

**NOTICE**

**RE: INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX  
MONTH PERIOD ENDED NOVEMBER 30, 2008**

The second quarter consolidated financial statements for the six month period ended November 30, 2008 have not been reviewed by the auditors of Primary Petroleum Corporation.

**PRIMARY PETROLEUM CORPORATION**

Per: *“Signed”*

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Mike Marrandino  
President and  
Chief Executive Officer

# **PRIMARY PETROLEUM CORPORATION**

**Interim Report**

**Three and Six Months Ended November 30, 2008**

Q2/2009

## Highlights

	Three months ended		Six months ended	
	November 30,		November 30,	
	2008	2007	2008	2007
	<i>(unaudited)</i>		<i>(unaudited)</i>	
<b>Operating</b>				
Total Sales Volumes				
Oil and NGLs (Bbls)	654	-	1,295	-
Natural gas (Mcf)	47,240	30,926	96,147	61,241
Barrels of oil equivalent (Boe @ 6:1)	8,527	5,154	17,320	10,207
Daily Sales Volumes				
Oil and NGLs (Bbls/d)	7	-	7	-
Natural gas (Mcf/d)	519	340	525	335
Barrels of oil equivalent (Boe/d @ 6:1)	94	57	95	56
Prices				
Oil and NGLs (per Bbl)	\$ 94.41	\$ -	\$ 106.81	\$ -
Natural gas (per Mcf)	\$ 6.61	\$ 5.25	\$ 8.08	\$ 5.33
Revenue (per Boe)	\$ 43.88	\$ 31.51	\$ 52.87	\$ 32.01
Royalties (per Boe)	\$ 5.93	\$ 15.48	\$ 8.53	\$ 14.70
Operating costs (per Boe)	\$ 10.41	\$ 5.75	\$ 9.30	\$ 4.57
Operating netback (per Boe)	\$ 27.54	\$ 10.28	\$ 35.04	\$ 12.74
<b>Financial</b>				
Oil and gas revenues	\$ 374,193	\$ 162,398	\$ 915,648	\$ 326,688
Funds from (used in) operations	\$ (60,141)	\$ (438,579)	\$ (36,691)	\$ (699,452)
Per share – basic	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.02)
– diluted	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.02)
Net loss	\$ (361,649)	\$ (723,884)	\$ (666,476)	\$ (1,342,466)
Per share – basic	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
– diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
Working capital (deficiency)	\$ (1,792,240)	\$ 2,405,715	\$ (1,792,240)	\$ 2,405,715
Capital expenditures	\$ 187,342	\$ 1,854,903	\$ 832,853	\$ 2,846,210
Total assets	\$ 16,802,095	\$ 14,972,540	\$ 16,802,095	\$ 14,972,540
Common shares				
Outstanding	48,647,946	35,518,317	48,647,946	35,518,317
Weighted average – basic	43,696,847	34,573,262	44,192,071	30,724,874

# Primary Petroleum Corporation

## INTERIM CONSOLIDATED BALANCE SHEETS

	November 30, 2008 (unaudited)	May 31, 2008 (audited)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,002,125	\$ 1,283,176
Accounts receivable	184,226	355,958
Inventory	42,505	6,696
Prepaid expenses and deposits	203,363	222,174
	<u>1,432,219</u>	<u>1,868,004</u>
Property and equipment (note 5)	<u>15,369,876</u>	<u>14,977,178</u>
	<u>\$ 16,802,095</u>	<u>\$ 16,845,182</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,224,459	\$ 1,430,846
Credit facility (note 6)	2,000,000	2,000,000
Convertible notes (note 7)	-	2,250,000
	<u>3,224,459</u>	<u>5,680,846</u>
Other liabilities (note 14)	66,100	92,703
Asset retirement obligation (note 8)	<u>1,004,469</u>	<u>1,031,707</u>
	<u>4,295,028</u>	<u>6,805,256</u>
Shareholders' equity		
Common shares (note 9)	18,816,288	15,224,834
Warrants (note 9)	3,123,941	3,389,583
Contributed surplus (note 9)	700,471	524,949
Convertible notes equity component	-	367,717
Deficit	<u>(10,133,633)</u>	<u>(9,467,157)</u>
	<u>12,507,067</u>	<u>10,039,926</u>
	<u>\$ 16,802,095</u>	<u>\$ 16,845,182</u>
Going concern (note 2)		
Commitments (note 14)		
Contingencies (note 17)		
Subsequent events (note 18)		

