

PRIMARY PETROLEUM CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended November 30, 2007
(Unaudited)

Primary Petroleum Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

	November 30, 2007 (unaudited)	May 31, 2007 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,749,077	\$ 1,319,341
Accounts receivable	400,937	481,158
Inventory	30,593	30,593
Prepaid expenses and deposits	69,984	283,030
Loan receivable (US\$ 178,554)	178,701	181,379
	<u>6,429,292</u>	<u>2,295,501</u>
Property and equipment (note 3)	<u>8,543,248</u>	<u>5,989,788</u>
	<u>\$ 14,972,540</u>	<u>\$ 8,285,289</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,651,368	\$ 1,275,169
Accrued interest payable	122,209	72,260
Convertible notes (note 4)	2,250,000	-
	<u>4,023,577</u>	<u>1,347,429</u>
Convertible notes (note 4)	-	2,133,659
Asset retirement obligation (note 5)	273,432	389,573
Shareholders' equity		
Common shares (note 6 (b))	14,414,340	8,835,739
Warrants (note 6 (e))	3,174,623	1,326,917
Convertible notes equity component	336,524	336,524
Contributed surplus (note 6 (d))	377,905	200,843
Deficit	(7,627,861)	(6,285,395)
	<u>10,675,531</u>	<u>4,414,628</u>
	<u>\$ 14,972,540</u>	<u>\$ 8,285,289</u>
Nature of operations (note 1)		
Commitments (note 10)		
Subsequent events (note 12)		

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

Approved by the Board of Directors

(signed)
"Mike Marrantino", Director

(signed)
"Alan Blair", Director

Primary Petroleum Corporation

INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT (Unaudited)

	Three Months ended November 30		Six Months ended November 30	
	2007	2006	2007	2006
Revenue				
Oil and natural gas	\$ 162,398	\$ 52,512	\$ 326,688	\$ 112,261
Royalties	(79,809)	(7,563)	(150,019)	(15,974)
	<u>82,589</u>	<u>44,949</u>	<u>176,669</u>	<u>96,287</u>
Interest	58,380	43,883	74,886	86,855
	<u>140,969</u>	<u>88,832</u>	<u>251,555</u>	<u>183,142</u>
Expenses				
Operating	29,615	55,193	46,610	67,860
General and administrative	429,816	253,648	768,418	464,155
Stock-based compensation	10,078	-	177,062	-
Foreign currency translation	79,416	(19,620)	86,031	(31,397)
Interest and accretion on convertible notes	127,957	74,335	166,289	74,335
Depletion, depreciation and accretion	187,971	412,948	349,611	915,164
	<u>864,853</u>	<u>776,504</u>	<u>1,594,021</u>	<u>1,490,117</u>
Net loss	(723,884)	(687,672)	(1,342,466)	(1,306,975)
Deficit, beginning of period	(6,903,977)	(3,704,228)	(6,285,395)	(3,084,925)
Deficit, end of period	\$ (7,627,861)	\$ (4,391,900)	\$ (7,627,861)	\$ (4,391,900)
Net loss per share				
Basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.11)
Weighted average common shares outstanding	<u>34,573,262</u>	<u>23,508,644</u>	<u>30,724,874</u>	<u>11,795,960</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	
	2007	2006	2007	2006
Operating				
Net loss	\$ (723,884)	\$ (687,672)	\$ (1,342,466)	\$ (1,306,975)
Non-cash items				
Stock-based compensation	10,078	-	177,062	-
Accretion on convertible notes	87,256	58,171	116,341	58,171
Administrative expenses settled in shares	-	12,346	-	13,346
Unrealized foreign exchange gain (loss)	5,186	(10,568)	2,678	(16,250)
Depletion, depreciation and accretion	187,971	412,948	349,611	915,164
	<u>(433,393)</u>	<u>(214,775)</u>	<u>(696,774)</u>	<u>(336,544)</u>
Asset retirement costs incurred	(49,437)	(24,290)	(173,002)	(57,145)
Change in non-cash working capital (note 7)	(291,957)	(126,751)	(144,701)	(185,409)
	<u>(774,787)</u>	<u>(365,816)</u>	<u>(1,014,477)</u>	<u>(579,098)</u>
Financing				
Issue of share capital, net of issue costs	7,516,639	(30,857)	7,426,307	946,014
Share subscriptions received in advance	-	114,000	-	114,000
Convertible notes issued, net of issue costs	-	2,237,500	-	2,237,500
Change in non-cash working capital (note 7)	8,524	-	(815)	5,000
	<u>7,525,163</u>	<u>2,320,643</u>	<u>7,425,492</u>	<u>3,302,514</u>
Investing				
Expenditures on property and equipment	(1,854,903)	(2,008,395)	(2,846,210)	(3,608,207)
Change in non-cash working capital (note 7)	128,482	232,390	864,931	(510,626)
	<u>(1,726,421)</u>	<u>(1,776,005)</u>	<u>(1,981,279)</u>	<u>(4,118,833)</u>
Increase (decrease) in cash	5,023,955	178,822	4,429,736	(1,395,417)
Cash, beginning of period	725,122	3,658,261	1,319,341	5,232,500
Cash, end of period	\$ 5,749,077	\$3,837,083	\$ 5,749,077	\$ 3,837,083
Supplemental information				
Interest received	\$ 53,092	\$ 38,825	\$ 65,001	\$ 76,627
Interest paid	\$ -	\$ -	\$ -	\$ -

