Primary Petroleum Corporation

Management's Discussion & Analysis
For the six months ended November 30, 2009

Management's Discussion and Analysis

The following discussion and analysis ("Management's Discussion and Analysis") is dated and based on information at January 22, 2010, and is provided by the management of Primary Petroleum Corporation ("Primary" or the "Corporation") and prepared in accordance with the requirements of National Instrument 51-102 and Form 51-102F1. It should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six months ended November 30, 2009 and the audited annual consolidated financial statements and notes thereto for the year ended May 31, 2009.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency in the audited financial statements and in this Management's Discussion and Analysis is the Canadian dollar.

Additional Information

The information contained in this Management's Discussion and Analysis represents only a portion of current information available on Primary Petroleum Corporation. Readers are encouraged to read Primary's 2009 Annual Report and the Management Information Circular. These documents together with prior annual and quarterly reports, news releases and corporate presentations are available by visiting the Corporation's website at www.primarypetroleum.com. Additional information regarding the Corporation, including all continuous disclosure documents, can be obtained on SEDAR at www.sedar.com. If you require a hard copy of any of these documents please call the Corporation's main office number (403) 262-3132.

Special Note

Disclosure provided herein in respect of barrels of oil equivalent ("Boe") may be misleading, particularly if used in isolation. A Boe conversion ratio for natural gas of 6 Mcf: 1 Bbl has been used and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead.

Non- GAAP Measures

Management's Discussion and Analysis contains the term "funds from (used in) operations", which should not be considered an alternative to, or more meaningful than "cash flow from (used in) operating activities" as determined in accordance with GAAP as an indicator of the Corporation's financial performance. Funds from (used in) operations are determined by adding to cash flow from (used in) operations the change in working capital applicable to operating activities to cash flow from (used in) operations. Management believes that in addition to cash flow from operating activities, funds from operations is a useful supplemental measure as it provides an indication of the results generated by Primary's principal business activities before the consideration of how such activities are financed. The Corporation's determination of funds from operations may not be comparable to that reported by other companies.

The Management Discussion and Analysis uses the term "Operating Netback" which is a non-GAAP financial measurement. This term, which the Corporation believes provide useful and relevant information, should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with GAAP as an indicator of the Corporation's financial performance. Operating netbacks are calculated by deducing royalties and operating costs from revenues. The Corporation's determination of operating netbacks may not be comparable to that reported by other companies.

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Forward-looking Statements

Certain statements contained in this Interim Report constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Management’s Discussion and Analysis should not be unduly relied upon. These statements speak only as of the date of this Management’s Discussion and Analysis.

In particular, this Management’s Discussion and Analysis contains forward-looking statements pertaining to the following**:**

- The quantity of reserves;
- oil and natural gas production levels;
- capital expenditure programs;
- market prices and costs;
- supply and demand for oil and natural gas;
- operating, general and administrative and income tax expenses;
- operating netbacks;
- expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions and development; and
- treatment under government regulatory and taxation regimes.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Management’s Discussion and Analysis or this Report:

- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions; and
- geological, technical, drilling and processing problems.

Liquidity and Capital Resources

As at November 30, 2009, Primary had a working capital deficiency of $1,160,423, including a credit facility of $416,660 and a demand loan of $105,150. During the six months ended November 30, 2009, the Corporation sold its principal producing properties in the United States which allowed it to reduce its credit facility by the net proceeds of $1,373,340 and reduce other working capital by $239,882. The Corporation completed a private placement in early September, 2009 for gross proceeds of $500,000 which contributed to a further reduction of the Corporation’s credit facility by an additional $255,000 (see Primary’s Consolidated Financial Statements as at August 31, 2009, Note 16 – Subsequent events). The Corporation has negotiated an extension of the credit facility until March 31, 2010. The Corporation announced a private placement in late December, 2009 for gross proceeds of up to $400,000 which will be used for general corporate purposes, and the Corporation announced a private placement at the end of

December, 2009 for gross proceeds of up to $100,000 on a flow-through basis. The Corporation's capital expenditure program for the balance of calendar year 2009 will be focused on projects qualifying as flow-though expenditures.