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

# Primary Petroleum Corporation

## INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT (Unaudited)

	Three Months ended November 30		Six Months ended November 30	
	2008	2007	2008	2007
<b>Revenue</b>				
Oil and natural gas	\$ 374,193	\$ 162,398	\$ 915,648	\$ 326,688
Royalties	(50,587)	(79,809)	(147,765)	(150,019)
	<u>323,606</u>	<u>82,589</u>	<u>767,883</u>	<u>176,669</u>
Interest	1,562	58,380	8,383	74,886
	<u>325,168</u>	<u>140,969</u>	<u>776,266</u>	<u>251,555</u>
<b>Expenses</b>				
Operating	88,786	29,615	161,072	46,610
General and administrative	291,266	429,816	596,141	768,418
Stock-based compensation	74,970	10,078	175,521	177,062
Foreign currency translation	(58,229)	79,416	(68,317)	86,031
Interest and accretion on convertible notes	63,486	127,957	124,061	166,289
Depletion, depreciation and accretion	226,538	187,971	454,264	349,611
	<u>686,817</u>	<u>864,853</u>	<u>1,442,742</u>	<u>1,594,021</u>
<b>Loss before income taxes</b>	<b>(361,649)</b>	<b>(723,884)</b>	<b>(666,476)</b>	<b>(1,342,466)</b>
Future income taxes (recovery)	-	-	-	-
<b>Net loss and other comprehensive loss for the period</b>	<b>(361,649)</b>	<b>(723,884)</b>	<b>(666,476)</b>	<b>(1,342,466)</b>
<b>Deficit, beginning of period</b>	<b>(9,771,984)</b>	<b>(6,903,977)</b>	<b>(9,467,157)</b>	<b>(6,285,395)</b>
<b>Deficit, end of period</b>	<b>\$ (10,133,633)</b>	<b>\$ (7,627,861)</b>	<b>\$ (10,133,633)</b>	<b>\$ (7,627,861)</b>
<b>Net loss per share</b>				
Basic and diluted (note 9)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.05)
Weighted average common shares outstanding	<u>43,696,847</u>	<u>34,573,262</u>	<u>44,192,071</u>	<u>30,724,874</u>

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

# Primary Petroleum Corporation

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months ended November 30		Six Months ended November 30	
	2008	2007	2008	2007
<b>Operating</b>				
Net loss and comprehensive loss	\$ (361,649)	\$ (723,884)	\$ (666,476)	\$ (1,342,466)
Non-cash items				
Stock-based compensation	74,970	10,078	175,521	177,062
Accretion on convertible notes	-	87,256	-	116,341
Depletion, depreciation and accretion	226,538	187,971	454,264	349,611
	(60,141)	(438,579)	(36,691)	(699,452)
Asset retirement costs incurred	(66,826)	(49,437)	(66,826)	(173,002)
Unrealized foreign exchange gain (loss)	(7,445)	5,186	(1,123)	2,678
Change in non-cash working capital (note 11)	(89,005)	(291,957)	198,943	(144,701)
	(223,417)	(774,787)	94,303	(1,014,477)
<b>Financing</b>				
Issue of share capital, net of issue costs (note 9)	516,074	7,516,639	2,958,095	7,426,307
Conversion of convertible notes to shares	-	-	(2,250,000)	-
Change in non-cash working capital (note 11)	225,777	8,524	-	(815)
	741,851	7,525,163	708,095	7,426,307
<b>Investing</b>				
Expenditures on property and equipment	(187,342)	(1,854,903)	(832,853)	(2,846,210)
Change in non-cash working capital (note 11)	(322,583)	128,482	(250,596)	864,931
	(509,925)	(1,726,421)	(1,083,449)	(1,981,279)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>8,509</b>	<b>5,023,955</b>	<b>(281,051)</b>	<b>4,429,736</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>993,616</b>	<b>725,122</b>	<b>1,283,176</b>	<b>1,319,341</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,002,125</b>	<b>\$5,749,077</b>	<b>\$ 1,002,125</b>	<b>\$ 5,749,077</b>
<b>Supplemental information</b>				
Interest received	\$ 1,562	\$ 53,092	\$ 8,283	\$ 65,001
Interest paid	\$ 63,486	\$ -	\$ 124,061	\$ -

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

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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### 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 in Note 3. 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 November 30, 2008 the Corporation had a working capital deficiency amounting to \$1,792,240 including a credit facility of \$2,000,000.

