

NOTICE

**RE: INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE
AND NINE MONTHS ENDED FEBRUARY 29, 2008**

The consolidated financial statements for the three and nine months ended February 29, 2008 have not been reviewed by the auditors of Primary Petroleum Corporation.

PRIMARY PETROLEUM CORPORATION

Per: *“Mike Marrandino”*

Mike Marrandino, President

PRIMARY PETROLEUM CORPORATION

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended February 29, 2008
(Unaudited)

Primary Petroleum Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

	February 29, 2008 (unaudited)	May 31, 2007 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,372,749	\$ 1,319,341
Accounts receivable	267,968	481,158
Inventory	51,644	30,593
Prepaid expenses and deposits	181,721	283,030
Loan receivable (US\$ 178,554)	-	181,379
	<u>1,874,082</u>	<u>2,295,501</u>
Property and equipment (note 5)	<u>14,507,317</u>	<u>5,989,788</u>
	<u>\$ 16,381,399</u>	<u>\$ 8,285,289</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,053,221	\$ 1,275,169
Accrued interest payable	149,795	72,260
Convertible notes (note 6)	2,250,000	-
	<u>4,453,016</u>	<u>1,347,429</u>
Convertible notes (note 6)	-	2,133,659
Asset retirement obligation (note 7)	933,625	389,573
Shareholders' equity		
Common shares (note 8 (b))	15,224,834	8,835,739
Warrants (note 8 (e))	3,292,280	1,326,917
Convertible notes equity component (note 6)	336,524	336,524
Contributed surplus (note 8 (d))	386,938	200,843
Deficit	(8,245,818)	(6,285,395)
	<u>10,994,758</u>	<u>4,414,628</u>
	<u>\$ 16,381,399</u>	<u>\$ 8,285,289</u>
Going concern (note 1)		
Commitments (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, COMPREHENSIVE LOSS AND DEFICIT (Unaudited)

	Three Months ended February 29		Nine Months ended February 29	
	2008	2007	2008	2007
Revenue				
Oil and natural gas	\$ 398,770	\$ 177,221	\$ 725,458	\$ 289,482
Royalties	(107,616)	(46,010)	(257,635)	(61,984)
	<u>291,154</u>	<u>131,211</u>	<u>467,823</u>	<u>227,498</u>
Interest	17,821	40,339	92,707	127,194
	<u>308,975</u>	<u>171,550</u>	<u>560,530</u>	<u>354,692</u>
Expenses				
Operating	62,678	40,702	109,288	108,562
General and administrative	515,837	283,431	1,284,255	747,586
Stock-based compensation	9,033	110,779	186,095	110,779
Foreign currency (gain) loss	(55,852)	(6,474)	30,179	(37,871)
Interest and accretion on convertible notes	32,829	114,996	199,118	189,331
Depletion, depreciation and accretion	362,407	1,263,380	712,018	2,178,544
	<u>926,932</u>	<u>1,806,814</u>	<u>2,520,953</u>	<u>3,296,931</u>
Net loss before income tax	(617,957)	(1,635,264)	(1,960,423)	(2,942,239)
Future income tax recovery	-	518,281	-	518,281
	<u>(617,957)</u>	<u>(1,116,983)</u>	<u>(1,960,423)</u>	<u>(2,423,958)</u>
Net loss and comprehensive loss	(617,957)	(1,116,983)	(1,960,423)	(2,423,958)
Deficit, beginning of period	(7,627,861)	(4,391,900)	(6,285,395)	(3,084,925)
Deficit, end of period	\$ (8,245,818)	\$ (5,508,883)	\$ (8,245,818)	\$ (5,508,883)
Net loss per share				
Basic and diluted	\$ (0.02)	\$ (0.05)	\$ (0.06)	\$ (0.10)
Weighted average common shares outstanding	35,932,706	24,677,932	32,480,151	23,136,970

