

Primary Petroleum Corporation

Management Discussion and Analysis - Year ended May 31, 2007
(in Canadian dollars unless otherwise indicated)

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MANGAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) is a review of operations, current financial position and outlook for Primary Petroleum Corporation ("Primary" or the "Corporation"). The date of this MD&A is September 28, 2007. It should be read in conjunction with the audited financial statements for the years ended May 31, 2007 and 2006.

Forward Looking Statements

The MD&A contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward looking statements are based on estimates and opinions of the Corporation's management at the time the statements were made. The Corporation assumes no obligation to update forward-looking statements should circumstances or management's estimates change except as required under applicable laws.

NATURE OF BUSINESS

Primary is an exploration and development Canadian oil and gas corporation with its head office and operations based in Calgary, Alberta. The Corporation also has a satellite office in Montana, United States and an administrative office in Vancouver, British Columbia. The Corporation's mandate is exploration and development in the Western Sedimentary Basin in the USA and Canada with a current focus on its significant land holdings in Montana, USA and on its current prospects in Alberta, Canada.. North America will remain the preferred exploration location for the foreseeable future, given the large number of untested targets, the proximity to the United States markets and security of supply. The Corporation currently has oil and gas rights on over 230,000 acres in Montana and approximately 13,100 acres in Alberta. These projects are located in proximity to refineries with excess capacity, which will allow the Corporation to readily bring its oil to market.

OVERALL PERFORMANCE

With limited operations as an oil and gas Corporation commenced during the fiscal period ended May 31, 2006, Primary has accomplished a number of goals:

- Strengthened the balance sheet with proceeds from private placement financings and subsequent to the year ended May 31, 2007, completed an initial public offering with a listing on the TSX Venture Exchange under the trading symbol: PIE;
- Continued to increase its land position of prospective oil and gas prospects.;
- Increased its management team; and
- Developed an exploration and development plan on its prospects in Montana and Alberta with a mandate on execution after the IPO..

The current activity and work plan for the projects are more fully described in the Operational Review section later in this report.

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SELECTED ANNUAL INFORMATION

	2007	2006	2005
Net Loss	(\$3,200,470)	(\$3,000,960)	(\$83,965)
Net Loss per Common Share (basic and Diluted)	(\$0.13)	(\$0.24)	(\$0.02)
Total Assets	\$8,285,289	\$6,784,293	\$858,147
Capital Stock (excluding long term debt)	\$10,162,656	\$3,124,168	\$751,250
Number of Common Shares	26,918,317	11,593,100	8,125,000
Dividends per Common Share	-	-	-
Weighted average Number Shares	24,473,035	12,428,151	4,849,000
Working Capital	\$948,072	\$4,348,765	\$177,664
Long-Term Debt	\$2,133,659	\$210,783	-
Shareholders' Equity	\$4,414,628	\$5,378,169	\$667,285

Operational and Project Review

Primary's strategy is to evaluate, explore and develop each oil and gas project through:

- geoscience and engineering analysis to validate each play and identify oil and gas pools which may result in economic recovery;
- perform field work including leasing, seismic, drilling, and completions to substantiate engineering and geoscience analysis, which could result in commercial development and recovery plans; and
- engage an independent third-party to establish the value of commercial reserves, leading to farm-in's, joint ventures, purchase and/or sale, or funding and execution of the commercial development plan.

The objectives of the 2008 plan are to establish reserves and demonstrate commercial feasibility through the drilling, development and operation of each project.

The following is a description and plan for each of the Corporation's projects.

Alberta Oil & Gas Properties

To date, the Corporation farmed-in on various working interests in eleven properties located throughout Alberta. Over the next twelve months, the Corporation intends to focus its efforts on two principal properties:

1. Swimming Reserve:

The Corporation entered into a Participation, Farm In and Operating Agreement with Core Exploration ("Core") on July 1, 2006 with respect to 51-07W4 Sections 28 & 22; which total 1,280 net acres. These lands are located in the Swimming area in NE Alberta.

Under the terms of the agreement:

- (a.) the Corporation acted as operator and commenced the reactivation of the 4-28-51-7W4 well located at 04-28-051-7W4M ("The Farmout Lands"). All costs, expenses, risks, revenues and benefits associated with this operation were assumed as to Core 50% and the Corporation 50%. In July, 2006, the existing 4-28-51-7W4 gas well was re-activated. Initial production rates were 70 Mcf/d gross; 35Mcf/d net.
- (b.) In September 2006, the Corporation drilled a test well in Section 28. For this well, the Corporation earns 100% of the revenue before to payout ("BPO") and 50% earning after

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payout ("APO"). The test well was completed and is referred to as the 10-28 well (refer to the section of "Alberta Activity"). Core retained a 15% over riding royalty ("ORR") until payout occurs.

