas discovery;
2. conduct further exploration work in close proximity to the initial discovery; and
3. continue the exploration of the remainder of the Block.

To that end, Primeline Energy Holdings Inc. has achieved a number of significant milestones over the last two years:

- Completing the acquisition of 550 sq. km. of new 3D seismic data, which was then merged with existing data to provide a total area of 737 sq. km.;
- Completing the analysis of the 3D seismic data which resulted in the identification of six analogous natural gas prospects in close proximity (15 km) to the original Lishui discovery;
- Site surveys for two of these locations have been completed and they are now ready for drilling;
- An independent NI 51-101 compliant resource report was prepared by McDaniel & Associates of Calgary confirming the existence of a 292 Bcf Contingent Resource (GIIP) for the Lishui 36-1 discovery, and an unrisked raw gas 1.7 Tcf Prospective-In-Place Resources in the six prospect exploration area (see Property Summary for details);
- Based on a report prepared by Primeline referencing this reserve data, the Chinese State Resource Committee granted "Development Reserves" status for the Lishui 36-1 discovery, clearing the way for pursuing gas sales commitments on the part of potential buyers and, therefore, potential development;
- In co-operation with CNOOC, a comprehensive feasibility study for the development of the Lishui 36-1 discovery, including detailed engineering design and cost estimates for the project, has been completed; and

- Based on the granting of Development Reserve status and the results from the feasibility study, Primeline and CNOOC began discussions with the city of Wenzhou and the Provincial Government of Zhejiang Province in September 2007 to secure a long-term gas sales contract, and these discussions are ongoing with the initial objective set at securing a Memorandum of Understanding (MOU) from Wenzhou authorities as soon as possible.

In summary, through a wholly-owned subsidiary, Primeline currently holds a 75% interest in the Petroleum Contract for Block 25/34. This Petroleum Contract was signed with CNOOC, the third largest oil company in China and exclusive Chinese partner for foreign entities engaged in offshore oil exploration and production. CNOOC's subsidiary, CNOOC Limited, is listed on the New York and Hong Kong Stock Exchanges. A separate Primeline wholly-owned subsidiary holds the operator rights under the Petroleum Contract (see Appendix 2 for details of the Petroleum Contract).

To date, Primeline has not realized any revenues from its oil and gas properties and is considered to be an exploration and early development stage company.

## NEXT STEPS

### 1. Complete Initial Phase Drilling Obligation

Since the Contract came into effect on May 1, 2005, the Company has completed the acquisition and interpretation of 550 sq. km. of 3D seismic and spent in excess of \$10 million in qualifying exploration expenditures. This substantially exceeds its minimum obligation of \$6 million during the initial three-year phase of the seven-year exploration period under the Contract.

**COMMENT:** *However, due to tight drilling rig market conditions, it has yet to fulfill its remaining initial phase obligation to drill a well.*

Primeline renegotiated the terms of this obligation with CNOOC and, on February 21, 2008, it announced that it had obtained a one-year extension of the initial three-year exploration phase. The original deadline had been May 1, 2008. In exchange for this extension, CNOOC has now obliged Primeline to reduce, by a year, one of the two remaining two-year exploration phases. However, the minimum work commitment for each of the two remaining phases will still remain the same; drilling of one well to a depth of 2,500m with a minimum expenditure of US\$5 million.

**COMMENT:** *Based on data available from RigLogix, jack-up and semi-submersible rig utilization rates in the Asia Pacific region are currently running at 98.4% and 100% respectively. Where available, rigs are expensive. Jack-up day-rates in South-East Asia are running at about US\$225,000. However, as tight as conditions now are, they are set to improve markedly. Currently, 65 jack-up rigs now under construction around the world are set to be delivered between now and the end of 2010. While this raises the odds that Primeline will secure a rig in time to meet its new deadline, we do not expect a signing for the balance of calendar 2008. The total cost of drilling one well at the proposed location based on current Chinese market rates, is estimated at approximately US\$15 million, of which the Company would be required to fund 75% (US\$11.25 million). Site surveys of the proposed drilling locations on the Lishui were completed in December, so the Company is ready to "hit the ground running" once it secures a rig.*

## 2. Proceed With Lishui Fast Track Development

Having completed a detailed feasibility study, Primeline now has the engineering and costs estimates necessary to facilitate the “fast track” development option for the existing gas resources at the Lushui 36-1 discovery. The cost of development to production is estimated at approximately US\$400 million, of which Primeline International Holdings Inc.’s share would be approximately US\$147 million. This would be funded by bank debt and a further equity issue by Primeline.

However, the prospect of proceeding with this fast track plan rests on securing a Memorandum of Understanding (MOU) with respect to a gas sale contract with the government of the nearby city of Wenzhou. The principal use proposed for the initial gas from Lishui is the Longwan CCGT Power Plant, which is currently using fuel oil costing well in excess of current domestic Chinese natural gas prices. Negotiations with Wenzhou government began in September 2007.

Recently, the frames of reference for the negotiations shifted with the announcement that construction had begun on a second west-to-east gas pipeline that would bring gas to Jinhua, a city approximately 250 km northwest of Wenzhou, by 2011. The negotiations with Wenzhou have been delayed by the Provincial authorities in Zhejiang Province so that the Lishui fast track development proposal can be considered within the context of a broader regional gas supply strategy.

**COMMENT:** *These developments have significantly reduced the likelihood that a gas supply deal with Wenzhou can be struck in the near term thereby facilitating fast track development of the 122 Bcf Contingent resource at Lishui. It now appears that further exploration activity to prove-up the gas volumes in the nearby prospects may be required to maintain the interest of Chinese authorities in pursuing a development option for Lishui. A further incentive would be pricing. Pipeline sourced gas for Wenzhou’s needs could cost as much as \$11/mmbtu, a price that could be met or beaten by Primeline given current estimates of the cost of developing Lishui. We estimate that a price of \$8.50/mmbtu would still be sufficient to generate an appropriate economic return for Lishui if additional Prospective resource were to be successfully proved up.*

## INVESTMENT CONSIDERATIONS

### 1. Positives

- Accelerating Chinese demand for natural gas is narrowing the gap between domestic and global prices.
- Primeline may have a ready customer for its gas, that being Wenzhou, a rapidly-growing nearby city.
- Short term operating expense shortfalls are likely to be covered by the major shareholder, which holds significant direct and indirect stakes in the Lishui offshore concession.
- Exploration potential is significant.