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 February 29		Nine Months ended February 29	
	2008	2007	2008	2007
Operating				
Net loss	\$ (617,957)	\$(1,116,983)	\$(1,960,423)	\$ (2,423,958)
Non-cash items				
Stock-based compensation	9,033	110,779	186,095	110,779
Accretion on convertible notes	-	87,256	116,341	145,427
Administrative expenses settled in shares	-	6,552	-	19,898
Future income tax recovery	-	(518,281)	-	(518,281)
Depletion, depreciation and accretion	362,407	1,263,380	712,018	2,178,544
	(246,517)	(167,297)	(945,969)	(487,591)
Decrease (increase) in loan receivable	181,379	(9,769)	181,379	(26,019)
Asset retirement costs incurred	-	(1,159)	(173,002)	(58,304)
Change in non-cash working capital (note 9)	433,976	78,302	238,512	(107,107)
	368,838	(99,923)	(699,080)	(679,021)
Financing				
Issue of share capital, net of issue costs	(834)	788,931	7,425,473	1,734,945
Share subscriptions received in advance	-	(114,000)	-	-
Convertible notes issued, net of issue costs	-	-	-	2,237,500
Change in non-cash working capital (note 9)	27,586	16,000	77,535	21,000
	26,752	690,931	7,503,008	3,993,445
Investing				
Expenditures on property and equipment	(2,115,765)	(2,013,825)	(4,961,975)	(5,622,032)
Cash paid for corporate acquisition (note 4)	(2,564,162)	-	(2,564,162)	-
Unrealized foreign exchange loss	(4,699)	-	(2,022)	-
Change in non-cash working capital (note 9)	(87,292)	285,710	777,639	(224,916)
	(4,771,918)	(1,728,115)	(6,750,520)	(5,846,948)
Increase (decrease) in cash	(4,376,328)	(1,137,107)	53,408	(2,532,524)
Cash, beginning of period	5,749,077	3,837,083	1,319,341	5,232,500
Cash, end of period	\$ 1,372,749	\$ 2,699,976	\$ 1,372,749	\$ 2,699,976
Supplemental information				
Interest received	\$ 27,342	\$ 35,158	\$ 92,343	\$ 111,785
Interest paid	\$ -	\$ 12,762	\$ -	\$ 12,762

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 29, 2008

(Unaudited)

1. Going concern

These consolidated financial statements have been prepared using generally accepted accounting principles that are applicable to a going concern. However, this basis of presentation may not be appropriate because there is significant doubt surrounding the ability of Primary Petroleum Corporation (the "Corporation" or "Primary") to continue as a going concern as the Corporation has a working capital deficiency at February 29, 2008 and will require funds to continue operations.

During the fiscal third quarter the Corporation completed the acquisition of AP Petroleum LLP which doubled the Corporations gas production and contributed to a positive cash flow from operations for the quarter. In addition, the Corporation drilled four wells in Montana and expects to bring one of those wells on production in early May. Based on these achievements in the quarter, Management has been actively working to raise funds through private placement of debt and equity to discharge its liabilities and continue the drilling program in Montana.

While there can be no certainty, management believes that the private placements currently being negotiated will contribute adequate cash flow. 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 generate the necessary capital and continue as a going concern. Such adjustments may be material.

2. Nature of operations

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 (except as described in note 2 below) 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 Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

3. 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 of equity and changes in equity during the Corporation’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.
 - (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.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

3. Changes in accounting policies, continued

- (a) 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”.
- (b) Section 3865 “Hedges” establishes certain criteria for the alternative accounting treatment of non-financial derivatives that 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.

4. Acquisition

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 is 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.

	Amount
Net assets acquired:	
Working capital	\$ (55,350)
Petroleum and natural gas properties	4,200,390
Asset retirement obligation	(651,894)
	\$ 3,493,146
Consideration:	
Cash (net of cash acquired)	\$ 2,506,489
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	57,673
	\$ 3,493,146

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

4. Acquisition, continued

- (i) The issuance of the shares was valued at \$0.63 per share (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 was settled with the issuance of 269,529 common shares.

5. Property and equipment

	February 29, 2008	May 31, 2007
Petroleum and natural gas properties	\$ 21,032,033	\$ 11,508,920
Accumulated depletion and depreciation	(6,524,716)	(5,519,132)
Net book value	<u>\$ 14,507,317</u>	<u>\$ 5,989,788</u>

In determining the Corporation's depletion and depreciation, \$9,239,781 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 nine month depletion and depreciation expense is a ceiling test write-down of \$nil (May 31, 2007 – \$1,741,587).

