

NOTICE

**RE: INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE
MONTH PERIOD ENDED AUGUST 31, 2008**

The first quarter consolidated financial statements for the three month period ended August 31, 2008 have not been reviewed by the auditors of Primary Petroleum Corporation.

PRIMARY PETROLEUM CORPORATION

Per: *“Signed”*

Mike Marrandino
President and
Chief Executive Officer

PRIMARY PETROLEUM CORPORATION

Interim Report

Three Months Ended August 31, 2008

Q1/2009

Highlights

Three Months Ended August 31,
2008 2007
(unaudited) *(unaudited)*

Operating

Sales Volumes

Crude oil and NGLs (Bbls/d)	7	-
Natural gas (Mcf/d)	532	336
Barrels of oil equivalent (Boe/d @ 6:1)	96	56

Prices

Crude oil and NGLs (per Bbl)	\$ 118.91	\$ -
Natural gas (per Mcf)	\$ 9.51	\$ 5.31

Revenue (per Boe)	\$ 61.56	\$ 31.88
Royalties (per Boe)	\$ 11.05	\$ 13.62
Operating costs (per Boe)	\$ 8.21	\$ 3.30

Operating netback (per Boe)	\$ 42.30	\$ 14.96
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Financial

Oil and gas revenues	\$ 541,455	\$ 164,290
Funds from operations	\$ 23,450	\$ (279,983)
Per share – basic	\$ 0.00	\$ (0.01)
- diluted	\$ 0.00	\$ (0.01)
Net loss	\$ (304,827)	\$ (695,863)
Per share – basic	\$ (0.01)	\$ (0.03)
- diluted	\$ (0.01)	\$ (0.03)
Working capital deficiency	\$ (1,986,560)	\$ (3,812,842)
Capital expenditures	\$ 645,511	\$ 991,307
Total assets	\$ 16,796,044	\$ 16,845,182
Common shares		
Outstanding	43,097,946	26,918,317
Weighted average – basic	37,855,565	26,918,317

Primary Petroleum Corporation

CONSOLIDATED BALANCE SHEETS

	August 31, 2008 (unaudited)	May 31, 2008 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 993,616	\$ 1,283,176
Accounts receivable	170,093	355,958
Inventory	40,452	6,696
Prepaid expenses and deposits	226,606	222,174
	<u>1,430,767</u>	<u>1,868,004</u>
Property and equipment (note 5)	<u>15,365,277</u>	<u>14,977,178</u>
	<u>\$ 16,796,044</u>	<u>\$ 16,845,182</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,417,327	\$ 1,430,846
Credit facility (note 6)	2,000,000	2,000,000
Convertible notes (note 7)	-	2,250,000
	<u>3,417,327</u>	<u>5,680,846</u>
Other liabilities (note 14)	99,025	92,703
Asset retirement obligation (note 8)	<u>1,002,021</u>	<u>1,031,707</u>
	<u>4,518,373</u>	<u>6,805,256</u>
Shareholders' equity		
Common shares (note 9)	18,993,772	16,551,751
Warrants (note 9)	2,062,666	2,062,666
Convertible notes equity component	367,717	367,717
Contributed surplus (note 9)	625,500	524,949
Deficit	<u>(9,771,984)</u>	<u>(9,467,157)</u>
	<u>12,277,671</u>	<u>10,039,926</u>
	<u>\$ 16,796,044</u>	<u>\$ 16,845,182</u>
Going concern (note 2)		
Commitments and contingencies (note 14)		
Subsequent events (note 17)		

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

Primary Petroleum Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS, OTHER COMPREHENSIVE LOSS AND DEFICIT (Unaudited)