## 2. Negatives

- Exploration drilling on the identified prospects is unlikely to take place until 2009 due to rig availability issues.
- The prospect of pipeline-based gas supplies becoming available to the Wenzhou area by 2010 appears to have reduced the likelihood of a gas supply agreement being reached that would support fast track development of the Lishui Contingent Resource.
- Existing exploration prospects may contain higher than expected levels of carbon dioxide, thereby mitigating their economic value.

## FINANCIAL REVIEW AND OUTLOOK

### Revenue/Income:

As an exploration and early development stage company, Primeline has no operating revenues or income and has, therefore, realized only losses since its inception. For the current fiscal year ending March 31, 2008, we are projecting a net loss of \$2.9 million or \$0.06 per share. Of this amount, over \$1.5 million is projected to be due to foreign exchange related losses. The Company holds substantial U.S. dollar deposits, which have depreciated by approximately 13% against its reporting currency, the Canadian dollar. We expect these losses to be partially reversed in fiscal 2008 as the spillover effects of a U.S. recession impact Canada, prompting an expected modest retracement in the Canadian dollar. We expect a reported currency gain of just over \$400,000 in fiscal 2009.

### Taxes:

The Company is domiciled in an income tax-exempt jurisdiction and carries out its oil exploration activities in China; these activities are subject to Chinese income tax at a rate which has recently been reduced from 33% to 25%. In accordance with Chinese tax regulation, exploration costs incurred by foreign oil and gas enterprises can be deferred and amortized from commencement of oil/gas production. As of December 31, 2007, the Company had a future income tax liability of \$471,162.

### Cash:

As of December 31, 2007, Primeline had a cash balance of \$11.6 million remaining from the \$22.6 million equity financing in the previous year. With no major property development expenditures required during the remainder of the fiscal year, we are projecting that the Company will still have \$10.6 million available by the end of the fiscal year ending March 2008. As the Company has now secured a 12-month extension on its obligation to drill a well on its concession, we are projecting that an associated expense of \$13.25 million will be incurred in fiscal 2009. As available cash will not be sufficient to fund this, a further cash injection of roughly \$5 million will be required. We expect that short term cash flow funding will be made available, as before, in the form of cash advances from the majority shareholder.

**Burn Rate:**

G&A charges, which consisted of project administration, salary and travel expenses, came to just over \$645,000 during the first nine months of fiscal 2008. For the full year, we estimate that the charge will be about \$860,000. For the following fiscal year, we see this increasing slightly to \$900,000. With fiscal 2008 year-end cash balances estimated to be \$10.6 million, the Company has more than sufficient funds to cover these non-discretionary charges. The Company enjoys the support of its major shareholder in the form of the provision of office space and the secondment of staff and facilities at relatively low rates.

**Capex:**

Having now secured a one-year extension to fulfill its drilling obligation on the Lishui prospects, we estimate that Primeline will spend about US\$13.25 million on exploration in fiscal year ending March 2009, assuming that it is successful in securing a rig. During the next two exploration phases, one of which will now have to be truncated by one year unless otherwise agreed with CNOOC, Primeline is still obliged to spend a minimum of US\$5 million in each phase and drill a further two wells.

**Options and Warrants:**

The Company has a stock option plan (the "Plan"), pursuant to which the directors are authorized to grant up to 15% of the issued and outstanding common shares in options. The exercise price of a share option will be set by the board of directors, subject to TSX Venture Exchange policy. Options granted under the Plan generally have a term of five years and vest in stages over 12 months with no more than 25% of the options vesting in any three-month period, as determined by the board of directors at the grant date.

On November 1, 2007, the Company awarded options to purchase a total of 875,000 common shares at an exercise price of \$2.00 per share, 250,000 of such options being awarded to the Company's newly appointed investor relations counsel, and 625,000 options being awarded to certain of its executive directors, management and consultants. All such options will vest and are otherwise in accordance with the Company's Stock Option Plan, and will expire on October 31, 2012.

The following table presents the warrants and options outstanding as of December 31, 2007.

**Table 1. Warrants and Options****1. Options**

<b>Number</b>	<b>Exercise Price (CAD)</b>	<b>Expiry Date</b>	<b>Remaining Contractual Life</b>	<b>Comment</b>	<b>Potential Equity</b>
433,000	\$1.60	May 31, 2008	0.14	Out-of-the-Money	\$692,800
4,300,000	\$1.50	Apr 4, 2011	2.99	Out-of-the-Money	\$6,450,000
550,000	\$1.60	Nov 30, 2011	3.64	Out-of-the-Money	\$880,000
<u>875,000</u>	\$2.00	Oct 31, 2012	4.56	Out-of-the-Money	<u>\$1,750,000</u>
6,158,000					\$9,772,800

Source: Company reports and eResearch

**COMMENT:** *The \$1.60 strike price options expiring May 31, 2008 are currently well out-of-the-money and, therefore, not likely to be exercised. As the remaining options have relatively long terms to expiry, we do not anticipate any warrants or options being exercised during our 12-month forecast period.*

### Financing:

On April 4, 2006, the Company closed a private placement units offering, comprising 16,666,666 units at a price of \$1.50 per unit for gross proceeds of \$25 million. Each unit consists of one common share and one half of one common share purchase warrant with an exercise price of \$2.00. As these warrants expired worthless in April, 2008, the Company will now have to secure alternative arrangements to partially fund the projected capital expenditures of \$13.25 million in fiscal 2009.

**COMMENT:** *We anticipate that further short-term cash flow advances from the majority shareholder, Primeline International Holdings Inc., will be made available, but any significant funding will presumably have to be made available through additional equity issues.*

### Capital Structure:

Currently, Primeline has no long or short term debt. All current funding is in the form of equity. The following table summarizes current shares outstanding, on a basic and fully diluted basis.

