

NOTICE

**RE: INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE
MONTH PERIOD ENDED AUGUST 31, 2007**

The first quarter consolidated financial statements for the three month period ended August 31, 2007 have not been reviewed by the auditors of Primary Petroleum Corporation.

PRIMARY PETROLEUM CORPORATION

Per: *"Signed"*

Mike Marrandino, President

PRIMARY PETROLEUM CORPORATION

First Quarter Consolidated Financial Statements of:

PRIMARY PETROLEUM CORPORATION

For the Three Months Ended August 31, 2007

Q1/2008

Primary Petroleum Corp.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	August 31, 2007	May 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 725,122	\$ 1,319,341
Accounts receivable	399,863	481,158
Inventory	30,593	30,593
Prepaid expenses and deposits	51,820	283,030
Loan receivable	183,887	181,379
	<u>1,391,285</u>	<u>2,295,501</u>
Property and equipment (note 3)	<u>6,861,287</u>	<u>5,989,788</u>
	<u>\$ 8,252,572</u>	<u>\$ 8,285,289</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,909,290	\$ 1,347,429
Convertible notes (note 4)	2,162,744	-
	<u>4,072,034</u>	<u>1,347,429</u>
Convertible notes (note 4)	-	2,133,659
Asset retirement obligation (note 5)	307,840	389,573
	<u>4,379,874</u>	<u>3,870,661</u>
Shareholders' equity		
Common shares (note 6)	10,072,324	10,162,656
Convertible notes equity component	336,524	336,524
Contributed surplus (note 6)	367,827	200,843
Deficit	(6,903,977)	(6,285,395)
	<u>3,872,698</u>	<u>4,414,628</u>
	<u>\$ 8,252,572</u>	<u>\$ 8,285,289</u>
Commitments and contingencies (note 11)		

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

Approved by the Board of Directors

(signed)
"Mike Marrandino", Director

(signed)
"Alan Blair", Director

Primary Petroleum Corp.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT (Unaudited)

	Three Months ended August 31, 2007	Three Months ended August 31, 2006
Revenue		
Oil and natural gas	\$ 164,290	\$ 59,749
Royalties	(70,210)	(8,411)
	<u>94,080</u>	<u>51,338</u>
Interest	16,506	42,972
	<u>110,586</u>	<u>94,310</u>
Expenses		
Operating	16,995	12,667
General and administrative	345,217	198,730
Stock-based compensation	166,984	-
Interest and accretion on convertible notes	38,332	-
Depletion, depreciation and accretion	161,640	502,216
	<u>729,168</u>	<u>713,613</u>
Loss before income taxes	(618,582)	(619,303)
Future income taxes recovery	-	-
	<u>(618,582)</u>	<u>(619,303)</u>
Net loss	(618,582)	(619,303)
Deficit, beginning of period	(6,285,395)	(3,084,925)
	<u>\$ (6,903,977)</u>	<u>\$ (3,704,228)</u>
Deficit, end of period	<u>\$ (6,903,977)</u>	<u>\$ (3,704,228)</u>
Net loss per share		
Basic and diluted (note 6)	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average common shares outstanding	26,918,317	23,158,600

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

Primary Petroleum Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months ended August 31, 2007	Three Months ended August 31, 2006
Operating		
Net loss	\$ (618,582)	\$ (619,303)
Non-cash items		
Stock-based compensation	166,984	-
Accretion on convertible notes	29,085	-
Depletion, depreciation and accretion	161,640	502,216
	<u>(260,873)</u>	<u>(117,087)</u>
Decrease (Increase) in loan receivable	(2,508)	(5,682)
General and administrative expenses settled in shares	-	1,000
Asset retirement costs incurred	(123,565)	(32,855)
Change in non-cash working capital (note 8)	147,256	(58,658)
	<u>(239,690)</u>	<u>(213,282)</u>
Financing		
Share issue costs	(90,332)	-
Share subscription payable	-	976,871
Change in non-cash working capital (note 8)	(9,339)	5,000
	<u>(99,671)</u>	<u>981,871</u>
Investing		
Expenditures on property and equipment	(991,307)	(1,599,812)
Change in non-cash working capital (note 8)	736,449	(743,016)
	<u>(254,858)</u>	<u>(2,342,828)</u>
Increase (Decrease) in cash	(594,219)	(1,574,239)
Cash, beginning of period	1,319,341	5,232,500
Cash, end of period	\$ 725,122	\$ 3,658,261
Supplemental information		
Interest received	\$ 11,909	\$ 37,802
Interest paid	\$ -	\$ -

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

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

1. Nature of operations and basis of presentation

The interim consolidated financial statements of Primary Petroleum Corporation (the “Company”) have been prepared on the basis of applying consistently the same accounting policies and methods used in the preparation of the Company’s audited financial statements for the year ended May 31, 2007. These interim financial statements and the incremental disclosures below should be read in conjunction with the Company’s audited financial statements and notes thereto included for the year ended May 31, 2007.