There is significant doubt about the appropriateness of the use of the going concern assumption as the Corporation has incurred significant accumulated losses of $21,824,933 to November 30, 2009. The Corporation has not been able to pay all of its accounts payable when due, in a market where the price of natural gas has declined significantly and has only marginally increased from these lows, thus reducing the Corporation's monthly cash flow.

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 fulfill its flow-through share obligations. In light of its going concern issues, the Corporation is continuing its efforts to dispose of non-core undeveloped lands in Montana and the disposition of certain producing properties in Canada. In addition, the Corporation has taken steps to reduce its overhead including reducing salaries and the termination of employees and reducing the burden of credit facility. Management has been and continues to be active in seeking alternative sources of funding and disposition of assets to repay the credit facility and other obligations and to continue with its planned capital expenditure program.

Financial Results

Q2

For the three months ended November 30, 2009, Primary recorded a net loss of $521,720 ($0.01 per share) compared to a net loss of $361,649 ($0.01 per share) for the three months ended November 30, 2008. Funds used in operations for the second quarter of fiscal 2010 was $310,281 ($0.01 per share) versus funds from operations of $134,412 ($0.01 per share) in the second quarter of fiscal 2009. Cash flow used in operating activities for the second quarter of fiscal 2010 was $173,464 ($0.01 per share) versus funds from operations $320,223 ($0.01 per share) in the second quarter of fiscal 2009. The amounts per share are based on a weighted average number of shares outstanding of 59,249,438 for the three months ended November 30, 2009 and 43,696,847 for the three months ended November 30, 2008.

YTD

For the six months ended November 30, 2009, Primary recorded a net loss of $1,174,073 ($0.02 per share) compared to a net loss of $666,476 ($0.02 per share) for the six months ended November 30, 2008. Funds used in operations for the first six months of fiscal 2010 was $514,911 ($0.01 per share) versus funds from operations of $104,640 ($0.01 per share) in the first six months of fiscal 2009. Cash flow used in operating activities for the first six months of fiscal 2010 was $210,882 ($0.01 per share) versus funds from operations $156,293 ($0.01 per share) in the first six months of fiscal 2009. The amounts per share are based on a weighted average number of shares outstanding of 54,332,606 for the six months ended November 30, 2009 and 44,192,071 for the six months ended November 30, 2008.

Included in the net loss for the six month period ended November 30, 2009, was a gain for the sale of the Corporation's right, title and interest in its principal producing properties located Montana for total consideration of $2,394,919 to Commercial Energy of Montana Inc. The consideration included $1,373,340 in cash, $781,697 in the assumption of the asset retirement obligation, and $239,882 in the assumption of royalties payable. As a result of the disposition, the Company recorded a gain of $1,355. The effective date for the purchase and sale of the assets was May 1, 2009.

On November 17, 2009, the Corporation sold certain non-producing property in Montana for total consideration of $32,700 to NFR Bear Pay Basin LLC. The Corporation recorded no gain or loss on this transaction. The effective date for the purchase and sale of the assets was November 1, 2009.

Volumes, Revenue and Prices

Q2

Sales volumes for the three months ended November 30, 2009 were 233 Mcf/d of natural gas or 39 Boe/d. During the three months ended November 30, 2008, sales volumes were 519 Mcf/d of natural gas and 7 Bbls/d or oil and NGLs or 94 Boe/d.

Oil and gas revenues for the three months ended November 30, 2009, were $27,874 compared to $374,193 for the corresponding period in fiscal 2009. The Corporation received an average price of $1.32/Mcf of natural gas during the three months ended November 30, 2009. For the same period of fiscal year 2009, Primary received an average price $6.61 per Mcf of natural gas and $94.41 for its oil and NGL production.

YTD

Sales volumes for the six months ended November 30, 2009 were 255 Mcf/d of natural gas or 43 Boe/d. During the six months ended November 30, 2008, sales volumes were 525 Mcf/d of natural gas and 7 Bbls/d or oil and NGLs or 95 Boe/d.