- (c.) The Corporation undertook to shoot, process and interpret a minimum of one mile of seismic over Section 22, prior to October 31, 2006 in order to determine if a second test well was viable. On October 25, 2006 an extension was granted by Core to the Corporation to commit to drill the second test well or drop the option on Section 22, by February 28, 2007.
- (d.) The Corporation informed Core that it will drill the second test well. An extension was granted by Core to the Corporation on the basis that the drilling of the second test well must commence by August 8, 2007. This well was drilled in August.

The Corporation recently acquired a 100% W.I. in two additional sections 1,280 (gross) acres, 1,280 (net) acres in the immediate area at the April 4, 2007 Petroleum & Natural Gas ("P&NG") land sale in Alberta.

2. Ashmont – Undeveloped Land:

The Corporation entered into a Finders Fee and Overriding Royalty Agreement with Pekisko Creek Exploration Ltd and Excel Geophysics Inc. on June 20, 2006, as amended July 28, 2006, whereby the Corporation paid a finders fee in the amount of \$40,000 for the rights to the prospect as well as all technical. Ashmont is located in East Central Alberta. The Corporation also agreed to pay an over riding royalty of 3% in the event of a successful well drilled.

The Corporation has acquired a 100% working interest (subject to a 3% gross over riding royalty) in 5,120 (net) acres at P&NG land sales during July and August, 2006 in the Ashmont area in Alberta.

The lands include sections 25, 26, 27 T61R11W4 and sections 15, 16,17,18,19 T62 R11 W4. Note: Section 27 – oilsands rights only & Section 26 - oilsands and P&NG rights.

The primary objective in the Ashmont area is gas in the Colony Formation.

At least two Colony channels, identified by geology and a detailed gravity survey, appear to transect the area. A secondary target is gas in the Viking Formation.

Several offsetting wells have produced in excess of 1 Bcf. To date, the Corporation has identified four potential drilling locations. These undeveloped locations will be supported by shooting 2D seismic in the 3rd and 4th quarters of 2007. The Corporation anticipates acquiring additional lands in the Ashmont Area.

To reduce risk, the Corporation may consider an industry partner to recover a portion of the land and seismic costs, and to participate in the drilling.

Alberta Activity - Reserve

Since October, 2004, the Corporation has participated in the drilling of eleven wells and four re-completions. One well has been drilled, (10-28-51-7W4) and one well re-completed (4-28-51-7W4) on the Swimming property. The 10-28 gas well is currently producing at a rate of approximately 400 Mcf/d and the 4-28 well is currently shut in due to the transportation line not able to accept the low

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pressure production from the 4-28 well. The remaining wells were drilled on the various other land holdings in Alberta. This activity has resulted in one (Swimming 10-28) producing gas well; six potential gas wells; and four wells that were drilled and abandoned.

The Corporation has identified a prospective core area for shallow gas in east central Alberta. Results to date include one producing gas well and two successful re-completions.

The following work program in Alberta is budgeted for in the coming year:

- a second well off-setting the 10-28 Swimming reserve well;
- acquire other additional lands; and
- develop and engage a seismic program on its undeveloped lands at Ashmont.

Montana Oil & Gas Properties – Undeveloped Land

The lands in Montana are a composite of state and fee simple lands. The state lands are subject to a 16.67% royalty. The fee simple lands are burdened with lessor royalties of varying amounts, with the vast majority being 12.5%.

The Corporation has also acquired a significant number of oil and gas leases in the state of Montana. In the next twelve months the Corporation intends to focus on the Pondera-Teton and Saturn prospects.

The Corporation commenced a land acquisition program in Montana in October, 2005. It currently has over 230,000 prospective acres under lease in four prospect areas in Montana including:

- Pondera-Teton Prospect:** located in NW Montana, on the eastern flank of the Montana Thrust Belt. The area of Mutual Interest “(AMI)” that the Corporation is focusing on covers approximately 750,000 acres, in the Pondera and Teton Counties. To date, approximately 105,000 acres have been leased.
- Saturn Prospect:** located in Daniels county in NE Montana in the Williston Basin. The AMI for this prospect area is approximately 43,000 acres. To date approximately 16,425 acres have been leased.
- Tiber land:** located in Liberty and Toole Counties, in NW Montana. The AMI for this prospect covers approximately 100,000 acres. To date, approximately 53,000 acres have been leased by the Corporation.
- Chalk Buttes land:** located in Carter, Custer and Powder River Counties in SE Montana. The AMI for this prospect covers approximately 500,000 acres. To date, approximately 35,000 acres have been leased to the Corporation

Two prospective core areas have been identified by the Corporation in Montana and are the focus of the Corporation's exploration over the next twelve months:

- 1. Pondera-Teton**

Pondera is situated immediately east of the disturbed belt and on the western dipping flank of the Sweetgrass Arch. The area is prospective for oil in the Mississippian Madison Formation and gas in the Cretaceous Sunburst and Bow Island Formations.