2. Changes in accounting policies

As of June 1, 2007, the Company adopted the CICA Handbook Section 1506 “Accounting Changes”, Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Sections 3855 “Financial Instruments – Recognition and Measurement”, 3862 “Financial Instruments – Disclosures”, 3863 “Financial Instruments – Presentation” and Section 3865 “Hedges”. These standards have been applied retrospectively and did not result in any changes to the presentation or restatements of the Company’s prior period financial statements.

- (a) Section 1506 “Accounting Changes” for changes in accounting policies and correction of errors shall be applied retrospectively with restatement unless otherwise permitted or where impractical to determine, changes in accounting estimates shall be applied prospectively.
- (b) Section 1530 “Comprehensive Income” establishes standards for reporting and disclosing of comprehensive income and other comprehensive income which resulted in the change in equity (net assets) of the Company from non-owner resources except those resulted from investments by owners and distributions to owners, but excluded from net income.
- (c) Section 3251 “Equity” establishes standards for the reporting and disclosing equity and changes in equity during the Company’s reporting periods and is applied in conjunction with Section 1530 “Comprehensive Income”.
- (d) Section 3855 “Financial Instruments – Recognition and Measurement” establishes standards for recognizing and measuring financial instruments including financial assets, financial liabilities and non-financial derivatives. After initial recognition at fair value all financial instruments shall be accounted for subsequently as follows:
 - (i) Held for trading financial instruments are measured at fair value with gains or losses recognized in earnings immediately.
 - (ii) Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest rate method. The amortization of transaction costs, premiums or discounts and impairment losses are recorded in earnings when occurred.
 - (iii) Available-for-sale financial assets are measured at fair value with gains or losses, except impairment losses, recognized in other comprehensive income and transferred to earnings when the asset is derecognized.

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

2. Changes in accounting policies, continue

- (iv) Non-financial derivatives must be classified as held for trading and are measured at fair value as derivative assets and liabilities with gains or losses recognized in earnings immediately unless they are designated as part of hedging relation and meet the necessary criteria.
- (e) Section 3862 “Financial Instruments – Disclosures”, 3863 “Financial Instruments – Presentation” establishes new standards for the disclosure of financial instruments and their presentation. These two Sections are applied in conjunction with Section 1530 “Comprehensive Income”, Sections 3855 “Financial Instruments – Recognition and Measurement” and Section 3865 “Hedges”.
- (f) Section 3865 “Hedges” establishes certain criteria for the alternative accounting treatment of non-financial derivatives otherwise would have been accounted for under Section 3855 “Financial Instruments – Recognition and Measurement”. Under hedge accounting, gains and losses on non-financial derivatives classified as effective hedges are included in other comprehensive income until such time at which the hedge is realized.

The Company does not have any prior period accounting changes, hedges or any adjustments in other comprehensive income and therefore comprehensive income is currently equal to net income.

Effective January 1, 2008, the Company will be required to adopt the CICA Section 1535 “Capital Disclosures” which establishes additional reporting of objectives, policies and processes of how the Company manages its capital as well as its compliance with externally imposed capital requirement. The adoption of Section 1535 is nor expected to impact the elements of the Company’s financial statements as it relates primary to disclosures and presentation.

3. Property and equipment

	August 31, 2007		
	Cost	Accumulated depletion and amortization	Net
Petroleum and natural gas properties	\$ 5,930,556	\$ (3,698,603)	\$ 2,231,953
Office equipment	32,510	(4,468)	28,042
	\$ 5,963,066	\$ (3,703,071)	\$ 2,259,995

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

3. Property and equipment, continue

			May 31, 2007
	Cost	Accumulated depletion and amortization	Net
Petroleum and natural gas properties	\$ 4,263,642	\$ (2,753,158)	\$ 1,510,484
Office equipment	13,593	(2,911)	10,682
	<u>\$ 4,277,235</u>	<u>\$ (2,756,069)</u>	<u>\$ 1,521,166</u>

At August 31, 2007, property and equipment included \$451,803 (May 31, 2007 – \$454,384) of undeveloped land, \$5,302,783 (May 31, 2007 – \$4,902,195) of preproduction exploration costs have been excluded from depletion.