**Table 2. Shares Outstanding**

	<b>Shares</b>
Balance March 31, 2006	25,087,290
Private Placement	16,666,666
Debt Conversion	<u>5,266,667</u>
Balance March 31, 2007	47,020,623
Options	<u>6,158,000</u>
Fully Diluted	53,178,623

*Source: Company reports and eResearch*

### Financial Statements:

Set out below are abridged financial statements of net income/loss; cash flow; and the balance sheet, together with a commentary.

Table 3. Selected Financial Information

	Nine Months Ending Dec 31:		Year Ending March 31:				
	2006	2007	2005	2006	2007	2008E	2009E
<b>Statement of Income/(Loss):</b>							
Operating Income	0	0	0	0	0	0	0
Non-Operating Income	588,530	402,592	0	136	770,276	348,500	350,000
General & Administrative Expense	(617,739)	(645,027)	(53,132)	11,757	(939,862)	(860,036)	(900,000)
Amortization	0	0	0	0	0	0	0
Stock-based Compensation	(1,494,786)	(797,028)	(25,008)	(235,159)	(6,567,399)	(925,000)	(500,000)
Other Non-Cash Items	743,948	(1,284,947)	(137,553)	(364,771)	668,434	(1,500,000)	422,235
Other Income/(Expenses)	0	0	0	0	0	0	0
Net Income/(Loss)	(780,047)	(2,324,410)	(215,693)	(588,037)	(6,068,551)	(2,936,536)	(627,765)
Basic Shares Outstanding	47,020,623	47,020,623	23,987,290	25,087,290	47,020,623	47,020,623	47,020,623
Weighted Average Shares Outstanding	46,701,593	47,020,623	23,987,290	24,619,619	46,780,258	47,020,623	47,020,623
Earnings (Loss) Per Share	(\$0.02)	(\$0.05)	(\$0.01)	(\$0.02)	(\$0.13)	(\$0.06)	(\$0.01)
<b>Statement of Cash Flow:</b>							
Net Income (Loss)	(780,047)	(2,324,410)	(215,693)	(588,037)	(6,068,551)	(2,936,536)	(627,765)
All Non-Cash Items	750,838	2,081,975	162,561	599,930	5,898,965	2,425,000	77,765
Cash Flow from Operations	(29,209)	(242,435)	(53,132)	11,893	(169,586)	(511,536)	(550,000)
Cash Flow Per Share	-\$0.00	-\$0.01	-\$0.00	\$0.00	-\$0.00	-\$0.01	-\$0.01
Capital Expenditures (Properties)	(7,263,439)	(2,196,244)	(363,175)	(998,898)	(7,548,790)	(2,415,868)	(13,250,000)
Other Investing Items	0	0	0	0	0	0	0
Free Cash Flow	(7,292,648)	(2,438,679)	(416,307)	(987,005)	(7,718,376)	(2,927,404)	(13,800,000)
Working Capital Changes	470,122	(1,307,393)	(115,820)	(108,932)	304,628	(1,875,000)	250,000
Equity Financing	22,605,920	0	0	355,000	22,606,440	0	0
Debt Financing	(123,919)	297,617	548,384	814,391	(290,299)	297,617	5,000,000
Change in Cash	15,659,475	(3,448,455)	16,257	73,454	14,902,393	(4,504,787)	(8,550,000)
Cash, Beginning of the Period	158,272	15,060,665	68,561	84,818	158,272	15,060,665	10,555,878
Cash, End of the Period	15,817,747	11,612,210	84,818	158,272	15,060,665	10,555,878	2,005,878
	As at Sept 30:		As at March 31:				
	2006	2007	2005	2006	2007	2008E	2008E
<b>Balance Sheet:</b>							
Cash	15,817,747	11,612,210	84,818	158,272	15,060,665	10,555,878	2,005,878
Other Current Assets	26,726	38,443	2,994	103,885	98,122	40,000	50,000
Deferred Petroleum Exploration Costs	26,589,231	30,582,665	18,687,077	19,325,792	29,047,261	31,463,129	44,713,129
Other Assets	0	0	0	0	0	0	0
Total Assets	<u>42,433,704</u>	<u>42,233,318</u>	<u>18,774,889</u>	<u>19,587,949</u>	<u>44,206,048</u>	<u>42,059,007</u>	<u>46,769,007</u>
Current Liabilities	380,639	495,762	76,827	433,557	983,031	804,854	617,619
Other Liabilities	0	471,162	0	0	457,328	500,000	525,000
Debt Obligations	0	0	7,868,298	8,322,506	0	0	5,000,000
Total Liabilities	380,639	966,924	7,945,125	8,756,063	1,440,359	1,304,854	6,142,619
Shareholders' Equity	<u>42,053,065</u>	<u>41,266,394</u>	<u>10,829,764</u>	<u>10,831,886</u>	<u>42,765,689</u>	<u>40,754,153</u>	<u>40,626,388</u>
Total Liabilities & Equity	<u>42,433,704</u>	<u>42,233,318</u>	<u>18,774,889</u>	<u>19,587,949</u>	<u>44,206,048</u>	<u>42,059,007</u>	<u>46,769,007</u>
Book Value (S.E.) Per Share	\$0.89	\$0.88	\$0.45	\$0.43	\$0.91	\$0.87	\$0.86

Source: eResearch

**COMMENT:** As an exploration/early development stage company, Primeline's only source of income is interest earned in certain deposits it currently holds. For fiscal 2008 and 2009, respectively, we estimate these assets will generate non-operating income of approximately \$348,500 and \$350,000. However, this income will not be sufficient to fully offset expenses, with the net result being a reported net loss of \$2.9 million in the current fiscal year, declining to a loss of approximately \$627,000 in the following year. We have attributed this reduction in the reported loss to lower stock-based compensation expense and expected positive foreign exchange gain due to a modest appreciation in the U.S. dollar relative to the Canadian dollar. Operating cash flow, however, is expected to be roughly the same at about negative \$500,000 during both fiscal 2008 and 2009.