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, 2007

(Unaudited)

1. Nature of operations and basis of presentation

Primary Petroleum Corporation (the “Corporation” or “Primary”) was incorporated under the laws of the Province of British Columbia and is a public company listed on the Toronto Venture Exchange. Primary is primarily engaged in the exploration and development of petroleum and natural gas reserves in the Alberta and the State of Montana.

The interim consolidated financial statements of Primary have been prepared on the basis of applying consistently the same accounting policies and methods used in the preparation of the Corporation’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 Corporation’s audited financial statements and notes thereto included for the year ended May 31, 2007.

Primary will require additional funding to complete its planned capital program including the acquisition of AP Petroleum LLC and its drilling program in Montana. Additional capital will be in the form of equity, debt, joint venture farmouts or some combination thereof. The Corporation’s future operations are dependent upon its ability to obtain additional financing and ultimately achieve profitable operations. The outcome of these matters cannot be predicted with certainty at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Corporation be unable to secure additional funding or obtain profitable operations.

2. Changes in accounting policies

As of June 1, 2007, the Corporation 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 Corporation’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 Corporation 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 Corporation’s reporting periods and is applied in conjunction with Section 1530 “Comprehensive Income”.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

2. Changes in accounting policies, continued

- (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.
 - (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 Corporation 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 June 1, 2008, the Corporation will be required to adopt 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 requirement.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

3. Property and equipment

	November 30, 2007	May 31, 2007
Petroleum and natural gas properties	\$ 14,400,481	\$ 11,508,920
Accumulated depletion and depreciation	(5,857,233)	(5,519,132)
Net book value	\$ 8,543,248	\$ 5,989,788

In determining the Corporation's depletion and depreciation, \$7,005,596 of property and equipment costs (May 31, 2007 – \$5,356,579) relating to unproved properties were excluded from the costs subject to depletion.

Included in the current six month depletion and depreciation expense is a ceiling test write-down of \$nil (May 31, 2007 – \$751,049).

The Corporation did not capitalize any general and administrative costs during the six month period ended November 30, 2007 or 2006.

4. Convertible notes

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

	Six months ended November 30, 2007	Year ended May 31, 2007
\$2,250,000 5% convertible notes		
Balance, beginning of year	\$ 2,133,659	\$ -
Addition	-	1,900,976
Accretion	116,341	232,683
Balance, end of period	\$ 2,250,000	\$ 2,133,659

The convertible notes with interest payable at maturity are convertible at the option of the holders into units of the Corporation at the conversion price of \$1.00 per unit of principal amount or any part thereof plus accrued and unpaid interest. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$1.25 per share for a period of one year from the date of issue. The Corporation has valued the equity component of these notes using the residual value of equity component method, whereby the liability component is valued first using management's best estimate of the current market rate for comparable instruments, at the time of issuance. The difference between the notes issued and the fair value of the liability is assigned to the equity component.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

5. Asset retirement obligation

The asset retirement obligation results from the Corporation's net ownership interests in petroleum and natural gas assets including well sites and gathering systems. The Corporation estimates the net present value of its asset retirement obligation based on total undiscounted future liabilities measured as at November 30, 2007 of \$470,627 (May 31, 2007 - \$496,015), using a credit adjusted risk free interest rate of 8% and an inflation rate of 2% over a period of one to four years.