Included in the current three month period's depletion and amortization expense is a ceiling test write-down of \$nil (2007 – \$396,136).

The Company did not capitalize any general and administrative costs during the three month periods ended August 31, 2007 and 2006.

4. Convertible notes

The following table summarizes the changes in the liability component of the convertible notes for the period on those dates indicated.

	Three months ended August 31 2007	Year ended May 31, 2007
\$2,250,000 5% convertible notes		
Balance, beginning of year	\$ 2,133,659	\$ -
Addition	-	1,900,976
Accretion	29,085	232,683
	<u>\$ 2,162,744</u>	<u>\$ 2,133,659</u>

5. Asset retirement obligation

The asset retirement obligation results from the Company's net ownership interests in petroleum and natural gas assets including well sites and gathering systems. The Company estimates the net present value of its asset retirement obligation based on total undiscounted future liabilities measured as at August 31, 2007 of \$242,700 (May 31, 2007 - \$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.

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

5. Asset retirement obligation, continue

The following table summarizes the changes in the asset retirement obligation account for the period on those dates indicated.

	Three months ended August 31 2007	Year ended May 31, 2007
Asset retirement obligation, beginning of year	\$ 389,573	\$ 210,783
Liabilities incurred	19,278	224,203
Accretion	7,223	16,060
Costs incurred during the period	(108,234)	(61,473)
Asset retirement obligation, end of period	\$ 307,840	\$ 389,573

6. Share capital

(a) Authorized

Unlimited number of common shares

(b) Issued

	Three months ended August 31, 2007		Year ended May 31, 2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	26,918,317	\$ 10,162,656	11,593,100	\$ 3,124,168
Private placement for cash	-	-	1,599,499	1,864,398
Special warrants converted	-	-	1,888,700	761,434
Share issued for finders' fee	-	-	450,000	450,000
Subscription receipts converted	-	-	11,128,320	4,515,454
Shares issued for debt	-	-	98,698	62,135
Stock options exercised for cash	-	-	160,000	85,000
Contributed surplus on exercise of options	-	-	-	94,860
Share issue costs net of tax effect	-	-	-	(230,557)
Tax effect of flow-through share renunciation	-	(90,332)	-	(564,236)
Balance, end of period	26,918,317	\$ 10,072,324	26,918,317	\$ 10,162,656

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

6. Share capital, continue

(c) Stock options

The following table summarizes changes in the number of stock options outstanding for the period ended on those dates indicated.

	Three months ended August 31, 2007		Year ended May 31, 2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance, beginning of year	3,012,500	\$ 1.00	-	\$ -
Granted	-	-	3,172,500	0.98
Exercise	-	-	(160,000)	0.53
Balance, end of period	3,012,500	\$ 1.00	3,012,500	\$ 1.00
Option exercisable, end of period	-	\$ -	-	\$ -

(d) Contributed surplus

	Three months ended August 31, 2007	Year ended May 31, 2007
Balance, beginning of year	\$ 200,843	\$ 62,038
Contribution by consultant in advance of share issue	-	19,898
Transfer to common shares on issuance for debt	-	(62,135)
Stock-based compensation	166,984	275,902
Transfer to common shares on exercise of stock options	-	(94,860)
Balance, end of period	\$ 367,827	\$ 200,843

(e) Warrants outstanding at August 31, 2007

	Outstanding			Exercisable	
	Number of warrants and options	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of warrants and options	Weighted average remaining contractual life (years)
Share purchase warrants	7,625,520	\$ 0.75	2.2	7,625,520	2.2
Share purchase warrants	2,000,000	1.10	0.3	2,000,000	0.3
Share purchase warrants	275,000	1.25	0.9	275,000	0.9
Share purchase warrants	2,250,000	1.25	2.2	2,250,000	2.2
Broker warrants	1,035,000	0.50	2.2	1,035,000	2.2
Broker warrants	697,500	0.75	2.2	697,500	2.2
	13,883,020	\$ 0.87	1.7	13,883,020	1.7

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

6. Share capital, continue

(e) Per share amounts

The options and warrants to purchase common shares outstanding at August 31, 2007 and 2006 were not included in the computation of diluted earnings per share because they were anti-dilutive.