	Three Months ended August 31, 2008	Three Months ended August 31, 2007
Revenue		
Oil and natural gas	\$ 541,455	\$ 164,290
Royalties	(97,178)	(70,210)
	<u>444,277</u>	<u>94,080</u>
Interest	6,821	16,506
	<u>451,098</u>	<u>110,586</u>
Expenses		
Operating	72,286	16,995
General and administrative	304,875	345,217
Foreign currency gain	(10,088)	-
Stock-based compensation	100,551	166,984
Interest and accretion on convertible notes	60,575	115,613
Depletion, depreciation and accretion	227,726	161,640
	<u>755,925</u>	<u>806,449</u>
Loss before income taxes	(304,827)	(695,863)
Future income taxes recovery	-	-
	<u>(304,827)</u>	<u>(695,863)</u>
Net loss and other comprehensive loss for the period	(304,827)	(695,863)
Deficit, beginning of period	(9,467,157)	(6,285,395)
	<u>(9,771,984)</u>	<u>(6,981,258)</u>
Deficit, end of period	\$ (9,771,984)	\$ (6,981,258)
Net loss per share		
Basic and diluted (note 9)	\$ (0.01)	\$ (0.03)
Weighted average common shares outstanding	37,855,565	26,918,317

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

Primary Petroleum Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months ended August 31, 2008	Three Months ended August 31, 2007
Operating		
Net loss and comprehensive loss	\$ (304,827)	\$ (695,863)
Non-cash items		
Stock-based compensation	100,551	166,984
Accretion on convertible notes	-	87,256
Depletion, depreciation and accretion	227,726	161,640
	<u>23,450</u>	<u>(279,983)</u>
Increase in loan receivable	-	(2,508)
Asset retirement costs incurred	-	(123,565)
Unrealized foreign exchange	6,322	-
Change in non-cash working capital (note 11)	287,948	166,366
	<u>317,720</u>	<u>(239,690)</u>
Financing		
Share capital, net of issue costs	2,442,021	(90,332)
Conversion of convertible notes to shares	(2,250,000)	-
Change in non-cash working capital (note 11)	(225,777)	(9,339)
	<u>(33,756)</u>	<u>(99,671)</u>
Investing		
Expenditures on property and equipment	(645,511)	(991,307)
Change in non-cash working capital (note 11)	71,987	736,449
	<u>(573,524)</u>	<u>(254,858)</u>
Increase (Decrease) in cash and cash equivalents	(289,560)	(594,219)
Cash and cash equivalents, beginning of period	1,283,176	1,319,341
Cash and cash equivalents, end of period	\$ 993,616	\$ 725,122
Supplemental information		
Interest received	\$ 6,821	\$ 11,909
Interest paid	\$ 61,705	\$ -

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

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

1. Nature of operations and basis of presentation

The interim consolidated financial statements of Primary Petroleum Corporation (the "Corporation") have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Corporation as at May 31, 2008, except as noted below. The disclosures below are incremental to those included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Corporation's audited financial statements and notes thereto for the year ended May 31, 2008.

2. Going concern

These consolidated financial statements have been prepared using generally accepted accounting principles that are applicable to a going concern. The future of the Corporation is dependant on the Corporation's success in obtaining the necessary funds to repay it's debts as they come due and to fund the development of its properties and attain profitable operations. As at August 31, 2008 the Corporation had a working capital deficiency, amounting to \$1,986,560 including a credit facility of \$2,000,000.

Management has been actively working to raise funds and/or sell properties to be able to repay the \$2,000,000 credit facility that is due on November 15, 2008 and to continue operations.

While there can be no certainty, management believes that financings and/or sale of properties will realize adequate cash to continue its operations in the normal course. These financial statements do not reflect any adjustments to the carrying value of assets, liabilities and reported revenues and expenses that might be necessary should the Corporation be unable to secure the necessary cash and continue as a going concern. Such adjustments may be material.

3. Changes in accounting policies

The CICA issued Section 3031 "Inventories" which requires inventory to be measured at the lower of cost and net realizable value. The standard also provides guidance on costs that can be capitalized. In addition, previous inventory write-downs must be reversed if the economic circumstances have changed to support an increase in the previously impaired inventory value. The standard is effective for fiscal years beginning on or after January 1, 2008. This standard is not expected to have a significant impact on the Corporation.

Effective June 1, 2008, the Corporation adopted the CICA Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation". These standards provide additional guidance on disclosing risks related to recognized and unrecognized financial instruments and how those risks are managed. These standards are not expected to have a significant impact on the Corporation's financial statements.