## VALUATION

### 1. Net Asset Value

We have employed a net asset value (NAV) approach to derive an intrinsic value for Primeline, by estimating the individual sources of value in the Company:

1. A DCF-based valuation of the combined Contingent & Prospective Resource associated with the Lishui 36-1 discovery;
2. The value of any further undiscovered resource potentially situated on the remaining area of Block 25/34; and
3. Working capital net of debt and the drilling and exploration expenses that the Company is now obliged to spend under the terms of the recently-granted one-year extension.

A detailed presentation of the valuation models used for items (1) and (2) appear in Appendix 5, including a discussion of the key assumptions employed.

### 2. Analysis

The following table presents a summary of the results of the above described valuation approach. All property values expressed assume that CNOOC exercises its right to participate for a 51% interest.

**Table 4. Estimated NAV Per Share**

	Resource Estimate Level		
	P90	P50	P10
Contingent & Prospective Resource NPV (\$mill)	\$0.0	\$36.8	\$383.8
Undeveloped Land	16.7	16.7	16.7
Working Capital Fiscal YE 2008	9.8	9.8	9.8
Less: Exploration Obligation – Phase 1	(13.3)	(13.3)	(13.3)
Less: Estimated Debt Funding	<u>(5.0)</u>	<u>(5.0)</u>	<u>(5.0)</u>
Net NAV	<b>\$8.3</b>	<b>\$45.1</b>	<b>\$392.1</b>
Shares O/S Fiscal YE 2008	47.02	47.02	47.02
NAV Per Share	<b>\$0.18</b>	<b>\$0.96</b>	<b>\$8.34</b>

*Note: All amounts expressed in C\$*

*Source: eResearch*

The different values obtained in this analysis reflect the significant variation in the Resource values assigned to the Lishui 36-1 discovery well and adjoining prospects presented in the McDaniel & Associates resource report at the Low (P90), Best (P50), and High (P10) estimate levels.

## TARGET PRICE DETERMINATION

### 1. One-Year Target Price

The NI 51-101 independent resource estimate at the Best Case (P50) provides a reasonable basis for adopting the NAV values derived under that scenario.

On that basis, the intrinsic value is determined to be C\$45.1 million, or \$0.96 per Primeline share. From this, we are choosing our one-year Target Price of C\$1.00.

## TECHNICALLY SPEAKING

By Stephen Whiteside - Publisher - TheUpTrend.com

### Primeline Energy Holdings Inc.



Since peaking last August, Primeline Energy has been in a steady decline. If the recent low of \$0.65 holds, our indicators show that there is a 60% chance that a major bottom has been made (1).

While any bottom here may attract short-term traders, we will not see long-term investors move back into this stock until there is a weekly close above \$0.95 (2).

If a new weekly up-trend does start, the first upside target would be \$1.35 (3).

## APPENDIX 1 - MANAGEMENT AND DIRECTORS

### **Victor Hwang, President**

Mr. Hwang is Executive Director of the publicly-listed Hong Kong Parkview Group Ltd., a division of the family-controlled Chyau Fwu Corporation. Parkview's core business includes property development, shipping/transportation and hospitality. He is also President of Parkview International London PLC - the company that recently sold the four million square foot Battersea Power Station redevelopment project in Central London for £400 million. Mr. Hwang holds a B.Sc. in Business Administration.

### **Dr. G. Ming Wang, CEO & Director**

Dr. Wang holds a PhD in Geology from Imperial College, London. He was a member of the research staff at Imperial College prior to joining Primeline in January 1994. Dr. Wang was a key member of Primeline's technical team and was appointed as Vice President of Exploration in December 1996. Since then he has been responsible for all technical operations for Primeline, including the successful drilling operation of the LS36-1 (Vicky-1) discovery well. Dr. Wang has extensive knowledge of, and contacts within, China's petroleum industry.

### **Brian Chan, VP, Secretary, CFO, & Director**

Mr. Chan has extensive experience in international banking and commerce. His responsibilities include the formulation and implementation of the financial strategies with respect to the Company's East China Sea Project. In addition, Mr. Chan is General Manager of the Hong Kong Parkview Group Ltd. He is a Certified Public Accountant in Hong Kong and a Chartered Certified Accountant in the U.K.

### **Peter C. Kelty, Director**

Mr. Kelty has extensive experience in restructuring and financing major Asian regional corporations as well as advisory work for European and U.S. multi-nationals. Mr. Kelty is a Certified Public Accountant and a member of the Illinois State Bar. He holds a Masters degree in Business Administration, with a major in Accounting, and is a Doctor of Jurisprudence.

### **Alan Johnson, Director**

Mr. Johnson has over 30 years of oil industry experience with various companies, including management and operation experience in Africa, CIS and China. He was Chief Operations Officer for Cluff Group of Companies 1996-2000. He joined Glencore in 2000 as senior upstream oil manager for Glencore worldwide, looking after projects including a 280,000pd production venture and exploration involvement in Africa and South America.

### **Graeme Phipps, Director**

Mr. Phipps has been involved in the oil industry over the last 30 years. In 2005, he was employed as Executive VP of PetroKazakhstan preparing to become President and CEO of this company when it was sold for \$4.2 billion in late 2005. Prior to PetroKazakhstan, he held a number of senior executive positions with several exploration and production companies, including VP of the Canadian Division and VP Corporate Planning of Nexen Inc. and Exploration and International VP for Petro-Canada. Mr. Phipps spent his first 20 years in the oil industry with Esso Resources and Exxon in various operational and managerial positions.

**Yunshi Cao, Director**

Mr. Cao has over 30 years oil industry experience in China. He recently retired from CNOOC where he was general counsel, company secretary, and senior vice president of CNOOC Ltd. Mr. Cao was instrumentally involved in the listing of CNOOC Ltd. and its subsequent operations and fund raisings. Mr. Cao was in charge of CNOOC head office's legal department which negotiated all the petroleum contracts with international companies since 1982.

**Andrew Biggs, Senior Vice President and General Counsel**

Mr. Biggs is qualified as a solicitor in England and in Hong Kong. Between 1981 and 1998, he was a partner of the international law firm, Richards Butler, both in Hong Kong and London. Mr. Biggs worked primarily on Hong Kong/Asian M&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 & A and financing transactions in China. In 1998, Mr. Biggs joined Parkview Group as the Corporate Affairs Director and in-house counsel. In such capacity he has overseen all legal aspects of Primeline's operations.

