

NOTICE

**RE: INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE
MONTH PERIOD ENDED FEBRUARY 28, 2009**

The third quarter consolidated financial statements for the nine month period ended February 28, 2009 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 and Nine Months Ended February 28, 2009

Q3/2009

Highlights

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2009	2008	2009	2008
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Operating				
Total Sales Volumes				
Oil and NGLs (Bbls)	-	-	1,120	-
Natural gas (Mcf)	45,449	55,692	141,596	116,724
Barrels of oil equivalent (Boe @ 6:1)	7,575	9,282	24,719	19,454
Daily Sales Volumes				
Oil and NGLs (Bbls/d)	-	-	4	-
Natural gas (Mcf/d)	505	612	519	426
Barrels of oil equivalent (Boe/d @ 6:1)	84	103	91	71
Prices				
Oil and NGLs (per Bbl)	\$ -	\$ -	\$ 112.80	\$ -
Natural gas (per Mcf)	\$ 5.93	\$ 7.16	\$ 7.48	\$ 6.22
Revenue (per Boe)	\$ 35.60	\$ 42.96	\$ 47.95	\$ 37.29
Royalties (per Boe)	\$ 6.42	\$ 11.59	\$ 7.94	\$ 13.24
Operating costs (per Boe)	\$ 9.12	\$ 6.75	\$ 9.31	\$ 5.62
Operating netback (per Boe)	\$ 20.06	\$ 24.62	\$ 30.70	\$ 18.43
Financial				
Oil and gas revenues	\$ 269,674	\$ 398,770	\$ 1,185,322	\$ 725,458
Funds from (used in) operations	\$ (228,624)	\$ (246,517)	\$ (265,315)	\$ (945,969)
Per share – basic	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.03)
– diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.03)
Net loss	\$ (7,021,560)	\$ (617,957)	\$ (7,688,036)	\$ (1,960,423)
Per share – basic	\$ (0.14)	\$ (0.02)	\$ (0.18)	\$ (0.06)
– diluted	\$ (0.14)	\$ (0.02)	\$ (0.18)	\$ (0.06)
Working capital deficiency	\$ (2,650,628)	\$ (2,578,934)	\$ (2,650,628)	\$ 2,578,934
Capital expenditures	\$ 540,817	\$ 2,115,765	\$ 1,373,670	\$ 4,961,975
Total assets	\$ 10,278,571	\$ 16,381,399	\$ 10,278,571	\$ 16,381,399
Common shares				
Outstanding	49,347,946	36,992,895	49,347,946	36,992,895
Weighted average – basic	48,901,243	35,932,706	43,465,349	32,480,151

Primary Petroleum Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

	February 28, 2009 <i>(unaudited)</i>	May 31, 2008 <i>(audited)</i>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 549,241	\$ 1,283,176
Accounts receivable	149,062	355,958
Inventory	44,090	6,696
Prepaid expenses and deposits	236,499	222,174
	<u>978,892</u>	<u>1,868,004</u>
Property and equipment (note 5)	<u>9,299,679</u>	<u>14,977,178</u>
	<u>\$ 10,278,571</u>	<u>\$ 16,845,182</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,629,520	\$ 1,430,846
Credit facility (note 6)	2,000,000	2,000,000
Convertible notes (note 7)	-	2,250,000
	<u>3,629,520</u>	<u>5,680,846</u>
Other liabilities (note 14)	9,579	92,703
Asset retirement obligation (note 8)	<u>1,094,910</u>	<u>1,031,707</u>
	<u>4,734,009</u>	<u>6,805,256</u>
Shareholders' equity		
Common shares (note 9)	19,346,374	15,224,834
Warrants (note 9)	2,464,383	3,389,583
Contributed surplus (note 9)	888,998	524,949
Convertible notes equity component	-	367,717
Deficit	<u>(17,155,193)</u>	<u>(9,467,157)</u>
	<u>5,544,562</u>	<u>10,039,926</u>
	<u>\$ 10,278,571</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 February 28		Nine Months ended February 28,	
	2009	2008	2009	2008
Revenue				
Oil and natural gas	\$ 269,674	\$ 398,770	\$ 1,185,322	\$ 725,458
Royalties	(48,609)	(107,616)	(196,374)	(257,635)
	<u>221,065</u>	<u>291,154</u>	<u>988,948</u>	<u>467,823</u>
Interest	1,862	17,821	10,245	92,707
	<u>222,927</u>	<u>308,975</u>	<u>999,193</u>	<u>560,530</u>
Expenses				
Operating	69,090	62,678	230,162	109,288
General and administrative	241,404	515,837	837,545	1,284,255
Stock-based compensation	188,527	9,033	364,048	186,095
Foreign currency translation	62,928	(55,852)	(5,389)	30,179
Interest and accretion on convertible notes	271,879	32,829	395,940	199,118
Write-down of property and equipment	6,300,000	-	6,300,000	-
Depletion, depreciation and accretion	304,409	362,407	758,673	712,018
	<u>7,438,237</u>	<u>926,932</u>	<u>8,880,979</u>	<u>2,520,953</u>
Loss before income taxes	(7,215,310)	(617,957)	(7,881,786)	(1,960,423)
Income taxes (recovery) (note 10)	(193,750)	-	(193,750)	-
Net loss and other comprehensive loss for the period	(7,021,560)	(617,957)	(7,688,036)	(1,960,423)
Deficit, beginning of period	(10,133,633)	(7,627,861)	(9,467,157)	(6,285,395)
Deficit, end of period	\$ (17,155,193)	\$ (8,245,818)	\$ (17,155,193)	\$ (8,245,818)
Net loss per share				
Basic and diluted (note 9)	\$ (0.14)	\$ (0.02)	\$ (0.18)	\$ (0.06)
Weighted average common shares outstanding	<u>48,901,243</u>	<u>35,932,706</u>	<u>43,465,349</u>	<u>32,480,151</u>