Oil and gas revenues for the six months ended November 30, 2009 were $85,893 compared to $915,648 for the corresponding period in fiscal 2009. The decrease is due to lower commodity prices, the disposal of the Corporation's principal producing property in the United States in May 2009, and a decline in Canadian sales volumes as these wells require remedial work to re-establish production volumes to previous levels. The Corporation received an average price of $1.86/Mcf of natural gas during the six months ended November 30, 2009. For the same period of fiscal year 2009, Primary received an average price $8.08 per Mcf of natural gas and $106.81 for its oil and NGL production.

Royalties

Q2

Royalties averaged $1.74/Boe for the three months ended November 30, 2009 compared to royalties for the three months ended November 30, 2008 which averaged $5.93/Boe. Royalties decreased for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009, on an absolute basis due to declining revenues.

YTD

Royalties averaged $2.53/Boe for the six months ended November 30, 2009 compared to royalties for the six months ended November 30, 2008 which averaged $8.53/Boe. Royalties decreased for the first six month of fiscal 2010 compared to the first six months of fiscal 2009, on an absolute basis due to declining revenues.

Operating Expenses

Q2

Operating expenses for the three months ended November 30, 2009 were $39,443 or $11.23/Boe compared to $88,876 or $10.41/Boe for the three months ended November 30, 2008.

YTD

Operating expenses for the six months ended November 30, 2009 were $75,565 or $9.76/Boe compared $161,072 or $9.30/Boe for the six months ended November 30, 2008.

Operating Netbacks

Q2

During the second quarter of fiscal 2010, operating netbacks (oil and gas revenues net of royalties and operating costs) averaged at a contribution of $0.82/Boe compared to a contribution of $27.54/Boe for the corresponding period in fiscal 2009.

YTD

During the first six months of fiscal 2010, operating netbacks (oil and gas revenues net of royalties and operating costs) averaged at a charge of $1.20/Boe compared to a contribution of $35.04/Boe for the corresponding period in fiscal 2009. Declining commodity prices, and increasing operating costs, partially offset by lower royalty rates contributed to the lower netbacks in the first six months of fiscal 2010.

General and Administrative Expenses

Q2

As a junior oil and gas company in its early years of development, general and administrative expenses as a percentage of revenue or as a per unit cost of production are significantly higher than those of an established oil and gas company. For the second quarter of 2010, general and administrative costs, net of capitalized costs, were $272,664 compared to $291,266 for the second quarter of fiscal 2009.

YTD

As a junior oil and gas company in its early years of development, general and administrative expenses as a percentage of revenue or as a per unit cost of production are significantly higher than those of an established oil and gas company. For the first six months of fiscal 2010, general and administrative costs, net of capitalized costs, were $441,064 compared to $596,141 for the first six months of fiscal 2009. The Corporation began reducing its general and administrative expenses during the fourth quarter of fiscal 2009 in an effort to increase cash flow and reduce the Corporation's working capital deficiency. This cost reduction has continued into fiscal 2010. Significant reductions made by the Corporation include, fewer office staff and well as lower investor relations and legal fees.

Interest and Accretion Expense

Q2

Interest expense during the second quarter of 2010 was $47,346 compared to $63,486 for the second quarter of fiscal 2009.

YTD

Interest expense during the first six months of fiscal 2010 was $77,465 compared to $124,061 for the first six months of fiscal 2009. The difference related principally to the Corporation's lower balance of its credit facility compared on a year-to-year basis.

Stock Based Compensation Expense

Q2

Stock based compensation expense represents the amortization of the fair value of stock options issued to directors, employees and consultants, over the vesting period of the options. The Corporation recorded a comparable stock based compensation expense of $80,922 during the three months ended November 30, 2009 against $74,970 for the three months ended November 30, 2008.

YTD

The Corporation recorded a comparable stock based compensation expense of $178,155 during the six months ended November 30, 2009 against $175,521 during the six months ended November 30, 2008.

Depletion, Depreciation and Accretion

Q2

Depletion, depreciation and accretion expense for the three months ended November 30, 2009 was $32,400 compared to $226,538 for the three months ended November 30, 2008.

YTD

Depletion, depreciation and accretion expense for the six months ended November 03, 2009 was $93,011 compared to $454,264 for the six months ended November 30, 2008. The decreases relate primarily to declines in production in both countries.