Effective June 1, 2008, the Corporation adopted the CICA Section 1535 "Capital Disclosures" which establishes additional reporting of objectives, policies and processes of how the Corporation manages its capital as well as its compliance with externally imposed capital requirements (see note 16).

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

3. Changes in accounting policies - continued

Effective June 1, 2008 the Corporation adopted the additional requirements of CICA Section 1400 – General Standards of Financial Statements. Management will be required to assess the Corporation's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon its ability to continue as a going concern.

4. Future accounting policies

In January, 2006 the CICA Accounting Standards Board adopted a strategic plan for accounting standards in Canada and under the current plan, accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards by the beginning of 2011. The Corporation continues to monitor the developments in regards to the plan and has not yet assessed the impact of these prospective changes.

5. Property and equipment

	August 31, 2008		
	Cost	Accumulated depletion and amortization	Net Book Value
Petroleum and natural gas properties	\$ 22,427,823	\$ (7,113,182)	\$ 15,314,641
Office equipment	100,544	(49,908)	50,636
	\$ 22,528,367	\$ (7,163,090)	\$ 15,365,277

	May 31, 2008		
	Cost	Accumulated depletion and amortization	Net Book Value
Petroleum and natural gas properties	\$ 21,879,958	\$ (6,959,978)	\$ 14,919,980
Office equipment	100,177	(42,979)	57,198
	\$ 21,980,135	\$ (7,002,957)	\$ 14,977,178

During the three months ended August 31, 2008, the Corporation capitalized geological costs of \$89,535 (August 31, 2007 - \$nil), which are included in property and equipment.

The cost of properties and equipment excluded from the depletion base at August 31, 2008 was \$10,150,932 (Canada - \$495,020, USA - \$9,658,532) (August 31, 2007 - \$5,754,586 of which \$1,217,326 were in Canada and \$4,537,260 were in the USA). Future development costs of \$751,700 (Canada - \$525,000, USA - \$226,700) (August 31, 2007 - \$nil) are included in the depletable base.

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

6. Credit facility

The Corporation entered into a credit facility agreement with a private company that provided Primary \$2,000,000. The loan bears interest at 12% per annum, compounded monthly. The loan is due November 15, 2008. The loan is secured by a general security agreement over all the Corporation's assets

7. Convertible notes

	August 31, 2008	May 31, 2008
Balance, beginning of year	\$ 2,133,659	\$ 2,133,659
Accretion	116,341	116,341
Redeemed for common shares	(2,250,000)	-
	<hr/>	<hr/>
Balance, end of period	\$ -	\$ 2,250,000

The convertible notes matured on various dates between September 27, 2007 and October 23, 2007. The convertible notes were extended to June 27, 2008 and July 23, 2008. The extension of the terms of the convertible notes resulted in an additional financing charge of \$30,793. The holders agreed to 6,105,051 common shares (\$0.40 per share being the fair value of the shares on settlement date) as full settlement of the notes and accrued interest.

8. Asset retirement obligation

The asset retirement obligation results from the Company's net ownership interests in petroleum and natural gas assets including well sites and gathering systems. The Company estimates the net present value of its asset retirement obligation based on total undiscounted future liabilities measured as at August 31, 2008 of \$1,731,831 using a credit adjusted risk free interest rate of 10% and an inflation rate of 2%, (August 31, 2007 - \$242,700, using a credit adjusted risk free interest rate of 8% and an inflation rate of 2%). The Corporation expects to incur costs associated with its asset retirement obligations from 2012 to 2020.

The following table summarizes the changes in the asset retirement obligation:

	Three months ended August 31, 2008	Year ended May 31, 2008
Asset retirement obligation, beginning of period	\$ 1,031,707	\$ 389,573
Additions and revisions	(48,242)	80,262
Acquired on corporate acquisition	-	690,847
Accretion	18,556	44,027
Costs incurred during the period	-	(173,002)
	<hr/>	<hr/>
Asset retirement obligation, end of period	\$ 1,002,021	\$ 1,031,707

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

9. Share capital

(a) Authorized

Unlimited number of common shares

(b) Issued

	Number of shares	Amount
Balance, May 31, 2008	36,992,895	\$ 16,551,751
Issued on redemption of convertible note and accrued interest (note 7)	6,105,051	2,442,021
Balance, August 31, 2008	<u>43,097,946</u>	<u>\$ 18,993,772</u>

Basic per share calculations are based on the weighted average number of common shares outstanding which amounted to 37,855,565 for the three months ended August 31, 2008.