7. Income taxes

The provision for future income taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

	Three months ended August 31, 2007	Three months ended August 31, 2006
Loss before income taxes	\$ (618,582)	\$ (619,303)
Canadian basic statutory tax rate	32.5%	35.5%
Expected income tax provision	(201,039)	(219,853)
Foreign tax rate difference	568	1,770
Non-allowable deduction	2,544	(208)
Resource allowance	-	4,628
Stock-based compensation	9,453	-
Accretion on convertible notes	54,270	-
Lower effective rate due to decreasing rates in the future	-	74,490
Increase in valuation allowance	134,204	193,173
Income tax provision	\$ -	\$ -

8. Change in non-cash working capital

	Three months ended August 31, 2007	Three months ended August 31, 2006
Accounts receivable	\$ 81,295	\$ (747,436)
Prepaid expenses and deposits	231,210	12,081
Accounts payable and accrued liabilities	521,513	(61,319)
Net change	\$ 834,018	\$ (796,674)
Net change by activities		
Operating	\$ 147,256	\$ (56,658)
Financing	(9339)	5,000
Investing	696,101	(743,016)
Net change	\$ 834,018	\$ (796,674)

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

9. Segmented information

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

	Three Months Ended August 31, 2007			Three Months Ended August 31, 2006		
	Canada \$	USA \$	Total \$	Canada \$	USA \$	Total \$
Oil and gas sales	164,290	-	164,290	59,749	-	59,749
Interest income	13,376	-	13,376	42,972	-	42,972
Interest and accretion expense	38,332	-	38,332	-	-	-
Depletion, depreciation and accretion	161,640		161,640	502,216	-	502,216
Net income (loss)	(611,014)	(7,568)	(618,582)	(602,441)	(16,862)	(619,303)
Capital expenditures	450,371	540,936	991,307	602,919	996,893	1,599,812

	August 31, 2007			May 31, 2007		
	Canada \$	USA \$	Total \$	Canada \$	USA \$	Total \$
Property and equipment	1,714,831	5,146,456	6,861,287	1,384,268	4,605,520	5,989,788

10. Related party transactions

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

- (a) Management and consulting fees totalling \$60,000 (2006 – \$25,500) were charged to the Company by companies controlled by directors and officers of the Company. At August 31, 2007, \$10,897 (May 31, 2007 - \$10,600) payable in relation to these services is included in accounts payable and accrued liabilities.
- (b) Legal fees of \$570 (2006 – \$nil) were charged to the Company by a legal firm of which a director of the Company is a member. At August 31, 2007, \$4,870 (May 31, 2006 – \$4,160) payable in relation to these services is included in accounts payable and accrued liabilities.

Primary Petroleum Corp.

Notes to Consolidated Financial Statements

Period ended August 31, 2007

(unaudited)

11. Commitments and contingencies

- (a) The Company has a five year lease agreement expiring on March 1, 2012 with a minimum rent of \$123,172 per annum excluding operating costs.
- (b) Pursuant to an agreement dated July 26, 2006, the Company has committed to purchase a minimum of 100,000 and up to 300,000 net mineral acres in Montana, with a net revenue interest of not less than 85% to the Company, at a cost of US \$12.50 per acre plus the issue of one-half of a common share of the Company for each acre acquired. 79,232 acres were acquired as of August 31, (May 31, 2007 – 35,000). As at August 31, 2007, the Company has accrued a liability of \$39,616 (May 31, 2007 - \$17,500) with respect to the issuance of the shares, but has not yet issued the shares.
- (c) Pursuant to an agreement dated August 31, 2006, finder's fees are payable by the Company 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 the Company for each acre acquired. 79,232 acres were acquired as of August 31, 2007 (May 31, 2007 – 35,000). As at August 31, 2007, the Company has accrued a liability of \$79,232 (May 31, 2007 - \$35,000) with respect to the issuance of the shares, but has not yet issued the shares.

12. Subsequent events

- (a) On August 9, 2007, the Company entered into an agency agreement to complete an initial public offering (the "Offering"), on a best effort basis of, 8,500,000 units at the price of \$1.00 per unit for gross proceeds of \$8,500,000, excluding 1,275,000 over-allotment units granted to the agent. Each unit consists of one common shares 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. As compensation for its services, the agent will receive the followings:
 - i. A cash commission equals to 8% of the gross proceeds of the Offering.
 - ii. Warrants equal to 8% of the number of units (including over-allotment units) sold under the Offering. Each warrant is exercisable at a price of \$1.35 per share for a period of two years from the date of closing.
 - iii. A corporate finance fee of 100,000 units, each unit consisting 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 a period of two years from the date of closing.
- (b) The final prospectus for the Offering was receipted on August 21, 2007. The Offering was completed on September 12, 2007 of 8,500,000 units for gross proceeds of \$8,500,000