Since October, 2005, over 105,000 acres of fee simple and state lands have been acquired by the Corporation. Approximately 126 miles of 2D seismic data has been purchased, re-

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processed and re-interpreted by the Corporation as a result of this work. Sixteen drilling locations have been identified. 3D seismic will be shot prior to drilling.

2. Saturn

The Saturn area in eastern Montana is prospective for oil in the Lower Mississippian McGowan and Mission Canyon Formations. The Corporation began acquiring leases in the Saturn area in September, 2006; since then over 16,450 acres have been acquired. The Corporation has recently purchased 2D seismic and three potential drilling locations have been identified.

Montana Activity

Pondera – Teton Prospect

The Corporation entered into a Finders Fee Agreement with Dale Stoodley, Barrie Quamme and Rod Haverslew ("Finders") on May 31, 2005 for the services provided by the Finders in assisting in securing prospective acreage in the Pondera & Teton Counties.

Under the terms of the agreement, the Corporation issued the Finders an aggregate total of 225,000 Common Shares in the capital of the Corporation for three initial drillable targets. The agreement also entitles the Finders to an aggregate total of 3% GORR on all oil and gas revenue produced from the Pondera–Teton Prospect obtained by the Corporation through the efforts of the Finders.

Under the terms of the agreement with the Finders, the Common Shares issued by the Corporation to the Finders are subject to the same escrow restrictions applicable to the principals of the Corporation pursuant to National Policy 46-201. The Corporation has the right at any time to purchase two-thirds of the 3% GORR by paying the Finders an equal amount in cash, as determined by an independent valuation in accordance with industry standards. The deemed value in cash shall be paid in shares in the capital of the Corporation. The number of Common Shares issued to the Finders for the purchase of two-thirds of the 3% GORR shall be calculated at a deemed price equal to the average closing price of the Corporation's Common Shares over the five previous days trading prior to notification by the Corporation to the Finders of its intent to purchase.

On November, 2005, the Corporation entered into a Services Agreement (the "Services Agreement") with Montana Overthrust Management ("MOM") whereby MOM would provide specific services in assisting the Corporation to acquire lease data and to assist the Corporation in securing leases in the Pondera and Teton Counties. In consideration of these services the Corporation agreed to pay MOM:

1. an amount equal to \$0.25 per acre for each property the Corporation enters into a lease agreement.
2. a service fee of \$15,000 which was payable as to \$5,000 upon execution of the Services Agreement and \$10,000 upon the Corporation securing 100,000 acres of leases in the Pondera-Teton AMI.
3. a fee equal to 6% of any debt or equity funding that the Corporation completes with a third party that was introduced by MOM.
4. a 2% GORR on freehold lands that the Corporation elects to drill.
5. the Corporation has the right at any time to buy down one-half of the GORR payable to MOM by providing notice and paying an amount equal to the value of the GORR as determined by an independent valuator in accordance with industry standards. The purchase price shall be payable in Common Shares in the capital of the Corporation at a deemed price per share equal to the then five day average closing price of the Common Shares on the date of the notice of the buy down by the Corporation.

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The term of this Services Agreement with MOM is for five years from the date of execution.

The Corporation commenced leasing fee simple lands in Teton and Pondera Counties in early 2006. Since then, over 105,000 acres have been acquired. The Corporation has acquired a 100% working interest in these lands. Further leasing is continuing in the area. The lands are located in western Montana, immediately east of the disturbed belt and on the western dipping flank of the Sweetgrass Arch.

The primary objective of this prospect is the Mississippian Madison Formation. The development of carbonate platforms during the Early Mississippian and subsequent compressional stresses resulted in faulting and fracturing within the Lower Mississippian Sun River formation [Madison Group]. This calcareous dolomite contains hydrocarbons within vuggy porosity as well as in fractures trapped against thrust fault blocks.