Write-down of Property and Equipment

The Corporation performed ceiling test calculations at November 30, 2009 to access whether the carrying value of the property and equipment were recoverable. During the period ended November 30, 2009, the Corporation recognized a 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, and as a result the Corporation recorded a write-down in the carrying value of its property and equipment for the six month period ended November 30, 2009 of $387,000.

Income Taxes

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 was recognized in the financial statements as at May 31, 2009 as a recovery of income taxes in the amount of $156,250. There has been no reduction of the unrecorded future tax asset for the six month period ended November 30, 2009.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Outlook

During the six months ended November 30, 2009, the oil and gas industry has experienced a continuing significant decline in commodity prices from the highs experienced in 2008. The commodity price for natural gas declined throughout fiscal 2009 and continued to decline during the first quarter of fiscal 2010. It has begun to stabilize and modestly increase during the second quarter of fiscal 2010. The commodity price decline experienced during fiscal 2009 resulted in reductions in Primary's revenue stream, and continuing commodity price declines during six months ended November 30, 2009 resulted in further reductions in Primary's revenue stream and enhanced a situation that has made it more difficult for Primary to meet its obligations as they come due. Primary disposed of its major producing property in the United

States in July 2009. This disposition allowed Primary to reduce its credit facility with Ionic Capital Corp. by approximately $1.3 million to $666,660 and reduce the future associated interest burden. Primary completed a private placement for gross proceeds of $500,000 in September, 2009, allowing a further reduction in the outstanding credit facility of $255,000 to $416,660. Any reduction in the credit facility is permanent as the facility is not renewable. Revenues for the remainder for fiscal 2010 are expected to be negligible as the Corporation plans to sell its remaining producing properties to eliminate the credit facility and reduce its other liabilities. Production beyond the first half is contingent on drilling successes.

During the fiscal year ended May 31, 2009, the Corporation was confronted with the issue of whether it was viable going concern and this concern has continued into the first six months of fiscal 2010. The Corporation maintains significant land holdings in Montana along with lands in Alberta. The current plan is to seek investors and or industry participants to invest in the Corporation's exploration oil prospect in Saturn area of Montana where existing well control indicates large accumulations of oil and high producing wells. The need for a 3D seismic program will provide additional information as the viability of the prospect. Other prospect areas in Montana include Teton, Tiber and Pondera. The Corporation has incurred the required exploration expenditures in Canada to fulfill its remaining obligation to subscribers of its flow-through share financing from late 2008 and continues to review viable prospects for additional flow-through opportunities.

Operating costs are not expected to have an impact on the Corporation's foreseeable future until prospects are drilled with success and production is brought on stream.

Commencing in the fourth quarter of fiscal year 2009 and continued into the first and first quarter of 2010, the Corporation has taken steps to significantly reduce its general and administrative costs which are not expected to increase during the next six to nine months.

As Primary's debt has continued to decline during the second quarter of fiscal 2010 and is expected to be repaid by March 31, 2010. Interest expense is expected to be eliminated thereafter.

Capital Expenditures

In the six months ended November 30, 2009, Primary incurred capital expenditures of $1,462. This compares to $832,853, for the corresponding period for fiscal 2009.

Capital expenditures for the three and six months ended November 30, 2009 and 2008 were as follows:

	Three months ended November 30,		**Six months ended November 30,**	
	2009	2008	**2009**	2008
Land	**$ -**	$ 2,750	**$ -**	$ 123,376
Geological and geophysical	**-**	-	**-**	308,401
Intangible drilling and completions	**1,462**	85,971	**1,462**	188,393
Equipment and facilities	**-**	-	**-**	24,100
Capitalized general and administrative	**-**	98,099	**-**	187,634
Furniture and equipment	**-**	522	**-**	949
Net change	**$ 1,462**	$ 187,342	**$ 1,462**	$ 832,853

Share Capital Data

The Corporation is authorized to issue an unlimited number of common voting shares. At January 18, 2010 the Corporation has 59,469,218 common shares issued and outstanding, and 65,786,718 on a fully diluted basis.