Primary Petroleum Corporation

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months ended February 28,		Nine Months ended February 28,	
	2009	2008	2009	2008
Operating				
Net loss and comprehensive loss	\$ (7,021,560)	\$ (617,957)	\$ (7,688,036)	\$ (1,960,423)
Non-cash items				
Stock-based compensation	188,527	9,033	364,048	186,095
Accretion on convertible notes	-	-	-	116,341
Depletion, depreciation and accretion	304,409	362,407	758,673	712,018
Write-down of property and equipment	6,300,000	-	6,300,000	-
	(228,624)	(246,517)	(265,315)	(945,969)
Asset retirement costs incurred	51,022	-	(15,804)	(173,002)
Decrease in loan receivable	-	181,379	-	181,379
Unrealized foreign exchange gain (loss)	(10,497)	(4,699)	(11,620)	(2,022)
Change in non-cash working capital (note 11)	(5,656)	433,976	193,287	238,512
	(193,755)	364,139	(99,452)	(701,102)
Financing				
Issue of share capital, net of issue costs (note 9)	(129,472)	(834)	2,828,623	7,425,473
Conversion of convertible notes to shares	-	-	(2,250,000)	-
Change in non-cash working capital (note 11)	140,000	27,586	140,000	77,535
	10,528	26,752	718,623	7,503,008
Investing				
Expenditures on property and equipment	(540,817)	(2,115,765)	(1,373,670)	(4,961,975)
Cash paid for corporate acquisition	-	(2,564,162)	-	(2,564,162)
Change in non-cash working capital (note 11)	271,160	(87,292)	20,564	777,639
	(269,657)	(4,767,219)	(1,353,106)	(6,748,498)
Increase (decrease) in cash and cash equivalents	(452,884)	(4,376,328)	(733,935)	53,408
Cash and cash equivalents, beginning of period	1,002,125	5,749,077	1,283,176	1,319,341
Cash and cash equivalents, end of period	\$ 549,241	\$1,372,749	\$ 549,241	\$ 1,372,749
Supplemental information				
Interest received	\$ 1,862	\$ 27,342	\$ 10,245	\$ 92,343
Interest paid	\$ 90,295	\$ -	\$ 214,356	\$ -

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

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

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 February 28, 2009 the Corporation had a working capital deficiency amounting to \$2,650,628 including a credit facility of \$2,000,000 and an associated back-end fee of \$140,000. The Corporation has negotiated an extension to repay of the credit facility and associated back-end fee until April 30, 2009.

Management has been and continues to be active in seeking alternative sources of funding to repay its current credit facility and continue with its planned capital expenditure program. Contingent on the Corporation successfully completing a debenture offering of a minimum of \$1,000,000, discussions with various parties resulted in confirmation of an equity issue of approximately \$550,000 and the establishment of a line of credit of approximately \$1,300,000 with a financial institution. The debenture offering was announced on March 20, 2009. A successful closing appears doubtful which would prevent the Corporation from proceeding with the aforementioned arrangements and a timely repayment of its existing credit facility.

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 became effective for fiscal years beginning on or after January 1, 2008. To date this standard has not nor is it 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.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

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).

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 is engaged in preparing for this transition and continues to monitor the developments and assess the impact of these prospective changes in regard to its financial statements.