Management has been actively working to raise funds and/or sell properties to repay the \$2,000,000 credit facility. The Corporation has negotiated an extension to repay of the credit facility until March 31, 2009.

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 funds 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 Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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.

Effective June 1, 2008 the Corporation commenced capitalizing certain general and administrative costs, primarily geological and geophysical costs associated with future exploration and development activities.

#### 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

	<b>November 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated depletion, depreciation and amortization</b>	<b>Net Book Value</b>
Petroleum and natural gas properties	\$ 22,695,882	\$ (7,370,183)	\$ 15,325,699
Office equipment	101,066	(56,889)	44,177
	<b>\$ 22,796,948</b>	<b>\$ (7,427,072)</b>	<b>\$ 15,369,876</b>
	<b>May 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated depletion, depreciation and amortization</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$ 21,879,958	\$ (6,959,978)	\$ 14,919,980
Office equipment	100,177	(42,979)	57,198
	<b>\$ 21,980,135</b>	<b>\$ (7,002,957)</b>	<b>\$ 14,977,178</b>

During the three months ended November 31, 2008, the Corporation capitalized geological costs of \$98,099 (November 30, 2007 - \$nil), which are included in property and equipment.

During the six months ended November 30, 2008, the Corporation capitalized geological costs of \$187,634 (November 30, 2007 - \$nil), which are included in property and equipment.

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

The cost of unproved properties and unevaluated seismic data excluded from the depletion base at November 30, 2008 was \$7,539,739 (Canada - \$258,326, USA - \$7,281,413) (November 30, 2007 - \$7,005,596 of which \$1,217,326 were in Canada and \$5,788,270 were in the USA). Future development costs of \$751,700 (Canada - \$525,000, USA - \$226,700) (November 30, 2007 - \$nil) are included in the depletable base.

### 6. Credit facility

The Corporation entered into a credit facility agreement with a private company that provided Primary \$2,000,000. Effective November 16, 2008, the loan bears interest at 18% per annum, prior thereto at 12% per annum, compounded monthly. The loan was due November 15, 2008 and has been extended until March 31, 2009. The loan is secured by a general security agreement over all the Corporation's assets

### 7. Convertible notes

The following table summarizes the changes in the liability component of the convertible notes:

	November 30, 2008	May 31, 2008
Balance, beginning of year	\$ 2,250,000	\$ 2,133,659
Accretion	-	116,341
Redeemed for common shares	(2,250,000)	-
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 of the convertible notes 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 following table summarizes the changes in the asset retirement obligation:

	Six months ended November 30, 2008	Year ended May 31, 2008
Asset retirement obligation, beginning of period	\$ 1,031,707	\$ 389,573
Additions and revisions	(49,881)	80,262
Acquired on corporate acquisition	-	690,847
Accretion	37,024	44,027
Costs incurred during the period	(14,381)	(173,002)
Asset retirement obligation, end of period	\$ 1,004,469	\$ 1,031,707

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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### 9. Share capital

#### (a) Authorized

Unlimited number of common shares

#### (b) Issued

	Number of shares	Amount
Balance, May 31, 2008	36,992,895	\$ 15,224,834
Issued on redemption of convertible note and accrued interest (note 7)	6,105,051	2,442,021
Private placement of flow-through shares for cash	5,550,000	550,000
Reallocate equity component of convertible notes	-	367,717
Reallocate fair value of expired warrants	-	265,642
Share issue costs	-	(33,926)
	<hr/>	<hr/>
Balance, November 30, 2008	48,647,946	\$ 18,448,288

Subsequent to May 31, 2008, the Corporation revised its previously determined fair value assigned to issued and outstanding warrants. Using the Black-Scholes valuation model and adjusting the volatility variable from 50% to a more reasonable 80%, the value assigned to the warrants was increased by \$1,326,917. This amount was reclassified retroactive to May 31, 2008 to increase the stated value of warrants and the offset applied to share capital.