The off-setting Gypsy Basin field has produced in excess of 510 Mbbbls of oil from the Madison. Initial production rates were over 130 bbl/d per well. Drilled in the 1950's, this pool was produced inefficiently as large volumes of the gas cap were either vented or flared. This substantially reduced a major portion of the drive mechanism and reduced the overall volume of recoverable reserves.

The secondary target in this area is the Cretaceous Sunburst formation, which produces gas from structurally and stratigraphically trapped lenticular marine sandstones. Gas shows are also observed within channel sand deposits. The Bill's Coulee field owned and operated by Quicksilver Resources Ltd. of Texas, had initial production rates in excess of 5 MMcf/d. Production from this pool has exceeded 1.9 Bcf.

Velocity variations in the Sunburst formation identify transitions from tight regional sediments to porous channel sands. 3-D seismic data will be acquired prior to finalizing drilling locations on the more complex structures. It is anticipated that drilling will commence in the fourth quarter of 2007.

Sixteen prospective drilling locations have been identified on the Corporation's lands to date. Exploration will include the use of 2-D and 3-D seismic data.

2D seismic data covering approximately 126 miles has been purchased, reprocessed and interpreted to date. Several fault blocks have been delineated with faulting being the main trapping mechanism within the Madison formation.

Saturn Prospect

On May 1, 2006, the Corporation entered into a promissory note with Supreme Resources Corp. ("Supreme") (formerly Universal Energy Corp.), a publicly listed company on the TSX Venture Exchange, under which the Corporation advanced US\$150,000 to Supreme. The promissory note carries an interest rate payable to the Corporation of 12% per year and a grant of security interest over all the assets in Supreme including 5,600 acres of state leases in Daniels county ("Saturn Leases"). The security interest over all leases in Daniels County has been registered in Daniels county under the Secretary of State office.

As additional consideration, Supreme has granted the Corporation, warrants to purchase shares in Supreme. The maximum allowable warrants that can be issued is based on the maximum allowable discount to Supreme's share price multiplied by an amount equal to 40% of the outstanding balance owed on the promissory note.

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The principal sum of the note plus accrued interest is due no later than May 1, 2008 or at the time Supreme is in receipt of proceeds from private placements in the amount of \$300,000.

Supreme and the Corporation are discussing the opportunity for the Corporation to forgive the promissory note in return for assignments of the Saturn leases and payments of outstanding interest.

On September 1, 2006, the Corporation entered into a purchase agreement with Jake Oil LLC of Billings Montana. The terms of the agreement were that the Corporation would pay Jake Oil LLC a purchase price of \$25 per acre for 6,466.94 acres of state leases totalling US\$161,673.50. The leases carry a term of 10 years and a GORR of 16.67% payable to the state. The annual rentals due on all leases not held by production is \$1 per acre per year.

The Corporation also agreed to pay Jake Oil LLC a GORR of 3.33% ORR on all gas and/or oil produced from the leased lands. The Corporation also entered into an AMI with Jake Oil LLC, whereby the Corporation would grant a 2% ORR on all leased land within the mutually agreed to AMI and excluding the leased land purchased from Jake Oil LLC. For granting of the 2% ORR, Jake Oil LLC will provide to the Corporation, industry knowledge for the area, including: geological, geophysical, seismic, well logs, and leasing data on an as needed basis by the Corporation.

Since September, 2006, approximately 10,830 additional acres of both fee simple and state lands have been acquired 100% by the Corporation within the AMI. Further leasing is continuing. The Saturn property is situated along the western margin of the Williston Basin in Daniels County in northeastern Montana.

The Lower Mississippian McGowan and Mission Canyon Formations are the primary targets in the Saturn prospect. Both of these formations are dolomitized limestones which form part of the Madison Group [Rundle equivalent formation in Canada]. Oil occurs in intercrystalline porosity and, more importantly, within vertically oriented fractures over structural highs.

Production from the Cabaret Coulee field which immediately offsets the Saturn prospect (less than one mile from the first proposed location) has produced in excess of 450 Mbbls. The best well in this pool produced 265 Mbbls from both the McGowan and Mission Canyon formation in its first 2 years of production. Cumulative production from the well is 315 Mbbls.

Initial potential tests have been as high as 1,440 bbl/d, with initial production rates up to 780 bbl/d.

This pool has recently been developed using short-leg horizontal wells. There are plans to further exploit the pool with additional horizontal drilling.

Approximately 38 miles of 2-D seismic has recently been purchased and is being reprocessed and interpreted. 3-D seismic will be shot prior to finalizing drilling locations. Three prospective locations have been identified to date. These will be confirmed with 2D and 3D seismic.

It is anticipated that drilling could commence in the fourth quarter of 2007.