Stock Options

As at January 18, 2010, the Corporation has 6,317,500 common shares reserved for issuance on exercise of stock option, under the Corporation's stock option plan, as follows:

1,537,500 common shares at $1.00 per common share, expiring in February 2012, and

887,500 common shares at $0.50 per common share, expiring in February, June and July of 2013, and

25,000 common shares at $0.40 per common share, expiring in September 2013, and

3,867,500 common shares at $0.10 per common share, expiring in January, February September and October of 2014.

Related Party Transactions

For the six months ended November 30, 2009, Management fees totaling $132,350 (November 30, 2008 – $206,832) were charged to the Corporation by companies controlled by certain directors and officers of the Corporation. At November 30, 2009, $82,350 (November 30, 2008 - $Nil) in relation to these services is included in accounts payable and accrued liabilities.

Legal fees of $290 (November 30, 2008 – $Nil) were charged to the Corporation by a legal firm of which a director of the Corporation is a member. At November 30, 2009 $290 (November 30, 2008 – $Nil) was payable in relation to these services and included in accounts payable and accrued liabilities.

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

On May 26, 2009, the Corporation entered into a demand loan agreement with a syndicate of individuals in the amount of $105,150. Included in the syndicate are three directors of the Corporation whose share of the loan proceeds was $65,150. The loan bears interest at 12% per annum, compounded and payable semi-annually. The loan is repayable by the Corporation at any time without penalty. No interest was paid during the six months ended November 30, 2009.

In November 2009, an officer and director of the Corporation who is also a significant shareholder, advanced $9,000 to satisfy certain accounts payable. The advance is without stated terms of repayment, bears no interest and is not secured. The advance was repaid subsequent to November 30, 2009.

Rent totaling $6,000 (November 30, 2008 – $6,000) was charged to the Corporation by a company controlled by an officer and director of the Corporation who is also a significant shareholder. At November 30, 2009, $1,000 (November 30, 2008 - $Nil) in relation to these services is included in accounts payable and accrued liabilities.

Off Balance Sheet Arrangements

The Corporation does not have any special purpose entities nor is it party to any arrangement that would be excluded from the balance sheet.

Contractual Obligations

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 November 30, 2009, 80,847 acres have been acquired. The Corporation received a ruling from the Montana courts that it has been relieved of any further commitment under this agreement.

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. No further obligation under this agreement is anticipated by the Corporation.

Prior to the end of calendar year 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 November 30, 2009, the Corporation had incurred $260,000 of Canadian exploration expenditures and has plans in incur a minimum of $365,000 of Canadian exploration expenditures by December 31, 2009.

Pursuant to the credit facility amending agreement dated May 27, 2009, the Corporation agreed to pay to Ionic Capital Corp. the net sale proceeds from the sale of any of its properties. (See Primary's Consolidated Financial Statements as at May 31, 2009, Note 17 - Subsequent Events). The Corporation is required to pay interest monthly on the outstanding balance at a rate of 18% until the credit facility is fully paid. As the credit facility is repaid the amount of the facility is permanently reduced and is not subject to renewal. The credit facility expires on March 31, 2010.

The Corporation has a five year lease agreement expiring March 1, 2012 with a minimum obligation of $123,172 per annum, excluding operating costs.

Application of Critical Accounting Estimates

Critical Accounting Estimates

Full Cost Accounting Guideline AcG-16

For purposes of financial statements, companies are required to review the carrying value of their assets relative to their recoverable amount. Under the Full Cost Accounting Guideline AcG-16 the guideline amends the ceiling test calculation to be a two part process. The first part, the recognition of impairment, is determined by comparing the carrying amount of petroleum and natural gas properties and equipment to the sum of the undiscounted cash flows expected to result from the Corporation's proved reserves. Cash flows are calculated based on third party quoted forward prices, adjusted for the Corporation's contract prices and quality differentials. If there is impairment, the second part of the calculation would measure the magnitude of the impairment by comparing the carrying amount of petroleum and natural gas properties and equipment to the estimated net present value of future cash flows from proved plus probable reserves. A risk free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment and charged as additional depletion, depreciation and accretion expense in the statement of operations.