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

	Six months ended November 30, 2007	Year ended May 31, 2007
Asset retirement obligation, beginning of year	\$ 389,573	\$ 210,783
Additions and revisions	45,351	224,203
Accretion	11,510	16,060
Costs incurred during the period	(173,002)	(61,473)
Asset retirement obligation, end of period	\$ 273,432	\$ 389,573

6. Share capital

(a) Authorized

Unlimited number of common shares

(b) Issued

Common shares	Number of shares	Amount
Balance, May 31, 2007	26,918,317	\$ 8,835,739
Shares issued for cash for the initial public offering	8,500,000	8,500,000
Fair value of warrants issued for the initial public offering	-	(1,847,705)
Shares issued as corporate finance fee	100,000	100,000
Share issuance costs	-	(1,173,694)
Balance, November 30, 2007	35,518,317	\$ 14,414,340

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

6. Share capital, continued

On September 12, 2007, the Corporation completed an initial public offering (the "Offering") of 8,500,000 units at the price of \$1.00 per unit for gross proceeds of \$8,500,000. Each unit consisted of one common share and one-half of a tradable share purchase warrant. Each warrant is exercisable at a price of \$1.35 per share prior to September 12, 2009. In relation to this offering, the Corporation incurred a cash commission of 8% of the gross proceeds, issued 100,000 units for a corporate finance fee, and issued 745,000 agent's warrants exercisable at a price of \$1.35 per share prior to September 12, 2009.

Pursuant to the terms of an escrow agreement dated February 19, 2007, 6,389,667 of the currently issued and outstanding common shares were escrowed and are scheduled for release in equal tranches at six month intervals over a 36 month period from the listing date of September 12, 2007.

(c) Stock Options

The Corporation approved a stock option plan on February 19, 2007 for its directors, officers, employees and consultants. Pursuant to the plan, the Corporation may grant options to purchase common shares up to a maximum of 10% of the number of issued and outstanding common shares of the Corporation. The options vest over a three year period and have a maximum term of five years.

The Corporation obtained approval at the November 21, 2007 shareholder meeting to amend the stock option plan to allow a fixed maximum of 20% of the Corporation's outstanding shares be available for issuance under the plan. Effective October 18, 2007 the Corporation may now grant options to purchase 7,103,663 common shares of the Corporation.

The following is a continuity of the Corporation's stock options:

	Six months ended November 30, 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	350,000	0.93	3,172,500	0.98
Exercise	-	-	(160,000)	0.53
Cancelled	(50,000)	(1.00)	-	-
Balance, end of period	3,312,500	\$ 0.99	3,012,500	\$ 1.00
Option exercisable, end of period	-	\$ -	-	\$ -

The weighted average remaining life of the 3,312,500 options outstanding at November 30, 2007 (exercise price between \$0.75 and \$1.00) is 4.29 years (May 31, 2007 – 4.7 years). The option grants in the six months ended November 30, 2007 were to consultants. All options granted to consultants have been revalued at November 30, 2007 at \$0.35 per option.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

6. Share capital, continued

For the three and six months ended November 30, 2007, the Corporation recorded stock-based compensation expense of \$10,078 and \$177,062 respectively (nil in 2006) with a corresponding increase to contributed surplus.

The Corporation uses the Black-Scholes option pricing to estimate the fair value of the stock options granted and to revalue the fair value each reporting period of those stock options issued to consultants. The following assumptions were used in the calculations:

	Three months ended November 30, 2007	Nine months ended November 30, 2007
Risk free interest rate	4.02%	4.02%
Expected hold period to exercise	Lesser of five years and expiry date of options	Lesser of five years and expiry date of options
Volatility in the price of the Corporation's share	80%	80%
Forfeiture rate	Nil	Nil
Dividend yield	0%	0%

On January 2, 2008 the Corporation granted 250,000 options to purchase common shares to an officer of the Corporation. The options vest over a three-year period, have an exercise price of \$0.50 and expire on January 2, 2013.