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RESULTS OF OPERATIONS

Dividends

The Corporation has not paid any dividends on its Common Shares. Any decision to pay any dividends on Common Shares in the future will be made by the board of directors on the basis of earnings, financial requirements and other conditions existing at such time.

Revenues

During the year ended May 31, 2007, the Corporation had \$356,071 of petroleum and natural gas revenues net of royalties and \$2,230 for the period ended May 31, 2006. For the three months ended May 31, 2007, the Corporation earned \$128,573 net of royalties and \$2,230 for the corresponding period ending May 31, 2006. The net revenues related to oil and gas during the years ended May 31, 2007 and 2006 demonstrates the Corporation is in the early stage of beginning its operations on properties acquired during that period.

During the year ended May 31, 2007, the Corporation earned interest income of \$151,837 and \$47,066 for the period ended May 31, 2006. For the three months ended May 31, 2007, the Corporation earned \$24,643 in interest and \$37,510 for the corresponding period ending May 31, 2006. The increase in interest earned for the entire year ended May 31, 2007 is reflective of the Corporation's financing activities, which resulted in the Corporation holding greater cash balances than the corresponding period in the previous year. The decrease in the interest earned over the three month period ended May 31, 2007 compared to the corresponding period reflects a reduced cash balance as funds had been spent on expansion of the Corporation's business. These cash balances were invested in highly liquid investments with a maturity of three months or less.

Production and Operating Costs

Currently, the Corporation's only production is located in the province of Alberta. The production and operating costs to date reflect the early stage of the Corporation's start of operations. Specifically, the operating costs for the year ended May 31, 2007 were \$131,269 and \$11,943 for the year ended May 31, 2006. For the three month period ended May 31, 2007, operating costs were \$22,707 compared to \$11,943 for the same period one year earlier.

Expenses-General and Administrative Expenses

The Corporation's general and administrative expenses for the fiscal year ended May 31, 2007 were \$1,112,479 as compared to \$370,941 for the period ended May 31, 2006. This increase is a direct result of an increase in building up a management team, establishing operations in Calgary and expenses relating to due diligence and finalizing acquisitions of properties. General and administrative expenses for the three months ended May 31, 2007 were \$402,764, up \$188,694 from the same period ended May 31, 2006. Again, this increase is a direct result of the Corporation expanding its operations in preparation for the developing of its properties, including geological consulting costs which are posted as an expense until the project has been proven, due diligence on new acquisitions, US Subsidiary translation expense and continued expansion of the business.

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The Corporation did not capitalize any general and administrative costs during 2007 and 2006. The Corporation follows the full cost method of accounting whereby all costs relating to the exploration for and the development of oil and natural gas reserves is initially capitalized in cost centers by country. Costs capitalized include lease acquisition, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities, and lease and well equipment. Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized unless such sales would alter depletion rate by more than 20%.

Depletion, Depreciation and Accretion (“DD&A”)

For the year ended May 31, 2007, the Corporation incurred \$2,331,123 of DD&A expense as compared to \$3,209,609 for the period ended May 31, 2006. The decrease is due to reduced ceiling test write-down, as further discussed below, during the year ended May 31, 2007. The ceiling test right down for the year ended May 31, 2007 was \$1,741,587; \$1,428,212 less than the previous year. For the year ended May 31, 2007, the Corporation incurred \$17,269 (compared to \$2,911 for the year ended May 31, 2006) of depreciation costs, attributable to furniture, fixtures and computer equipment.

For the three months ended May 31, 2007, the Corporation incurred \$152,579 of DD&A expense as compared to \$3,208,621 for the three months ended May 31, 2006. Of this amount, \$5,284 was attributable to furniture, fixtures and computer equipment. This significant reduction in the DD&A expense in the three months ended May 31, 2007 as compared to the previous year is a direct result in very small ceiling test write-down, as further discussed below, during the last quarter of the 2007 fiscal year.

Net Loss

For the year ended May 31, 2007 and 2006, the Corporation had a loss from operations of \$3,648,560 and \$3,559,358, respectively. The net loss for both years ended May 31, is a result primarily of DD&A of petroleum and natural gas properties. There were also increased expenses relating to the growth of the business.

For the three month periods ending May 31, 2007 and 2006, the Corporation had a net loss from operations of \$706,321 and \$3,411,055, respectively. Depletion and amortization of petroleum and natural gas properties of \$152,579 represented approximately 22% of the expenses incurred in the three month period ended May 31, 2007 (2006 – 94%). General and administrative expenses relating to the expansion of the business made up the majority of the remaining expenses for both three month periods ended May 31, 2007 and 2006. There were some increased expenses in the last quarter of fiscal 2006 as a result of translation loss with the US Subsidiary and Geological Expenses that had not yet been posted to specific projects.