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per 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. At November 30, 2008, 4,300,000 options and 16,492,420 warrants (2007 – 3,312,500 and 15,570,520) were excluded from determining the dilutive effect of stock options and warrants as their impact would be anti-dilutive to this calculation.

In the second quarter the Corporation issued 5,550,000 common shares on a flow-through basis at a price of \$0.10 per common share. In December, 2009, the Corporation issued an additional 750,000 common shares on a flow-through basis at \$0.10 per. At the end of November, 2009, the Corporation had incurred \$117,000 of Canadian exploration expenditures and has plan to incur a minimum of \$508,000 of Canadian exploration expenditures by December 31, 2009.

#### (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 new stock option plan on November 19, 2008, the Corporation may grant up to a maximum of 8,619,589 options to eligible participants. This grant remains subject to regulatory approval. The options generally vest over a two year period and have a maximum term of five years.

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

The fair value of the 1,037,500 options granted in the six months ended November 30, 2008 is \$345,668 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 November 30, 2008, the Corporation had 4,400,000 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	(1,450,000)	0.62
Balance, November 30, 2008	<u>4,400,000</u>	<u>\$ 0.84</u>

Options outstanding at November 30, 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	4.7	-	-
\$0.50	1,362,500	\$ 0.50	4.6	-	-
\$0.75	100,000	\$ 0.75	3.9	-	-
\$1.00	3,012,500	\$ 1.00	3.3	1,419,167	3.3
	<u>4,400,000</u>	<u>\$ 0.84</u>	<u>3.9</u>	<u>1,419,167</u>	<u>3.3</u>

### (d) Contributed surplus

	Amount
Balance, May 31, 2008	\$ 524,949
Current period stock based compensation	<u>175,522</u>
Balance, November 30, 2008	<u>\$ 700,471</u>

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

### (e) Warrants

The Corporation had 16,492,420 warrants outstanding at November 30, 2008 with a fair value of \$3,123,941. The Corporation uses the Black-Scholes pricing model to determine the fair value of the warrants at the time of grant.

The following table summarizes the warrants outstanding at November 30, 2008.

	Number of warrants	Weighted average exercise price	Weighted average remaining life (years)
Consultants warrants	126,000	\$ 0.75	0.79
Share purchase warrants	8,116,371	\$ 0.75	0.79
Share purchase warrants	2,000,000	\$ 1.35	0.08
Warrants issued for corporate finance fee	50,000	\$ 1.35	0.79
Tradable warrants	4,250,000	\$ 1.35	0.79
Agent's warrants	745,000	\$ 1.35	0.79
Warrants issued on corporate acquisition	1,205,049	\$ 1.10	0.04
	<b>16,492,420</b>	<b>\$ 1.03</b>	<b>0.65</b>

Subsequent to May 31, 2008, the Corporation revised its previously determined fair value assigned to issued and outstanding warrants. Using the Black-Scholes valuation model and adjusting the volatility variable from 50% to a more reasonable 80%, the value assigned to the warrants was increased by \$1,326,917. This amount was reclassified retroactive to May 31, 2008 to increase the stated value of warrants and the offset applied to share capital.

### 10. Income taxes

The provision for current 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% (November 30, 2007 – 32.5%) to the income (loss) before taxes for the following periods:

	Three months ended November 30,		Six months ended November 30,	
	2008	2007	2008	2007
Loss before income taxes	<b>\$ (361,649)</b>	\$ (723,884)	<b>\$ (666,476)</b>	\$ (1,342,466)
Expected income tax provision (recovery)	<b>(112,111)</b>	(235,262)	<b>(206,607)</b>	(436,301)
Non-deductible expenses	<b>656</b>	144	<b>1,141</b>	1,416
Non-deductible stock based compensation	<b>23,241</b>	3,275	<b>54,412</b>	57,545
Accretion on convertible notes	-	12,289	-	37,811
Non-deductible depletion, depreciation and accretion	<b>70,227</b>	61,091	<b>140,822</b>	113,624
Impact of rate change and other	<b>17,987</b>	158,463	<b>10,232</b>	225,905
<b>Income tax provision - current</b>	<b>\$ -</b>	\$ -	<b>\$ -</b>	\$ -



# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

	Balance as at November 30, 2008			Balance as at May 31, 2008		
	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
Property and equipment	2,256,246	6,808,921	15,369,876	1,735,911	13,241,267	14,977,178
Total assets	3,124,028	13,678,067	16,802,095	3,153,362	13,691,821	16,845,182