(d) Contributed surplus

The following is a continuity of contributed surplus:

	Six months ended November 30, 2007	Year ended May 31, 2007
Balance, beginning of period	\$ 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	177,062	275,902
Transfer to common shares on exercise of stock options	-	(94,860)
Balance, end of period	\$ 377,905	\$ 200,843

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

6. Share capital, continued

(e) Warrants

The following is a continuity of the fair value of the warrants outstanding:

	Six months ended November 30, 2007	Year ended May 31, 2007
Balance, beginning of period	\$ 1,326,917	\$ 1,326,917
Fair value of warrants issued on initial public offering	1,847,706	-
Balance, end of period	\$ 3,174,623	\$ 1,326,917

The estimated fair value of the warrants issued in the offering was calculated using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 4.02%, average expected life of 2 years, expected volatility of 80%, and no expected dividends.

The following is a summary of the warrants outstanding:

	Outstanding			Exercisable	
	Number of warrants	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of warrants	Weighted average remaining contractual life (years)
Share purchase warrants (i)	7,625,520	\$ 0.75	1.7	7,625,520	1.7
Share purchase warrants (i)(ii)	2,000,000	1.10	0.1	2,000,000	0.1
Broker warrants (i)	900,000	0.50	1.7	900,000	1.7
Warrants issued for corporate finance fee	50,000	1.35	1.7	50,000	1.7
Agents warrants	745,000	1.35	1.7	745,000	1.7
Tradable warrants	4,250,000	1.35	1.7	4,250,000	1.7
	15,570,520	\$ 0.97	1.5	15,570,520	1.5

(i) If the closing price for the Corporation's common share is \$2.00 or greater for a period of 20 consecutive trading days, then the Corporation may accelerate the expiry date by giving notice that the warrants will expire on the 30th day after such notice.

(ii) On December 17, 2007, the Corporation received approval from the TSX Venture Exchange to amend the expiry date of 2,000,000 pre-IPO share purchase warrants from December 31, 2007 to December 31, 2008. In addition the exercise price of the warrants has been increased from \$1.10 per warrant to \$1.35 per warrant.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the six months ended November 30, 2007

(Unaudited)

6. Share capital, continued

(f) Per share amounts

The options and warrants to purchase common shares outstanding for the three months and six months ending November 30, 2007 and 2006 were not included in the computation of diluted earnings per share because they were anti-dilutive.

7. Change in non-cash working capital

	Three months ended		Six months ended	
	November 30,		November 30,	
	2007	2006	2007	2006
Accounts receivable	\$ (1,074)	\$ 320,589	\$ 80,221	\$ (426,847)
Prepaid expenses and deposits	(18,164)	(253,799)	213,046	(241,718)
Accounts payable and accrued liabilities	(95,365)	38,849	426,148	(22,470)
Net change	\$ (114,603)	\$ 105,639	\$ 719,415	\$ (691,035)
Relating to:				
Operating	(291,957)	(126,751)	(144,701)	(185,409)
Financing	8,524	-	(815)	5,000
Investing	168,830	232,390	864,931	(510,626)
	\$ (114,603)	\$ 105,639	\$ 719,415	\$ (691,035)

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

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(Unaudited)