The Corporation did not capitalize any general and administrative costs during the nine month period ended February 29, 2008 or 2007.

6. Convertible notes

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

	Nine months ended February 29, 2008	Year ended May 31, 2007
\$2,250,000 5% convertible notes		
Balance, beginning of period	\$ 2,133,659	\$ -
Addition	-	1,900,976
Accretion	116,341	232,683
Balance, end of period	<u>\$ 2,250,000</u>	<u>\$ 2,133,659</u>

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

6. Convertible notes, continued

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 therefore plus accrued and unpaid interest. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$1.25 per share for a period of one year from the date of issue. The notes mature on various dates between June 27, 2008 and July 23, 2008.

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.

7. 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 February 29, 2008 of \$ 1,611,955 (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:

	Nine months ended February 29, 2008	Year ended May 31, 2007
Asset retirement obligation, beginning of period	\$ 389,573	\$ 210,783
Additions and revisions	663,353	224,203
Accretion	53,701	16,060
Costs incurred during the period	(173,002)	(61,473)
Asset retirement obligation, end of period	\$ 933,625	\$ 389,573

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

8. 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
Shares issued for corporate acquisition (note 3)	1,205,049	641,524
Shares issued for finders fee related to acquisition (note 3)	269,529	169,803
Share issuance costs	-	(1,174,527)
Balance, February 29, 2008	36,992,895	\$ 15,224,834

On September 12, 2007, the Corporation completed an initial public 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, 6,615,667 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 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 amendment to the plan on November 21, 2007, the Corporation may grant a maximum of 7,103,663 options to purchase common shares. The options vest over a three year period and have a maximum term of five years.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

8. Share capital, continued

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

	Nine months ended February 29, 2008		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	1,400,000	0.62	3,172,500	0.98
Exercise	-	-	(160,000)	0.53
Cancelled	(50,000)	1.00	-	-
Balance, end of period	4,362,500	\$ 0.88	3,012,500	\$ 1.00
Option exercisable, end of period	954,167	\$ 1.00	-	\$ -

The weighted average remaining life of the 4,362,500 options outstanding at February 29, 2008 (exercise price between \$0.50 and \$1.00) is 3.9 years (May 31, 2007 – 4.7 years). All options granted to consultants have been revalued at February 29, 2008 using the Company's closing stock price of \$0.43 per share at that date.

For the three and nine months ended February 29, 2008, the Corporation recorded stock-based compensation expense of \$9,033 and \$186,095 respectively with a corresponding increase to contributed surplus. The Corporation's recorded stock-based compensation expense was \$110,779 for the three and nine months ended February 28, 2007.

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:

	Nine months ended February 29, 2008	Nine months ended February 28, 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%

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

8. Share capital, continued

(d) Contributed surplus

The following is a continuity of contributed surplus:

	February 29, 2008	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	186,095	275,902
Transfer to common shares on exercise of stock options	-	(94,860)
Balance, end of period	\$ 386,938	\$ 200,843

(e) Warrants

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

	February 29, 2008	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	-
Fair value of warrants issued for corporate acquisition (note3)	117,657	-
Balance, end of period	\$ 3,292,280	\$ 1,326,917

The estimated fair value of the warrants issued 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.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

8. Share capital, continued

The following is a summary of the warrants outstanding:

	Outstanding & Exercisable		
	Number of warrants	Weighted average exercise price	Weighted average remaining contractual life (years)
Share purchase warrants (i)	7,625,520	\$ 0.75	1.6
Share purchase warrants (i)	2,000,000	1.35	0.8
Broker warrants (i)	1,035,000	0.50	1.6
Warrants issued for corporate finance fee	50,000	1.35	1.6
Agents warrants	745,000	1.35	1.6
Tradable warrants	4,250,000	1.35	1.6
Warrants issued for corporate acquisition (note 3)	1,205,049	1.10	0.8
	16,910,569	\$ 1.01	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.