Additional Disclosure for Venture Issuers Without Significant Revenue

(a) *Capitalized or expensed exploration and development costs;*

For the year ended May 31, 2005 and 2006, the Corporation did not capitalize any general and administrative expenses.

For the year ended May 31, 2007 and 2006, the Corporation incurred exploration and development costs (*including non-cash items*) of \$7,231,685 and \$3,787,614, respectively. Exploration and

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development costs were comprised mainly of drilling and completion costs, land, geological and engineering consulting fees. There was an operators' overhead recovery of \$37,093 for the year ended May 31, 2007 (2006 – nil).

For the three month periods ended May 31, 2007 and May 31, 2006, the Corporation incurred approximately \$1,609,653 and \$2,810,217 on development and exploration costs respectively. For the three months ended May 31, 2007, there was an operator's overhead recovery of \$4,378 (2006 – nil).

(b) Expensed research and development costs

Expensed research and development costs for the three month periods ended May 31, 2007 and 2006 and for the fiscal years ended May 31, 2007 and 2006 were nil.

(c) Deferred development costs

Deferred development costs for the three month periods ended May 31, 2007 and 2006 and for the fiscal years ended May 31, 2007 and 2006 were nil.

(d) General and administration expense

General and administration expenses for the year ended May 31, 2007 and 2006 were \$1,112,479 and \$370,941, respectively. The primary components of general and administrative costs for these periods included: land, geological and engineering consulting fees of \$557,566 (2006 - \$46,029), management fees of \$205,500 (2006 - \$102,000), expenses relating to professional fees that were primarily legal and audit fees of \$79,453 (2006 - \$69,535), and travel expenses of \$76,541 (2005 - \$41,505). Overall, general and administrative costs were higher in 2007 compared to 2006 as the Corporation acquired more properties and incurred greater land, geological and engineering consulting fees relating to the preparation for development of these properties in 2007.

General and administration expenses for the three months ended May 31, 2007 and 2006 were \$402,764 and \$214,070, respectively. The primary components of general and administrative costs for the three month periods ended May 31, 2007 and 2006 included \$124,386 for land, geological and engineering consulting fees (2006 - \$12,035) along with expenses relating to professional fees that were primary legal and audit fees for the three month period ending May 31, 2007 of \$17,314 compared to \$52,206 for the period ending May 31, 2006, \$107,650 for management fees (2006 – \$70,500) and \$13,243 for travel and promotion expenses (2006 – \$20,147). Overall, general and administrative costs were higher for the three month period ended May 31, 2007 over 2006 due to the Corporation's increased operations that resulted from additional land acquisitions in 2006 and 2007, including incurred Geological consulting expenses and a US Subsidiary translation expense.

(e) Any material costs, whether capitalized, deferred or expensed, not referred to in paragraphs (a) through (d)

There were no material costs, whether capitalized, deferred or expensed, not referred to in paragraphs (a) through (d) for the year ended May 31, 2007 and 2006.

Income Taxes

As at May 31, 2007, the Corporation has recorded a future income tax recovery of \$448,090 compared to \$558,398 as at May 31, 2006. As at May 31, 2007, the Corporation has approximately

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\$7,976,000 of tax pools and \$1,418,000 of non-capital loss carry-forwards available for deduction against future taxable income. Non-capital losses begin to expire in 2015.

Segmented information

The Corporation operates in one reportable operating or industry segment which is the exploration and development of resource property. The Corporation does report information relating to exploration and development on a geographical basis split between Canada and the United States.

For the year ended May 31, 2007, all oil and gas revenues and interest income were recorded in Canada, as were interest expense, depletion and depreciation and future income taxes. A net loss of \$74,533 was attributed to the United States which represented 2.3% of the total net loss for the Corporation for the year ended May 31, 2007. Capital expenditures in the United States were \$3,836,548 and represented 53% of the total \$7,231,685 and property and equipment in the United States was \$4,605,520 which represented 77% of the total \$5,989,788 as at May 31, 2007. The loan receivable of \$181,379 was entirely recorded in the United States.

For the year ended May 31, 2006, all oil and gas revenues and interest income were recorded in Canada, as were interest expense, depletion and depreciation and future income taxes. A net loss of \$5,994 was attributed to the United States which represented 0.2% of the total net loss for the Corporation for the year ended May 31, 2006. Capital expenditures in the United States were \$768,972 and represented 20% of the total \$3,787,614 and property and equipment in the United States was \$768,972 which represented 76% of the total \$1,073,166 as at May 31, 2006.