The options and warrants to purchase common shares outstanding for the years ended 2008 and 2007 were not included in the computation of diluted earnings per share because they were anti-dilutive.

(c) Stock options

The Corporation has a stock option plan under which it may grant options to purchase common shares to its directors, officers, employees and consultants. Pursuant to a shareholder approved amendment to the plan on November 21, 2007, the Corporation may grant up to a maximum of 7,344,673 of the outstanding common shares for issuance to eligible participants. This grant remains subject to regulatory approval. The options generally vest over a three year period and have a maximum term of five years.

The fair value of the 1,037,500 options granted in the three months ended August 31, 2008 is \$343,118 based on the date of grant using the Black-Scholes option pricing model with the following assumptions: average risk-free rate of 4.02%, expected life of five (5) years, expected volatility of 80% and no expected dividends.

At August 31, 2008, the Corporation had 4,500,000 stock options outstanding for which shares have been reserved.

	Quantity	Weighted average exercise price
Balance, May 31, 2008	4,812,500	\$ 0.84
Granted	1,037,500	0.50
Forfeited	<u>(1,350,000)</u>	0.59
Balance, August 31, 2008	<u>4,500,000</u>	<u>\$ 0.84</u>

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

9. Share capital - continued

(c) Stock options - continued

Options outstanding at August 31, 2008:

Exercise Price (\$)	Options Outstanding			Options Exercisable	
	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of Options	Weighted average remaining contractual life (years)
\$0.40	25,000	\$ 0.40	4.8	-	-
\$0.50	1,362,500	\$ 0.50	4.8	-	-
\$0.75	100,000	\$ 0.75	4.1	-	-
\$1.00	3,012,500	\$ 1.00	3.5	1,419,167	3.5
	4,500,000	\$ 0.84	4.1	1,419,167	3.5

(d) Contributed surplus

	Amount
Balance, May 31, 2008	\$ 524,949
Current period stock based compensation	100,551
Balance, August 31, 2008	\$ 625,500

(e) Warrants

The Corporation had 18,742,420 warrants outstanding at August 31, 2008 with a fair value of \$2,062,666. The Corporation uses the Black-Sholes pricing model to determine the fair value of the warrants at the time of grant.

The following table summarizes the warrants outstanding at August 31, 2008.

	Outstanding & Exercisable		
	Number of warrants	Weighted average exercise price	Weighted average remaining contractual life (years)
Consultants warrants	126,000	\$ 0.75	1.08
Share purchase warrants	8,116,371	\$ 0.75	1.04
Share purchase warrants	2,000,000	\$ 1.35	0.33
Warrants issued for corporate finance fee	50,000	\$ 1.35	1.04
Agent's warrants	745,000	\$ 1.35	1.04
Tradable warrants	4,250,000	\$ 1.35	1.04
Warrants issued on corporate acquisition	1,205,049	\$ 1.10	0.29
	16,492,420	\$ 1.03	0.90

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

9. Share capital - continued

(f) Per share amounts

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated using the treasury stock method to determine the dilutive effect of stock options and warrants. The treasury stock method assumes that the proceeds received from the exercise of "in the money" stock options and warrants are used to repurchase common shares at the average market price during the period. The options and warrants to purchase common shares outstanding at August 31, 2008 and 2007 were excluded in the computation of diluted earnings per share as their impact was anti-dilutive.