**Alan Soulsby, Technical Director**

Mr. Soulsby graduated from Pembroke College, Oxford 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 30 years of international exploration experience and is currently an executive director for RPS Energy. 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 and has been responsible for the initial block selection and for organising the exploration programme which led to the LS36-1 (Vicky) discovery, as well as ongoing evaluation work.

## APPENDIX 2: PROPERTY SUMMARY

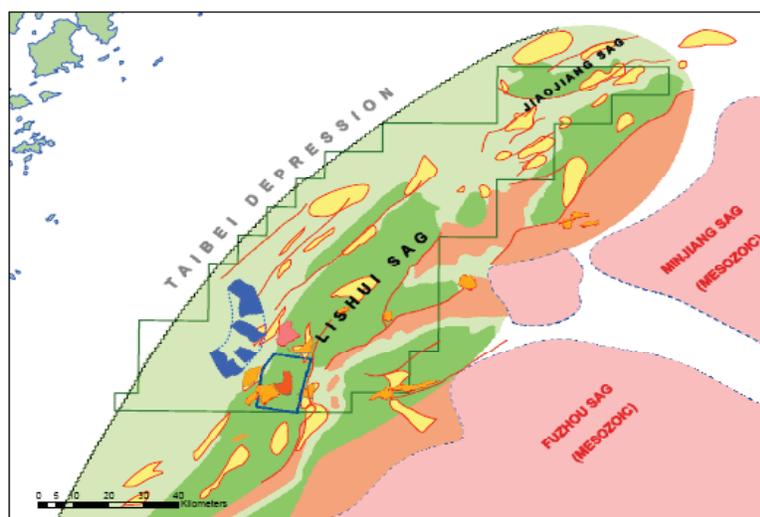
### 1. Description

Block 25/34 covers a total area of 7,006 sq. km. (net to Company 5,255 sq. km.) in the East China Sea in water depths between 75 and 90 meters. It is located approximately 110 km from the coast of China and approximately 140 km southeast of the city of Wenzhou. It includes the Lishui 36-1 (Vicky) gas discovery and the six recently-identified gas prospects, known collectively as the Lishui Gas Play, which have now been identified with the recently acquired 3D seismic.

The block is covered by a Petroleum Contract between the China National Offshore Oil Corporation (CNOOC), Primeline Petroleum Corporation, and Primeline subsidiary, Primeline Energy China Limited. Primeline Petroleum Corporation has a 25% participating interest and Primeline Energy China Limited has a 75% interest in the Block. CNOOC does not participate in exploration, but has the right to participate up to a 51% interest in any commercial development by paying its pro-rata share of development costs, in which event, the respective interests of the Company and Primeline Petroleum Corporation in development and production would be 36.75% and 12.25% .

## 2. Geology

Figure 1. Property Geology



Source: Company Reports

The East China Sea is divided into a number of grabens (a depressed block of land bordered by parallel faults), one of which is the Taibei Graben. The Taibei Graben is a rift zone that runs in a southwest-northeast direction and forms an elongated half graben. It is further subdivided into secondary sags or sub-basins. The Lishui Sag is located in the southwest portion and the Jiaojiang Sag towards the northeast. Block 25/34 covers the Lishui Sag and Jiaojiang Sag.

Within the Taibei Graben, the Lingfeng Formation constitutes the major sequence, which can be seismically picked up across a majority of the basin. Resting on top of the Lingfeng are the sediments of the Mingyuefeng Formation, which form the primary reservoir in the area. These sediments have been deposited in a northwest to southeast direction forming submarine fans or turbidites. Subsequent geological processes formed a series of highstand shale formations that formed a cap over the the Mingyuefeng reservoirs, the top of which can also be identified seismically across the majority of the basin.

Carbon dioxide is prevalent in the basin due to subsequent volcanic activity. The carbon dioxide likely traveled into the reservoirs through volcanic intrusions and faults. Drilling results to date show a wide variation of carbon dioxide content in the gas stream ranging from 2% to 94%.

Both of Primeline's tested gas wells were drilled into anticlinal structures in the lower Mingyuefeng Formation. The first well found gas in a Paleocene gas reservoir named the A Sandstone, and the second well also encountered gas in another sand package that downlaps onto the A Sand, which has been named the S1 Sandstone.

## 3. Exploration/Production History

Since 1985, more than 20 wells have been drilled in the area near the Lishui 36-1 discovery. The largest activity was in the mid 1990s when a total of 14 wells were drilled by international oil companies (including western oil majors Chevron, Shell, and Texaco). Several of the wells tested oil or gas, or had shows, but none of them were considered to be commercial discoveries.

#### 4. Block 25/34 Resource Estimates

On August 1, 2007, Primeline released the results of a NI 51-101 compliant resource evaluation report prepared on its behalf by McDaniel & Associates Consultants Ltd., which covered the Lishui 36-1 discovery and the six other prospects identified from the Company's recently-completed 3D seismic program.

The report defined the resource as falling into two categories: (1) a Contingent Resources assigned exclusively to the LS36-1 field; and (2) an estimate of Prospective Resources potentially available at six specific exploration prospects. The six prospects assessed were based on the interpretation of 3-D seismic that has been acquired over a small portion (737 km<sup>2</sup>) of Block 25/34.

The highlights of the report were:

- the Lishui 36-1 original discovery well has a best estimate Contingent Resource (recoverable pure hydrocarbon sale gas) of 122 Bcf (45 Bcf Company Gross Share) of gas and 2.6 MMBbls of condensate (0.9 MMBbls Company Gross Share). The gas contains between 32% and 34% carbon dioxide. Classification of the resource as a reserve, with a definite economic value, depends on the sale price terms that can be negotiated with prospective Chinese buyers;
- The unrisks best estimate of gas-in-place (GIIP) is in the order of 1.7 Tcf with the geological chances of success of these prospects in the range of 26% to 46%. The risks best estimate (P50 level) of total sales gas on the six prospects is 225 Bcf; and
- While not quantitatively categorized, additional gas in deeper sands in the original Lishui 36-1 discovery was noted. The possibility of recovery of these additional, prospective resources was also referenced, but it ultimately depends on appropriate exploitation technology.