For the three months ended May 31, 2007, all oil and gas revenues and interest income were recorded in Canada, as were interest expense and depletion and depreciation. A net loss of \$57,070 was attributed to the United States which represented 6% of the total net loss for the Corporation for the three month period ended May 31, 2007. For the three months ended May 31, 2006, all oil and gas revenues and interest income were recorded in Canada, as were interest expense and depletion and depreciation. A net loss of \$1,467 was attributed to the United States which represented 0.1% of the total net loss for the Corporation for the three month period ended May 31, 2006.

SUMMARY OF QUARTERLY RESULTS

(000's)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 153	\$ 172	\$ 89	\$ 94	\$ 40	\$ 6	\$ 3	-
Income (loss)	(776)	(1,117)	(688)	(619)	(2,853)	(57)	(59)	(32)
Income (loss) per share	(0.03)	(0.05)	(0.03)	(0.02)	(0.21)	(0.01)	(0.01)	(0.01)

The results of operations for the three month period ended May 31, 2007 compared to the same period for 2006, reflects the Corporation's increased program of acquisition of oil and gas prospects. A significant Depletion, Depreciation and Accretion expense in the last quarter of fiscal 2006 is the main cause of loss between comparable periods. General and Administration expenses relating to the Corporations' expansion and geological work comprise the majority of other expenses.

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Liquidity and Capital Resources

The Corporation's cash and cash equivalents balance was \$1,319,341 with a positive working capital balance of \$948,072 at May 31, 2007 compared with cash and cash equivalents balance of \$5,232,500 and a positive working capital of \$4,348,765 one year earlier. This decrease in both the cash balance and the working capital is a direct result of the Corporation's acquisition program and expenditures relating to the development and production of its properties.

Long Term Liabilities

During the fiscal year ended May 31, 2007, the Corporation issued 5% unsecured convertible notes. These notes have interest payable at maturity are convertible at the option of the holders into units of the Corporation at the conversion price of \$1.00 per unit of the principal amount or any part therefore plus accrued and unpaid interest. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$1.25 per share for a period of one year from the date of issue.

On May 8, 2007, the Corporation entered into extension agreements with respect to the Convertible Notes extending the maturity of the Convertible Notes to dates ranging from June 13, 2008 to August 2, 2008.

Asset retirement obligation

The asset retirement obligation results from the Corporation'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 May 31, 2007 of \$496,752 (2006 - \$216,300), using a credit adjusted risk free interest rate of 8% and an inflation rate of 2% over a period of one to three years. For the year ended May 31, 2007 the Corporation incurred \$224,203 of additions and revisions and \$16,060 of accretion.

Financing

As at May 31, 2007, management of the Corporation understood that further financings would be required for Primary to execute its business plans. Subsequent to the year end, the Corporation executed an engagement letter with Canaccord Capital for an initial public offering and equity financing. On September 12, 2007, Primary obtained a public listing on the TSX Venture Exchange and raised gross proceeds of \$8,500,000. See Subsequent events below.

Related Party Transactions

The Corporation has 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:

1. For the year ended May 31, 2007 management and consulting fees totalling \$205,500 (2006 - \$102,000) were charged to the Corporation by companies controlled by Michele N. Marrandino and Rod Haverslew directors and officers of the Corporation. At May 31, 2007, \$10,600 (2006 - \$9,095) is payable in relation to these services and is included in accounts payable and accrued liabilities.

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2. For the three months ended May 31, 2007, management and consulting fees totalling \$60,000 (2006 - \$25,500) were charged to the Corporation by the same companies controlled by directors and officers of the Corporation.
3. For the year ended May 31, 2007, legal fees of \$9,432 (2006 - \$15,169) were charged to the Corporation by a legal firm of which Kenneth Alan Blair, a director of the Corporation is a member. At May 31, 2007, \$4,160 (2006 - \$4,804) is payable in relation to these services and is included in accounts payable and accrued liabilities.
4. For the three months ended May 31, 2007 legal fees of \$3,703 were charged to the Corporation by a legal firm of which Kenneth Alan Blair, a director of the Corporation is a member.