10. Income taxes

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the combined Canadian federal and Alberta provincial statutory rate of 31% (August 31, 2007 – 32.5%) to the income (loss) before taxes for the following periods:

	Three months ended August 31, 2008	Three months ended August 31, 2007
Loss before income taxes	\$ (304,827)	\$ (695,863)
Canadian basic statutory tax rate	31.0%	32.5%
Expected income tax provision	(94,496)	(226,155)
Non-allowable deduction	930	2,544
Stock-based compensation	31,171	54,270
Accretion on convertible notes	-	28,358
Impact of rate change and other	62,395	140,983
Income tax provision	\$ -	\$ -

11. Change in non-cash working capital

	Three months ended August 31, 2008	Three months ended August 31, 2007
Accounts receivable	\$ 185,865	\$ 81,295
Prepaid expenses and deposits	(4,432)	231,210
Inventory	(33,756)	-
Accounts payable and accrued liabilities	(13,519)	540,623
Net change	\$ 134,158	\$ 853,128
Net change by activities		
Operating	\$ 289,948	\$ 166,366
Financing	(225,777)	(9339)
Investing	71,987	696,101
Net change	\$ 134,158	\$ 853,128

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

12. Segmented information

The company operates in one reportable operating segment, being the exploration and development of resource property interests. Segmented information relative to this activity on a geographic basis is as follows:

(Canadian \$)	Three Months Ended August 31, 2008			Three Months Ended August 31, 2007		
	Canada	USA	Total	Canada	USA	Total
Oil and gas sales	164,069	377,386	541,455	164,290	-	164,290
Interest income	6,784	37	6,821	13,376	-	13,376
Interest and accretion expense	60,575	-	60,575	-	115,613	-
Depletion, depreciation and accretion	91,354	136,372	2,527,726		161,640	502,216
Net income earnings (loss)	(429,455)	124,628	(304,827)	(688,295)	(7,568)	(695,863)
Capital expenditures	86,304	263,849	350,153	450,371	540,936	991,307

	August 31, 2008			May 31, 2008		
	Canada	USA	Total	Canada	USA	Total
Property and equipment	1,714,831	5,146,456	6,861,287	1,735,911	13,241,267	14,977,178
Total assets	3,053,645	13,753,399	16,796,044	3,153,362	13,691,821	16,845,183

13. Related party transactions

During the three month period ended August 31, 2007, the Company had the following related party transactions occurring in the normal course of operations and were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

- (a) Management and consulting fees totalling \$60,000 (2007 – \$60,000) were charged to the Company by companies controlled by directors and officers of the Company. At August 31, 2007, \$nil (May 31, 2007 - \$nil) were payable in relation to these services.
- (b) Pursuant to an agreement dated May 31, 2005 an officer and director of the Corporation received a gross overriding royalty of 1% on certain oil and gas revenue produced from the Pondera and Teton prospect areas in Montana. The Corporation has the right to purchase two-thirds of the gross overriding royalty for cash or common shares of the Corporation as determined by an independent valuation. No royalties have been paid to date.

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

14. Commitments and contingencies

- (a) The Company has a five year lease agreement expiring on March 1, 2012 with a minimum rent of \$123,172 per annum excluding operating costs.
- (b) Pursuant to an agreement dated July 26, 2006, the Company has committed to purchase a minimum of 100,000 and up to 300,000 net mineral acres in Montana, with a net revenue interest of not less than 85% to the Corporation, at a cost of US \$12.50 per acre plus the issue of one-half of a common share of the Company for each acre acquired. As at August 31, 2008, 80,847 acres were acquired (May 31, 2008 – 80,847 acres). As at August 31, 2008, the Corporation has accrued a liability of \$33,008 (May 31, 2008 – \$30,901) with respect to the issuance of the shares, but has not yet issued the shares.
- (c) Pursuant to an agreement dated August 30, 2006, finder's fees are payable by the Corporation upon the completion of certain Powder River prospect land acquisitions in Montana. The fees are payable on the basis of the issuance of one common share of the Corporation for each acre acquired. As at August 31, 2008, the Corporation has accrued a liability of \$66,017 (May 31, 2008 – \$61,802) with respect to the issuance of the shares, but has not yet issued the shares. The amount of the final obligation is not determinable at this time

15. Financial instruments

- (a) Fair value of financial instruments

The Corporation's financial instruments as at August 31, 2008, include cash, accounts receivable, accounts payable and accrued liabilities and credit facility. The fair value of these instruments approximate their carrying amounts due to their short-terms to maturity.