The following tables summarize these estimates:

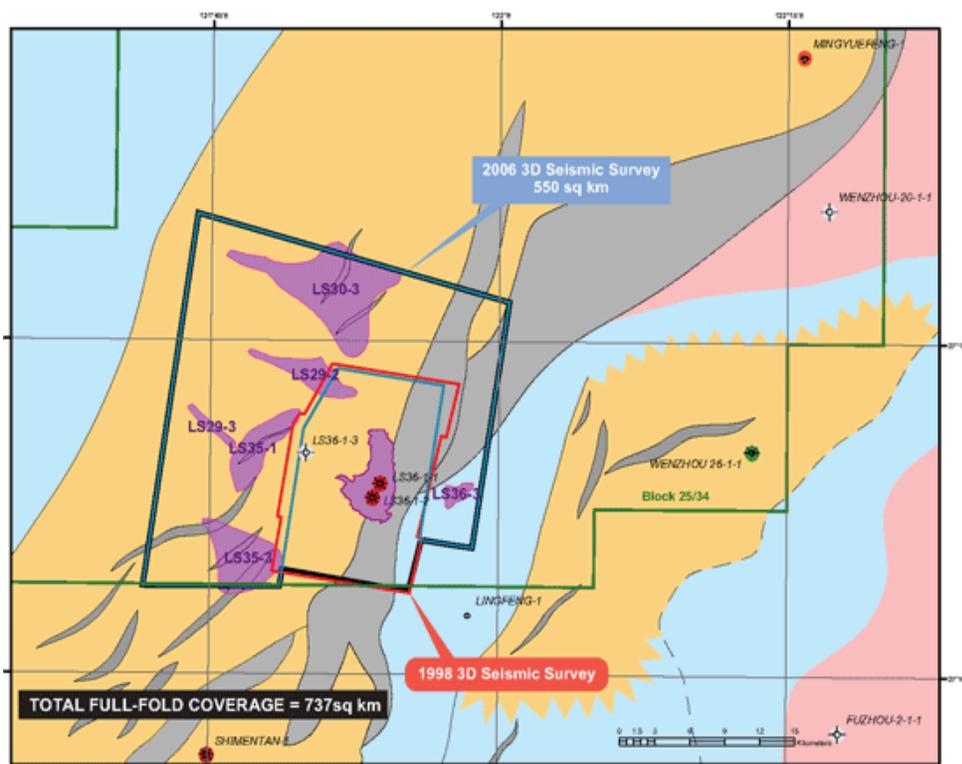
**Table 5. Resource Estimates - Contingent & Prospective**

LS36-1	Contingent Resource				
	Gas Initially Initially In Place (Bcf)	Sales Gas On Property (Bcf)	Condensate Property (MMBbls)	Natural Gas Company (Bcf)	Condensate Company (MMBbls)
Low Estimate (P90)	183	65	1.5	24	0.5
Best Estimate (P50)	292	122	2.6	45	0.9
High Estimate (P10)	428	236	5.5	87	2.0
Six Prospects	Prospective Resource				
	Gas Initially Initially In Place (Bcf)	Sales Gas On Property (Bcf)	Condensate On Property (MMBbls)	Natural Gas Company (Bcf)	Condensate Company (MMBbls)
<b>UnRisks</b>					
Low Estimate (P90)	1096	263	7.3	24	0.5
Best Estimate (P50)	1674	639	17.5	45	0.9
High Estimate (P10)	2851	1570	43	87	2
<b>Risks</b>					
Low Estimate (P90)	387	93	2.6	24	0.5
Best Estimate (P50)	638	225	6.2	45	0.9
High Estimate (P10)	1005	554	15.2	87	2

Source: Company Reports and McDaniel & Associates Consultants Ltd.

The following figure shows the location of the Lishuii activities.

**Figure 2: Lishuii Discovery & Lishuii Gas Play**



Source: Company Reports

**Note:** Company Gross Resources are based on a working interest share of the property gross resources, assuming CNOOC exercise its right to participate with a 51% interest.

**Note:** The resource estimates have been prepared in accordance with the SPE/WPC/AAPG +SPEE resource classification system and are consistent with the definitions and guidance in the Canadian Oil and Gas Evaluation Handbook.

**COMMENT:** While it was obliged to stop short of declaring the Lishuii 36-1 discovery gas as a reserve because of gas pricing uncertainty, the McDaniel report essentially confirmed its geological qualification as a gas reserve. This was subsequently confirmed by the granting of “Development Reserves” status to the discovery by the Chinese government. The Best Estimate (P50) value of 122 Bcf of sales gas probably represents the threshold quantity that would justify fast track development. Quantities below this amount would not justify the estimated \$400 million upfront investment needed to develop these reserves. Obviously, proving out the six identified prospects would make development considerably more viable. While the plays have a combined High Estimate (P10) unrisks potential recoverable resource of 1.6 Tcf, with fairly high geological probabilities of success, the likely presence of high proportions of carbon dioxide reduce the estimates of saleable gas in the play.

## APPENDIX 3 - NATURAL GAS MARKETS IN CHINA

### 1. China Targets Greater Consumption Of Gas In Future To Combat Pollution

In 2006, China's natural gas consumption was only about 3% of its entire energy mix compared with 25% for the rest of world. However, that gap is expected to narrow over the coming years as the Chinese government takes steps to reduce its reliance on highly polluting domestic coal and increasingly expensive imported oil and LPG. By 2010, the country is planning to raise the portion of natural gas in its energy mix to 5.3%. Volumes demanded are expected to jump from 1.9 trillion cubic feet (Tcf) to 4.3 trillion cubic feet. By 2020, demand is expected to nearly double again reaching 7.1 Tcf and opening up a huge supply gap of about 2.8 Tcf annually.

Part of this dramatic increase in demand is due to recent efforts by the Chinese government to promote greater use of natural gas by city dwellers in an effort to improve urban air quality. In late August, the Chinese government issued guidelines giving preference to city gas consumption while banning gas-based methanol production, gas-fired power plants near coal mines, and liquifying gas for domestic distribution. Right now only 24% of China's natural gas consumption is due to residential and commercial cooling and heating demand, and only 5% is directed to power generation.