Commitments and contingencies

The Corporation has the following long term commitments;

- (a) a five year lease agreement expiring on March 1, 2012 with a minimum rent of \$123,172 per annum excluding operating costs;
- (b) Primary entered into an agreement on July 26, 2006 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 Primary, at a cost of US \$12.50 per acre plus the issue of one-half of a common share of the Corporation for each acre acquired. As at May 31, 2007, Primary had accrued a liability of \$17,500 with respect to the issuance of the shares, but has not yet issued the shares.
- (c) Finder's fees are payable by the Corporation upon the completion of certain Powder River prospect land acquisitions in Montana. The amount of final obligation is not determinable at this time. The fees are payable on the basis of the issuance of one common share of Primary for each acre acquired. As at May 31, 2007, Primary has accrued a liability of \$35,000 with respect to the issuance of the shares, but has not yet issued the shares.
- (d) Primary was advised in January, 2007 that certain language in the subscription agreements relating to flow through common share issued in 2004 and 2005 could, under certain circumstances, result in the subscribers being denied certain tax benefits. In the event of this occurring, and a claim being made by some or all of the subscribers, the Corporation could be liable to such subscribers for damages. The Company has estimated the amount of its potential liability in the event of claims for damages being made by all the subscribers to be approximately \$325,000.

The Company applied to the Supreme Court of British Columbia for an order rectifying the subscription agreements by deleting certain language from the subscription agreements to eliminate the potential that the subscribers' tax benefits would be denied and the acknowledgements of service confirming that they did not oppose the application, and the Court pronounced an order rectifying the agreements in the manner requested by the Company on August 17, 2007.

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Subsequent events

On September 12, 2007, the Corporation completed an initial public offering (the "Offering") of 8,500,000 units at the price of \$1.00 per unit for gross proceeds of \$8,500,000. Each unit consists of one common share and one-half of a share purchase warrant. Each warrant is exercisable at a price of \$1.35 per share for two years from the date closing.

Shareholder Data

As at September 28, 2007, the Corporation had issued 35,518,317 Common Shares. As at that date it, has also issued Warrants and granted Options to purchase up to 15,780,520 Common Shares pursuant to subscription receipts, warrants and options under the Corporation's Option Plan.

Drilling Activity

See the "Results of Operations" above for information on the Corporation's drilling program since inception.

Application of Critical Accounting Estimates

The Corporation's significant accounting policies are disclosed in Note 2 to the annual consolidated financial statements. The following is a summary of significant accounting policies and associated estimates and is not meant to be exhaustive. Certain policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Corporation and the likelihood of materially different results being reported. The Corporation's management reviews estimates regularly, however, the emergence of new information and changed circumstances may also result in actual results or changes to estimates that differ materially from current estimates. The Corporation might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Financial Reporting Controls

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of May 31, 2007, and concluded that, as of that date, the Company's disclosure controls and procedures were effective.

Proved Oil and Gas Reserves

Proved oil and gas reserves, as defined by the Canadian Securities Administrators in NI 51-101 with reference to the COGE Handbook, are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. An independent reserve evaluator using all available geological and reservoir data as well as historical production data has prepared the Corporation's oil and gas reserve

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estimate. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Corporation's development plans. The effect of changes in proved oil and gas reserves on the financial results and financial position of the Corporation is described below under the heading "Full-Cost Accounting Ceiling Test".

Full-Cost Accounting Ceiling Test

The Corporation performs a ceiling test to determine whether the carrying value of its petroleum and natural gas properties is recoverable and does not exceed the fair value of the properties. The carrying value is considered to be recoverable and not impaired when the undiscounted cash flows expected, using estimated future product prices and costs from the production of proved reserves and the lower of cost or market of unproved properties exceeds the net book value of the properties. When permanent impairment is recognized, a write-down is recorded to the extent that the carrying value of the petroleum and natural gas properties and future development costs exceed the estimated net present value of future cash flows from proved and probable reserves using future product prices and costs, discounted at a risk free interest rate. The amount of write-down is included as additional depletion expense in the statement of operations.

Asset Retirement Obligations

The Corporation recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of petroleum and natural gas properties. The fair value is determined through a review of engineering studies. Industry guidelines and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is depleted using the unit of production method based on estimated gross proved reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

Use of Estimates

The amounts recorded for depletion of property and equipment and the ceiling test are based on estimates of gross proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal and regulatory environments. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of changes in such estimates in future periods could be material.

Financial Instruments

The carrying value of the Corporation's financial instruments, consisting of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of such instruments. Loan Receivable and notes payable also approximate fair value. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

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Off Balance Sheet Arrangements

The Corporation has not entered into any off-balance sheet arrangements and therefore there can be no current effect on the results of the operations or financial condition.

Future Income Taxes

The Corporation follows the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

Corporation Information

Additional information related to Primary is available on the Corporation's website at www.Primarypetroleum.com and the SEDAR website at www.sedar.com.