(f) Per share amounts

The options and warrants to purchase common shares outstanding for the three months and nine months ending February 29, 2008 and 2007 were not included in the computation of diluted earnings per share because they were anti-dilutive.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

9. Change in non-cash working capital

	Three months ended February 29,		Nine months ended February 29,	
	2008	2007	2008	2007
Accounts receivable	\$ 132,969	\$ 80,535	\$ 213,191	\$ (346,312)
Inventory	(21,051)	-	(21,051)	-
Prepaid expenses and deposits	(111,737)	(18,986)	101,309	(260,704)
Accounts payable and accrued liabilities	401,853	318,463	778,052	295,993
Accrued interest payable	27,586	-	77,535	-
Working capital acquired (note 4)	(55,350)	-	(55,350)	-
Net change	\$ 374,270	\$ 380,012	\$ 1,093,686	\$ (311,023)
Relating to:				
Operating	433,976	78,302	238,512	(107,107)
Financing	27,586	16,000	77,535	21,000
Investing	(87,292)	285,710	777,639	(224,916)
	\$ 374,270	\$ 380,012	\$ 1,093,686	\$ (311,023)

10. 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 February 29, 2008			Three months ended February 28, 2007		
	Canada \$	USA \$	Total \$	Canada \$	USA \$	Total \$
Oil and gas sales	211,123	187,647	398,770	177,221	-	177,221
Interest income	17,821	-	17,821	40,339	-	40,339
Interest and accretion expense	32,829	-	32,829	114,996	-	114,996
Depletion, depreciation and accretion	197,381	165,026	362,407	1,263,380	-	1,263,380
Net income (loss)	(616,058)	(1,899)	(617,957)	(1,114,954)	(2,029)	(1,116,983)
Property and equipment	2,288,211	12,219,106	14,507,317	1,690,894	3,415,887	5,106,781
Total Assets	3,607,091	12,774,308	16,381,399	5,052,870	3,865,549	8,918,419
Capital expenditures	233,659	1,882,106	2,115,765	1,124,520	889,305	2,013,825

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

10. Segmented information, continued

	Nine months ended February 29, 2008			Nine months ended February 28, 2007		
	Canada	USA	Total	Canada	USA	Total
	\$	\$	\$	\$	\$	\$
Oil and gas sales	537,811	187,647	725,458	289,482	-	289,482
Interest income	90,767	1,940	92,707	127,194	-	127,194
Interest and accretion expense	199,118	-	199,118	189,331	-	189,331
Depletion, depreciation and accretion	546,992	165,026	712,018	2,178,544	-	2,178,544
Net income (loss)	(1,957,388)	(3,035)	(1,960,423)	(2,406,495)	(17,463)	(2,423,958)
Property and equipment	2,288,211	12,219,106	14,507,317	1,690,894	3,415,887	5,106,781
Total Assets	3,607,091	12,774,308	16,381,399	5,052,870	3,865,549	8,918,419
Capital expenditures	876,468	4,085,507	4,961,975	2,975,117	2,646,915	5,622,032

11. Related party transactions

During the nine month period ended February 29, 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 and consulting fees totalling \$180,000 (February 28, 2007 – \$145,500) were charged to the Corporation by companies controlled by directors and officers of the Corporation. At February 29, 2008, \$nil (May 31, 2007 - \$10,600) payable in relation to these services is included in accounts payable and accrued liabilities.
- (b) Legal fees of \$1,643 (February 28, 2007 – \$nil) were charged to the Corporation during the nine months ended February 29, 2008 by a legal firm of which a director of the Corporation is a member. At February 29, 2008 \$nil (May 31, 2007 – \$4,160) payable in relation to these services is included in accounts payable and accrued liabilities.

Primary Petroleum Corporation

Notes to Interim Consolidated Financial Statements

For the nine months ended February 29, 2008

(Unaudited)

12. Commitments

- (a) The Corporation has a five year lease agreement expiring on March 1, 2012 with a minimum rent of \$123,172 per annum, before 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. As of February 29, 2008, 79,232 acres were acquired (May 31, 2007 – 35,000 acres). As at February 29, 2008, 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. As of February 29, 2008, 79,232 acres were acquired (May 31, 2007 – 35,000 acres). As at February 29, 2008, 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.

13. Financial Instruments

- (a) **Fair values of financial assets and liabilities**

The Corporation's carrying value of cash, cash equivalents, accounts receivable, deposits, 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.
- (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.