### 2. Massive Gas Infrastructure Build-Out Now Underway

To meet this projected increase in demand, China has been busy accelerating its domestic exploration activities, rapidly expanding its gas transmission infrastructure, and concluding long-term international gas supply arrangements with other countries. Over the past few years, a number of major projects have been completed or proposed:

1. In 2005, China National Petroleum Company (CNPC) (and its listed company Petrochina) completed China's first major west to east pipeline, linking Shanghai and all the cities along the 4000 km line to the gas fields in the Tarim Basin. This pipeline has been transporting roughly 12 billion cubic meters of gas annually;
2. CNOOC Ltd and PetroChina have begun constructing a string of LNG terminals along the east China coast. The first terminal in Shenzhen received the first shipment of imported LNG in May 2006, and at least six other terminals are under construction or being planned. Long-term LNG supply contracts have been signed with Australia, Indonesia, Iran, and Qatar;
3. In August, 2007, Sinopec began construction of its project to transmit gas from the Puguang field in southwestern Sichuan Province to Shanghai. The pipeline is designed to have an annual transport capacity of 12 billion cubic meters by 2010;
4. In May 2007, CNOOC began construction of a coastal natural gas grid, which would extend from Guangxi Province in the south across 10 provinces to Liaoning in the North East, with an estimated annual gas throughput of 17 billion cubic metres. Source gas for this proposed line will be drawn from a network of LNG terminals as well as off shore gas fields like the Xihu in the East China Sea. A link to Sinopec's Sichuan pipeline is also envisioned. The pipeline is expected to be operational by 2015;
5. In February 2008, construction began on a second major west to east natural gas line that will bring 30 billion cubic meters a year of gas from Turkmenistan through Shanxi, Henan, and Jiangxi provinces to end in Guangzhou, capital city of Guangdong Province and with a branch through Zhejiang Province to Shanghai. The 9,102 km line is expected to cost \$20

billion, be completed in 2011, and provide a steady supply of gas for 30 years. Marketing of the gas to potential buyers in southern China, including Guangdong and Hong Kong is already underway.

**COMMENT:** *Traditionally, the domestic Chinese energy companies, such as PetroChina, Sinopec, and CNOOC, have been compensated for their infrastructure investments on a cost-plus basis, which so far has translated into a domestic gas price that still falls short of the world price. However, these recently announced projects are of a such a scale and cost that, even if the existing regulatory pricing scheme were to remain, the net result of applying the cost plus pricing formula will likely result in a domestic gas price more in line with the Far East LNG bench-mark price, which is higher than European and U.S. gas prices. Global price parity should be achieved by 2010, when the new CNPC west to east pipeline and various LNG terminals become operational. This would produce a gas price well in excess of that required to allow for a reasonable rate of return for the Lishui 36-1 gas discovery resource.*

### 3. State Control Rapidly Giving Way To Free Markets

While market forces are pervasive throughout the Chinese domestic economy, energy continues to remain one area where direct regulatory control continues to be asserted. Currently, the domestic price of natural gas is controlled by the National Development and Reform Commission (NDRC), a macroeconomic management agency under the Chinese State Council, which has broad administrative and planning control over the Chinese economy.

Recently, the NDRC acknowledged that the domestic price of natural gas was too low and should be raised in a gradual fashion eventually reaching parity with the global price. The NDRC stated that the factory gate price of natural gas should be regulated according to the price movement of alternative energy, such as crude oil, with the price adjusted by no more than 8% above that of the previous year. However, accelerating demand pressures now appear to be eroding the relevance of this stated gradualist policy.

### 4. Domestic Gas Prices Now On Par With Global Prices

Recognizing that existing regulated domestic prices were a major disincentive to bringing new supplies onto the market to meet rising demand, the NDRC initiated a major reform of the natural gas pricing system in November 2007 when it raised the price of natural gas for industrial use by RMB 0.4 per cubic meter (US \$1.94/mmbtu). This was the first increase in 22 months and it resulted in domestic city gate prices reaching the US\$8.00 to US\$8.50/mmbtu level in the industrialized southern provinces. In September 2007, PetroChina concluded a deal to purchase liquefied natural gas (LNG) from Australia's Woodside Petroleum and Shell at the then unexpectedly high price of US\$10/mmbtu. This has been widely seen as clear evidence of the Chinese government's recognition of the need to accelerate the pace of market reforms in the natural gas sector.

In March 2008, spot LNG purchases to supplement long term supplies for the Guangdong Dapeng LNG import terminal were being concluded at the rate of US\$14.00/ mmbtu following a decision by the Guangdong provincial pricing bureau to allow an upper limit of Yuan 4/cubic meter (US\$15.60/ mmbtu) on the purchase price of spot LNG for power generation, which could be passed on in the form of higher electricity tariff settlement prices. During 2007, the highest spot price paid by Guangdong was US\$9.38/mmbtu.

**COMMENT:** *All of this has a strong positive impact on the potential price to be paid for Primeline's existing gas resource by a potential buyer like Wenzhou. Within the semi-regulated Chinese domestic market, Wenzhou is free to buy wholesale gas at whatever price it considers commercially expedient. The recent price pass-through ruling by the Guangdong pricing authorities establishes a useful precedent that would justify concluding a higher price under the terms of a gas sale contract for Lishui 36-1 gas.*

## APPENDIX 4 - PETROLEUM CONTRACT DETAILS

The Company and Primeline Petroleum Corporation, an affiliated company, are contractors (collectively, the Contractors) under the Petroleum Contract dated March 24, 2005 with China National Offshore Oil Corp. (CNOOC) under which they are granted the right to explore, develop and produce oil and gas reserves that may exist in an area known as Block 25/34 (the Contract Area) in Lishui and Oujian Grabens, East China Sea.

The Contract Area includes the majority of the previous Block 32/32 covered by a prior petroleum contract between the Contractors and CNOOC which was in effect during the period from December 12, 1994 to February 28, 2005. The Company and Primeline Petroleum Corporation hold 75% and 25% of the Contractors' interest, respectively.