### 13. Related party transactions

During the six month period ended November 30, 2008, the Corporation 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 fees totalling \$206,832 (2007 – \$120,000) were charged to the Corporation by companies controlled by directors and officers of the Corporation. At November 30, 2008, \$nil (May 31, 2008 - \$nil) payable in relation to these services is included in accounts payable and accrued liabilities.
- (b) Legal fees of \$6,410 (2007 – \$1,350) were charged to the Corporation by a legal firm of which a director of the Corporation is a member. At November 30, 2008 \$6,410 (May 31, 2008 – \$nil) payable in relation to these services is included in accounts payable and accrued liabilities.
- (c) Pursuant to an agreement dated May 31, 2005 an officer and director of the Corporation is to receive 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.

### 14. Commitments

- (a) Pursuant to an agreement dated July 26, 2006, the Corporation 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 Corporation for each acre acquired. As at November 30, 2008, 80,847 acres were acquired (May 31, 2008 – 80,847 acres). As at November 30, 2008, the Corporation has accrued a liability of \$3,090 (May 31, 2008 – \$30,901) with respect to the issuance of the shares, but has not yet issued the shares.
- (b) Pursuant to an agreement dated August 31, 2006, a finder's fees is 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 November 30, 2008, the Corporation has accrued a liability of \$6,180 (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.

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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- (c) In November, 2008, the Corporation issued 5,550,000 shares on a flow-through basis for gross proceeds of \$550,000 and in December, 2008 the Corporation issued an additional 750,000 shares on a flow-through basis for gross proceeds of \$75,000. Effective December 31, 2008, renounced \$625,000 of Canadian exploration expenditures to the subscribers of the flow-through shares. At the end of November, 2008, the Corporation had incurred \$117,000 of Canadian exploration expenditures and has plans to incur a minimum of \$508,000 of Canadian exploration expenditures by December 31, 2009.
- (d) The Corporation has a five year lease agreement expiring March 1, 2012 with a minimum rent of \$123,172 per annum, excluding operating costs.

### 15. Financial Instruments

- (a) Fair value of financial instruments

The Corporation's financial instruments as at November 30, 2008, include cash, accounts receivable, accounts payable and accrued liabilities and credit facility. The fair value of these instruments approximates 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 25<sup>th</sup> day of the month following production. The Corporation's policy to mitigate credit risk associated with these balances is to establish marketing relationships with 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

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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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 increases 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 and short term deposits. 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 November 30, 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 Corporation's 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 its debts as they come due and to fund the development of its properties and attain profitable operations. As at November 30, 2008 the Corporation had a working capital deficiency, amounting to \$1,792,240 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 March 31, 2009 and to continue operations. The credit facility was due on November 15, 2008 however, the Corporation secured an extension for the repayment of credit facility until March 31, 2009.

### 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.

### 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 81% of the Corporation's assets are located in the United States, which generate approximately 68% of the Corporation's cash flow. The underlying market prices in Canada for petroleum and natural gas and the

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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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 November 30, 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 November 30, 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 November 30, 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 the 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. Contingencies

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.

### 18. Subsequent Event

In December, 2009, the Corporation issued an additional 750,000 shares on a flow-through basis at \$0.10 per share for gross proceeds of \$75,000.

Subsequent to November 30, 2009, the Board of Directors approved a change in the exercise price of 1,025,000 options to \$0.10 with no other changes in terms and conditions. These options were previously granted at an exercise price of \$1.00.

# Primary Petroleum Corporation

## Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2008

(Unaudited)

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### **CORPORATE OFFICES**

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Calgary, Alberta, Canada  
Phone: 403-262-3132  
Fax: 403-262-3175

Website: [www.primarypetroleum.com](http://www.primarypetroleum.com),  
Inquiries: [mike@primarypetroleum.com](mailto:mike@primarypetroleum.com)

### **BOARD OF DIRECTORS**

**Michele Marrandino** <sup>(1)</sup>

Chairman

President and Chief Executive Officer  
Primary Petroleum Corporation

**Alan Blair** <sup>(1)</sup>

Partner

Gowlings Lafleur Henderson LLP

**Gerald Gilewicz** <sup>(1)</sup>

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

**Rick 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