- (b) The Corporation has exposure to the following risks from its use of financial instruments;
 - credit risk
 - liquidity risk
 - market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

i. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Corporation's receivables from joint venture partners and petroleum and natural gas marketers. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation's policy to mitigate credit risk associated with these balances is to establish marketing relationships with

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

15. Financial instruments - continued

(b) i. Credit risk - continued

reputable marketers. The Corporation historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture partner receivables by obtaining partner approval for significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however, the Corporation does have the ability to withhold production from joint venture partners in the event of non-payment.

Cash consists of cash bank balances. The carrying amount of cash and accounts receivables represents the maximum credit exposure. The Corporation has provided for an allowance for doubtful accounts as at August 31, 2008 in the amount of \$16,659.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporations' approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation reputation. The Corporation monitors its capital expenditures and utilizes authorizations for expenditures on both operated and non-operated capital expenditures.

The future of the Corporation is dependant on the Corporation's success in obtaining the necessary funds to repay it's debts as they come due and to fund the development of its properties and attain profitable operations. As at August 31, 2008 the Corporation had a working capital deficiency, amounting to \$1,986,560 including a credit facility of \$2,000,000. Management has been actively working to raise funds and/or sell properties to be able to repay the \$2,000,000 credit facility that is due on November 15, 2008 and to continue operations.

iii. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings of the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns and meeting shareholder objectives.

Primary Petroleum Corporation

Notes to Consolidated Financial Statements

Three months ended August 31, 2008

15. Financial instruments - continued

iv. Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of assets in foreign countries and future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Approximately 82% of the Corporation's assets are located in the United States, which generate approximately 60% of the Corporation's cash flow. The underlying market prices in Canada for petroleum and natural gas and the translation of operating results from United States subsidiaries are impacted by changes in the exchange rate between the Canadian and United States dollar. The Corporation had no forward exchange contracts in place as at or during the period ended August 31, 2008.

v. Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also would economic events that dictate the levels of supply and demand. The Corporation had no hedging contracts in place as at or during the period ended August 31, 2008.

16. Capital Structure and Management

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity, credit facility and working capital. In order to maintain and adjust the capital structure, the Corporation may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. At August 31, 2008, the Corporation had a credit facility of \$2,000,000, which was fully drawn (see note 6).

The Corporation's share structure is not subject to external restrictions, however to credit facility is based on petroleum and natural gas reserves. The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

17. Subsequent Events

A statement of claim in the amount of \$100,000 was filed against the Corporation. Although the outcome of the claim is not determinable at this time, the Corporation believes the claim is without merit and will not have any material adverse effect on the Corporation's financial position.

A statement of claim in the amount of U.S. \$416,381 plus 50,000 common shares of Primary was filed against the Corporation in the state of Montana. Although the outcome of the claim is not determinable at this time, the Corporation believes the claim is without merit and will not have any material adverse effect on the Corporation's financial position.

PRIMARY PETROLEUM CORPORATION

CORPORATE OFFICES

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BOARD OF DIRECTORS

Michele Marrandino ⁽¹⁾

Chairman

President and Chief Executive Officer
Primary Petroleum Corporation

Alan Blair ⁽¹⁾

Partner

Gowlings Lafleur Henderson LLP

Gerald Gilewicz ⁽¹⁾

Vice President Finance and CFO
Vero Energy Inc.

Rod Haverslew

Vice President Exploration
Primary Petroleum Corporation

(1) Member of the Audit Committee.

OFFICERS

Michele Marrandino

President and Chief Executive Officer

Rod Haverslew

Vice President Exploration

Richard (Rick) K. Jaggard

Chief Financial Officer

Phil Kerbrat

Vice President Operations

LEGAL COUNSEL

Davis LLP

AUDITORS

KPMG LLP, Calgary

BANKERS

HSBC

INDEPENDENT RESERVES ENGINEERS

Trimble Engineering Associates Ltd.

TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

TSX Venture Exchange

Symbol: PIE

SUBSIDIARIES

Primary Petroleum Canada Corporation

Primary Petroleum Company USA Inc.

Primary Petroleum Company LLC

AP Petroleum Company LLC