The Petroleum Contract became effective on May 1, 2005, and has three periods: exploration; (2) development; and (3) production, with a maximum contract term of 30 years.

The exploration period is for a total of seven years while the production period for any oil or gas field within the contract area is 15 years. The exploration period is subdivided into three exploration phases, which includes a first phase of four contract years (the first contract year through the fourth contract year); the second phase of two contract years (the fifth contract year through the sixth contract year); and the third phase of two contract years (the seventh contract year through the eighth contract year) provided that it has been agreed that one of the second two exploration phases will be reduced to one year unless otherwise agreed by CNOOC. The Contractors are committed to drilling one exploration well in each of the three exploration phases (with additional 200 square kilometres of 3D seismic in phase one) and expending minimum qualifying exploration expenditure of US\$6,000,000 in the first phase and US\$5,000,000 in each of the second and third phases.

At the end of each of the first and second exploration phases, the Contractors must decide whether to enter into the next exploration phase and relinquish 25% of the remaining Contract Area, or terminate the Petroleum Contract. At the end of the third exploration phase, the Contract Area, except for any discovery, development, and production areas that may exist in the Contract Area, is relinquished.

The Petroleum Contract provides that the Contractors will fund all costs incurred during the exploration period, and CNOOC has the right to participate up to 51% in any future development and production of oil and/or gas fields in the Contract Area by paying its pro rata share of the development and production costs. The Contractors will remain as operators for the development and production period until at least full cost recovery.

## APPENDIX 5 - NAV DERIVATION

### Contingent & Prospective Resource Valuation

To obtain values for the Contingent and Prospective Resource associated with the Lishui 36-1 discovery identified in the NI 51-101 compliant McDaniel & Associates resource report, we have applied a standard discount cash flow (DCF) analysis employing the following assumptions:

- discount rate of 10% (to obtain an industry standard NPV10 value)
- production starting in 2012
- development capex of US\$800 million and abandonment cost of US\$19.8 million (based on management guidance)
- well production life of 14 years with 53% depletion in the first four years
- forecast realized gas sales price of US\$8.50/mmbtu fixed for an initial five-year period, and increasing by 2% annually thereafter
- lifting cost (including treatment due to high carbon dioxide levels) of US\$2.75/mmbtu, escalating at 5% per year during the initial five-year period and 2% thereafter
- Canadian dollar value of US\$0.90 over the production horizon
- the Best Case (P50) saleable estimates of 122 Bcf of pure hydrocarbon gas and 2.6 Mmbbls of condensate.

The Net Present Value of the Lishui 36-1 discovery using the above assumptions is determined to be C\$100.17 million, which provides an Internal Rate of Return over the 2010-2025 revenue-generating period of 14.29%.

### Undeveloped Land Value

Approximately 90% of Block 25/34 remains unexplored giving rise to the probability that it could hold additional resources of a similar size to the risked Prospective Resources that have been identified in the Lishui Gas Play. Assigning a value to this remaining unexplored acreage therefore involves assigning a probabilistic value to this exploration potential. To that end, we have employed a valuation approach based on the use of the standard Black-Scholes option valuation model. Recent developments in finance have demonstrated the usefulness of the Black-Scholes model in the case of valuing oil leases. The following table presents this approach:

Our key assumption in the model is that a potential resource equal to the 225 Bcf defined as the Prospective Resource associated with the six identified drilling prospects could exist in another location on Block 25/34. The total value of such a probability is \$45.5 million, or \$16.7 million net to Primeline, assuming CNOOC's 51% participation.

**Table 6: Undeveloped Land Value****Oil Lease Valuation Employing Option Pricing Approach**

Potential Estimated Reserve (Bcf)	225.46	Potential Gross Sales Gas On Remainder Of Concession (P50 of Prospective Estimate)
Cost of Development (\$mm)	\$460.0	Full Development Cost To Production (same as Contingent)
Development Lag (Yrs)	4	Lag Time In Years Until First Production Realized (From Present)
Right To Exploit (Yrs)	4.5	Term Of Lease
Marginal Value Of Gas (\$/Mcf)	\$5.75	Current Price Less Production Cost Per Mcf
Net Production Revenue Yield	12.5%	Annual Net Revenue As a % Of Reserve Value
Risk Free Rate	3.0%	US 3 Mth T-Bill Rate
Gas Price Variance	19.2%	Commodity Price Volatility
Share price (S)	\$641.8	Value of the developed reserve discounted back the length of the development lag at the net production revenue yield.
Exercise price (X)	\$460.0	Cost Of Developing Reserve
Int rate-cont (r)	3.0%	Risk Free Rate
Dividend yield (q)	12.5%	Net Production Revenue Yield
Option life (T, years)	4.5	Lease Term
Volatility (s)	19.22%	Commodity Price Volatility
Call Value – USD (\$mm)	\$45.50	

Source: Option value approach as presented in: "Investment Valuation: Tools and Techniques For Determining The Value of Any Asset – Aswath Damodaran – John Wiley & Sons 2002

## ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, are not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

**eResearch analysts on this report: Eugene Bukoveczky, MBA, CFA :** Eugene Bukoveczky has considerable international oil and gas research experience. In Dubai, as a Senior Investment Analyst, he performed various responsibilities for one of the largest private client asset management operations in the Middle East, including establishing and managing a global emerging market equity investment portfolio that focused on large value-equity transactions. He also worked in Abu Dhabi as a Senior Business Analyst. Eugene also has extensive experience with risk management systems and derivatives trading assessment.

**Bob Weir, B.Sc., B. Comm, CFA.** Bob Weir has 42 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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#### Biotechnology/Health Care

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Marita Hobman

#### Transportation & Environmental Services/ Industrial Products

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#### Oil & Gas

Eugene Bukoveczky

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Eric Eng

Nigel Heath

Adrian Manlagnit

Kirsten Marion

Oliver Schatz

Amy Stephenson

Graham Wilson

Michael Wood

#### Special Situations

Asim Bukhtiar

Bill Campbell

Bob Leshchysen

Ross Deep

Nigel Heath

Amy Stephenson

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<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

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## eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

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<b>Medium Risk:</b>	Financial - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.  Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.
<b>Low Risk:</b>	Financial - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.  Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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