5. Property and equipment

	February 28, 2009		
	Cost	Accumulated depletion, depreciation and amortization	Net Book Value
Petroleum and natural gas properties	\$ 23,204,101	\$ (13,941,644)	\$ 9,262,457
Office equipment	101,066	(63,844)	37,222
	\$ 23,305,167	\$ (14,005,488)	\$ 9,299,679

	May 31, 2008		
	Cost	Accumulated depletion, depreciation 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

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

During the three months ended February 28, 2009, the Corporation capitalized geological costs of \$90,212 (February 29, 2008 - \$nil), which are included in property and equipment.

During the nine months ended February 28, 2009, the Corporation capitalized geological costs of \$277,846 (February 29, 2008 - \$nil), which are included in property and equipment.

The cost of unproved properties and unevaluated seismic data excluded from the depletion base at February 28, 2009 was \$7,640,151 (Canada - \$258,326, USA - \$7,381,825) (February 29, 2008 - \$9,239,781 of which \$1,070,346 were in Canada and \$8,169,435 were in the USA). Future development costs of \$490,916 (Canada - \$261,815, USA - \$229,102) (February 29, 2008 - \$nil) are included in the depletable base.

The Corporation performed ceiling test calculations at February 28, 2009 to assess whether the carrying value of the property and equipment were recoverable. At February 28, 2009, the Corporation recognized an estimated reduction in the value of its proved plus probable reserves in Canada and the United States and a reduction in the value of its undeveloped properties. As a result the Corporation recorded a write-down of \$6,300,000 (Canada \$1,300,000, United States \$5,000,000) in the carrying value of its property and equipment.

6. Credit facility

The Corporation entered into a credit facility agreement on May 21, 2008 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 and payable monthly. The loan was due March 31, 2009 and has been extended until April 30, 2009. (See note 2). 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:

	February 28, 2009	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 Corporation's management estimated the total future asset retirement obligation based on the expected cost to abandon and restore well and facility sites and the estimated timing of the costs to

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

be incurred. The Corporation has estimated the net present value of its asset retirement obligation to be \$1.1 million as at February 28, 2009, based on the total undiscounted future obligation of \$2.1 million. These costs are expected to be incurred between 2012 and 2019. The Corporation used a credit adjusted risk free rate of 8% and an inflation rate of 2% to calculate the present value of the asset retirement obligation.

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

	Nine months ended February 28, 2009	Year ended May 31, 2008
Asset retirement obligation, beginning of period	\$ 1,031,707	\$ 389,573
Additions and revisions	22,989	80,262
Acquired on corporate acquisition	-	690,847
Accretion	56,018	44,027
Costs incurred during the period	(15,804)	(173,002)
Asset retirement obligation, end of period	<u>\$ 1,094,910</u>	<u>\$ 1,031,707</u>

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	6,250,000	625,000
Reallocate equity component of convertible notes	-	367,717
Reallocate fair value of expired warrants	-	925,200
Share issue costs	-	(44,648)
Tax effect of flow-through shares	-	(193,750)
Balance, February 28, 2009	<u>49,347,946</u>	<u>\$ 19,346,374</u>

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

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

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 February 28, 2009, 7,062,500 options and 13,287,371 warrants (2007 – 4,362,500 and 16,910,569) were excluded from determining the dilutive effect of stock options and warrants as their impact would be anti-dilutive to this calculation.

During November and December, 2008 the Corporation issued 6,250,000 common shares on a flow-through basis at a price of \$0.10 per common share. At the end of February 28, 2009, the Corporation had incurred \$188,000 of Canadian exploration expenditures and has plans to incur a minimum of \$437,000 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.

On January 20, 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 between February 19, 2007 and July 4, 2008 at exercise prices ranging from \$0.50 to \$1.00.

The fair value of the 4,025,000 options granted in the nine months ended February 28, 2009 is \$440,618 based on the date of grant using the Black-Scholes option pricing model with the following assumptions: average risk-free rate of 1.89%, expected life of five (5) years, expected volatility of 80% and no expected dividends.

At February 28, 2009, the Corporation had 7,062,500 stock options outstanding for which shares have been reserved.