8. Segmented information

The Corporation 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 November 30, 2007			Three months ended November 30, 2006		
	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
Oil and gas sales	162,398	-	162,398	52,512	-	52,512
Interest income	58,380	-	58,380	43,883	-	43,883
Interest and accretion expense	127,957	-	127,957	74,335	-	74,335
Depletion, depreciation and accretion	187,971	-	187,971	412,948	-	412,948
Net income (loss)	(730,316)	6,432	(723,884)	(681,074)	(6,598)	(687,672)
Capital expenditures	192,438	1,662,465	1,854,903	1,247,678	760,717	2,008,395
	Six months ended November 30, 2007			Six months ended November 30, 2006		
	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
Oil and gas sales	326,688	-	326,688	112,261	-	112,261
Interest income	74,886	-	74,886	86,855	-	86,855
Interest and accretion expense	166,289	-	166,289	74,335	-	74,335
Depletion, depreciation and accretion	349,611	-	349,611	915,164	-	915,164
Net income (loss)	(1,341,330)	(1,136)	(1,342,466)	(1,291,541)	(15,434)	(1,306,975)
Capital expenditures	642,809	2,203,401	2,846,210	1,850,597	1,757,610	3,608,207
	Balance as at November 30, 2007			Balance as at May 31, 2007		
	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
Property and equipment	1,734,327	6,808,921	8,543,248	1,384,268	4,605,520	5,989,788

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

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(Unaudited)

9. Related party transactions

During the six month period ended November 30, 2007, 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 and consulting fees totalling \$120,000 (November 30, 2006 – \$85,500) were charged to the Corporation by companies controlled by directors and officers of the Corporation. At November 30, 2007, \$nil (May 31, 2007 - \$10,600) payable in relation to these services is included in accounts payable and accrued liabilities.
- (b) Legal fees of \$1,350 (November 30, 2006 – \$nil) were charged to the Corporation by a legal firm of which a director of the Corporation is a member. At November 30, 2007 \$468 (May 31, 2007 – \$4,160) payable in relation to these services is included in accounts payable and accrued liabilities.

10. Commitments

- (a) The Corporation 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 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. 79,232 acres were acquired as of November 30, (May 31, 2007 – 35,000). As at November 30, 2007, the Corporation 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 Corporation upon the completion of certain Powder River prospect land acquisitions in Montana. The amount of final obligation is not determinable at this time. The fees are payable on the basis of the issuance of one common share of the Corporation for each acre acquired. 79,232 acres were acquired as of November 30, 2007 (May 31, 2007 – 35,000). As at November 30, 2007, the Corporation 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.

11. Financial Instruments

(a) Fair values of financial assets and liabilities

The Corporation's carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these instruments. The Corporation has not entered into any hedging contracts.

Primary Petroleum Corporation

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For the six months ended November 30, 2007

(Unaudited)

11. Financial Instruments, continued

(b) Credit risk

The majority of the accounts receivable is in respect of oil and natural gas operations. The Corporation generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and accordingly impact the Corporation's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any material credit loss in the collection of receivables in the past.

(c) Foreign currency risk

The Corporation is exposed to fluctuations in the exchange rate on US currency as certain accounts payable are denominated in US dollars. The Corporation mitigates this risk by carrying cash balances in US dollars.

12. Subsequent events

- (a) On December 14, 2007, the Corporation acquired all of the issued and outstanding units of AP Petroleum Corporation LLC ("AP"), a Montana limited liability company involved in the production of natural gas in the state of Montana. The acquisition will be accounted for by the purchase method of accounting. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition. The Company is in the process of finalizing the estimated fair values and therefore, the allocation of the purchase price is subject to change.

	Amount
Net assets acquired:	
Working capital	\$ 162,762
Petroleum and natural gas properties	4,198,628
Asset retirement obligation	(658,985)
	\$ 3,702,405
Consideration:	
Cash	\$ 2,708,421
Issuance of 1,205,049 shares (i)	641,524
Issuance of 269,529 shares as a finders fee	169,803
Issuance of warrants	117,657
Cash transaction costs	65,000
	\$ 3,702,405

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(Unaudited)

12. Subsequent events, continued

- (i) The issuance of the shares was valued at \$0.63 (the average 5 day trading price of the Company's stock including the day of the announcement of November 29, 2007). Each unit of common stock will consist of one common share plus a one year warrant exercisable into one common share at a price of \$1.10. In addition, the Company incurred a finders fee which will be settled with the issuance of 269,529 common shares.

- (b) On January 15, 2008 the Corporation settled its note receivable of \$178,701 as of November 30, 2007 in exchange for the assignment of the oil and natural gas leases held for security and a cash payment of US \$45,000.