	Quantity	Weighted average exercise price
Balance, May 31, 2008	4,812,500	\$ 0.84
Granted	4,025,000	0.20
Forfeited	(1,775,000)	0.60
Balance, February 28, 2009	7,062,500	\$ 0.41

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

Options outstanding at February 28, 2009:

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)
\$0.10	3,987,500	\$ 0.10	4.3	1,109,425	4.3
\$0.40	25,000	\$ 0.40	4.5	-	-
\$0.50	1,062,500	\$ 0.50	4.3	245,588	4.3
\$0.75	100,000	\$ 0.75	0.3	33,300	0.3
\$1.00	1,887,500	\$ 1.00	3.1	1,342,113	3.1
	7,062,500	\$ 0.41	4.0	2,730,426	4.0

(d) Contributed surplus

	Amount
Balance, May 31, 2008	\$ 524,949
Current period stock based compensation	364,049
Balance, February 28, 2009	\$ 888,998

(e) Warrants

The Corporation had 13,287,371 warrants outstanding at February 28, 2009 with a fair value of \$2,464,383. 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 February 28, 2009.

	Number of warrants	Weighted average exercise price	Weighted average remaining life (years)
Consultants warrants	126,000	\$ 0.75	0.46
Share purchase warrants	8,116,371	\$ 0.75	0.46
Warrants issued for corporate finance fee	50,000	\$ 1.35	0.46
Tradable warrants	4,250,000	\$ 1.35	0.46
Agent's warrants	745,000	\$ 1.35	0.46
	13,287,371	\$ 0.98	0.46

Subsequent to May 31, 2008, the Corporation revised its previously determined fair value assigned to certain 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.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

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% (February 28, 2008 – 32.5%) to the income (loss) before taxes for the following periods:

	Three months ended February 28,		Nine months ended February 28,	
	2009	2008	2009	2008
Loss before income taxes	\$ (7,215,310)	\$ (617,957)	\$ (7,881,786)	\$ (1,960,423)
Expected income tax provision (recovery)	(2,236,746)	(200,610)	(2,443,354)	(637,137)
Non-deductible expenses	329	971	899	2,387
Non-deductible stock based compensation	58,443	2,936	112,855	60,481
Accretion on convertible notes	-	-	-	37,811
Impact of timing differences	94,367	117,782	235,189	231,406
Non-deductible write-down of property and equipment	1,953,000	-	1,953,000	-
Other	130,607	78,921	141,411	305,052
Valuation changes	(193,750)	-	(193,750)	-
Income tax provision (recovery)	\$ (193,750)	\$ -	\$ (193,750)	\$ -

The Corporation has an unrecorded future income tax asset that has not been recognized in previous years. The issuance of flow-through common shares and the subsequent renunciation of flow-through expenditures as at December 31, 2008 gave rise to a reduction of the unrecorded future tax asset which has been recognized in the financial statements as a recovery of income taxes in the current fiscal period in the amount of \$193,750.

11. Change in non-cash working capital

Changes in non-cash working capital were comprised of the following:

	Three months ended February 28,		Nine months ended February 28,	
	2009	2008	2009	2008
Accounts receivable	\$ 35,164	\$ 132,969	\$ 206,896	\$ 213,191
Inventory	(1,585)	(21,051)	(37,394)	(21,051)
Prepaid expenses	(33,136)	(111,737)	(14,325)	101,309
Accounts payable and accrued liabilities	405,061	429,439	198,674	855,587
Working capital acquired	-	(55,350)	-	(55,350)
Net change	\$ 405,504	\$ 374,270	\$ 353,851	\$ 1,093,686
Net change by activity:				
Operating	\$ (5,656)	\$ 433,976	\$ 193,287	\$ 238,512
Financing	140,000	27,586	140,000	77,535
Investing	271,160	(87,292)	20,564	777,639
Net change	\$ 405,504	\$ 374,270	\$ 353,851	\$ 1,093,686

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

12. Segmented information

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

	Three months ended February 28,			Three months ended February 28,		
	2009			2008		
(Cdn dollars)	Canada	USA	Total	Canada	USA	Total
Oil and gas sales	106,528	163,146	269,674	211,123	187,647	398,770
Interest income	704	1,158	1,862	17,821	-	17,821
Interest and accretion Expense	271,879	-	271,879	32,829	-	32,829
Depletion, depreciation and accretion	105,800	198,609	304,409	197,381	165,026	362,407
Write-down of property and equipment	1,300,000	5,000,000	6,300,000			
Net income (loss)	(1,852,592)	(5,168,968)	(7,021,560)	(616,058)	(1,899)	(617,957)
Capital expenditures	544,393	(3,576)	540,817	233,659	1,882,106	2,115,765
	Nine months ended February 28,			Nine months ended February 28,		
	2009			2008		
(Cdn dollars)	Canada	USA	Total	Canada	USA	Total
Oil and gas sales	367,764	817,558	1,185,322	537,811	187,647	725,458
Interest income	6,458	3,787	10,245	90,767	1,940	92,707
Interest and accretion Expense	395,940	-	395,940	199,118	-	199,118
Depletion, depreciation and accretion	300,809	457,864	758,673	546,992	165,026	712,018
Write-down of property and equipment	1,300,000	5,000,000	6,300,000			
Net income (loss)	(2,723,913)	(4,964,123)	(7,688,036)	(1,957,388)	(3,035)	(1,960,423)
Capital expenditures	670,910	702,760	1,373,670	876,468	4,085,507	4,961,975
	Balance as at February 28, 2009			Balance as at May 31, 2008		
	Canada	USA	Total	Canada	USA	Total
Property and equipment	1,342,269	7,957,410	9,299,679	1,735,911	13,241,267	14,977,178
Total assets	1,931,500	8,347,071	10,278,571	3,153,362	13,691,821	16,845,182

13. Related party transactions

During the nine month period ended February 28, 2009, 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 \$334,088 (2008 – \$180,000) were charged to the Corporation by companies controlled by certain directors and officers of the Corporation. At February 28,

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

2009, \$nil (May 31, 2008 - \$nil) payable in relation to these services is included in accounts payable and accrued liabilities.

- (b) Legal fees of \$6,800 (2007 – \$1,350) were charged to the Corporation by a legal firm of which a director of the Corporation is a member. At February 28, 2009 \$341 (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 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 February 28, 2009, 80,847 acres were acquired (May 31, 2008 – 80,847 acres). As at February 28, 2009, the Corporation has accrued a liability of \$3,399 (May 31, 2008 – \$30,901) with respect to the issuance of the shares, but has not yet issued the shares. The agreement does not specify a time line for the Corporation to complete its minimum commitment of 100,000 acres and the timing of the minimum obligation is not determinable at this time. The Corporation anticipates that the obligation to issue any earned shares to date will be completed prior to the end of the Corporation's current fiscal year.
- (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 February 28, 2009, 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. The Corporation anticipates that the obligation to issue any earned shares to date will be completed prior to end of the Corporation's current fiscal year.
- (c) Prior to the end of 2008, the Corporation issued 6,250,000 shares on a flow-through basis for gross proceeds of \$625,000. Effective December 31, 2008, the Corporation renounced \$625,000 of Canadian exploration expenditures to the subscribers of the flow-through shares. At February 28, 2009, the Corporation had incurred \$188,000 of Canadian exploration expenditures and has plans to incur a minimum of \$437,000 of Canadian exploration expenditures by December 31, 2009.
- (d) The Corporation has a five year lease agreement expiring March 1, 2012 with a minimum obligation of \$123,172 per annum, excluding operating costs.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

15. Financial Instruments

(a) Fair value of financial instruments

The Corporation's financial instruments as at February 28, 2009, 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 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 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 cash equivalents such as short term deposits maturing in less than 90 days. The carrying amount of cash, cash equivalents and accounts receivables represent the maximum credit exposure. The Corporation has

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

provided for an allowance for doubtful accounts as at February 28, 2009 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's reputation. The Corporation monitors its capital expenditures and utilizes authorizations for expenditures on both operated and non-operated capital expenditures. The Corporation also attempts to match its payment cycle with collection of oil and natural gas revenues on the 25th of each month.

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 February 28, 2009 the Corporation had a working capital deficiency, amounting to \$2,650,628 including a credit facility of \$2,000,000 and a back-end fee of \$140,000. Management has been actively working to raise funds through alternative arrangements and/or sell properties to be able to repay the \$2,000,000 credit facility and the back-end fee that is due on April 30, 2009 and to continue operations. The credit facility was due on November 15, 2008; however the Corporation secured extensions for the repayment of credit facility until April 30, 2009.

iii. Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, commodity prices, and interest rates that 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 ate 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 69% 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 February 28, 2009.

v. Commodity price risk

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

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 world 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 February 28, 2009.

16. Capital Structure and Management

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of its 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 February 28, 2009, 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 Events

On March 20, 2009, the Corporation announced the offering of a 12% subordinated convertible debenture of up to \$1,200,000 with an anticipated closing of April 30, 2009. On April 22, 2009, the Corporation announced the debenture offering had not been subscribed to and there are no assurances that it will be completed by April 30, 2009 and the Corporation may not be able to repay the outstanding balance of its existing credit facility on April 30, 2009.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 28, 2009

(Unaudited)

CORPORATE OFFICES

200, 744 – 4TH Avenue S.W.
Calgary, Alberta, Canada
Phone: 403-262-3132
Fax: 403-262-3175

Website: www.primarypetroleum.com,
Inquiries: mike@primarypetroleum.com

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

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