Petroleum and Natural Gas Reserves

For the year ended May 31, 2009 only Primary's Canadian petroleum and natural gas reserves were evaluated and reported on by independent petroleum engineers. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The

Corporation expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward and downward based on the results of future drilling, testing or production levels.

*Depletion, Depreciation and Accretion Exp*ense

The Corporation uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion and depreciation expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment which would be included in depletion and depreciation expense.

Stock Based Compensation

The Corporation uses the Black-Scholes valuation model to estimate the fair value of the stock options granted and to revalue the fair value each reporting period to those stock options granted to consultants.

New Accounting Standards - Adopted

Goodwill and Intangible Assets

Effective June 1, 2009, the Corporation adopted the CICA Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts. The adoption of this standard had no material impact on the Corporation's consolidated financial statements.

Business Combinations

Effective June 1, 2009, the Corporation adopted the CICA Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January, 2011 with earlier application permitted. The adoption of this guidance had no material impact on the Corporation's consolidated financial statements.

Consolidated Financial Statements and Non-controlling Interests

Effective June 1, 2009, the Corporation adopted the CICA Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of the guidance had no material impact on the Corporation's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee (“EIC”) issued EIC–173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.” This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. The Corporation has performed an assessment and believes that there is no material impact to the Corporation’s financial statements as a result of EIC-173.

Future New Accounting Standards

Transition to International Financial Reporting Standards

The AcSB has adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with the International Financial Reporting Standards (“IFRS”) by 2011. IFRS will replace Canadian GAAP with the official change over to IFRS to occur for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

For the Corporation, the transition date will be effective June 1, 2011, and will require the restatement for comparative purposes of amounts reported by the Corporation for the year ended May 31, 2011. While the Corporation has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition of IFRS cannot be reasonably estimated at this time.

Risks

The following is a summary of the various risks that are associated with exploration, development and production of oil and natural gas. Exploration for oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered by the Corporation. The following review and commentary cannot be considered exhaustive as the Corporation cannot foresee what new and novel risks may emerge overtime that could adversely impact the Corporation or its assets.

Exploration, Development and Production

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continuous addition of new reserves, any existing reserves the Corporation may have at any particular time, and the production there from will decline over time as such existing reserves are exploited. A future increase in the Corporation’s reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. This is not assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.

Future oil and natural gas exploration may involve unprofitable efforts, nor only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and con be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on exploration by Primary will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretation thereof. Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Expiration of Licences and Leases

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirements of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's business, financial condition, results or operations and prospects.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility in commodity prices. These conditions worsened in 2008 and are continuing well into calendar 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions and interventions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand for these commodities due to the current state of the global economies, OPEC actions and the ongoing global credit and liquidity concerns.

Operating Hazards

Oil and natural gas operations are subject to the risks of exploration, development and production of oil and natural gas properties including encountering unexpected formations or pressures critical sour operations, premature declines of reservoirs, blow outs, craters, sour gas release, fires and spills, losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids and the future cash flows to be derived there from, including many factors beyond our control. The reserves and associated cash flows are estimates only. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

Capital Requirements; Liquidity

The Corporation will need additional financing to fund its fiscal 2010 capital expenditure program and other costs. The development of Primary's oil and gas projects, will require additional funding. Primary's future operations are dependent upon its ability to continue to obtain financing and ultimately achieve profitable operations. Additional capital may be in the form of equity, debt, sale of properties, joint venture farmouts or any combination thereof.

Industry Factors

The crude oil and natural gas industry is highly competitive and the Corporation must compete with many companies with greater financial and technical resources. Generally, there is intense competition for the acquisition of resource properties considered to have commercial potential. The marketability and price of crude oil and natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond the control of the Corporation. The ability of the Corporation to market its natural gas may be dependent upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Prices paid for both crude oil and natural gas produced are subject to market fluctuations which will directly affect the profitability of producing any crude oil or natural gas reserves which may be acquired or developed by the Corporation. The oil and natural gas industry has been subject to considerable price volatility over which companies have little control. A material decline in prices could result in a decrease in Primary's production revenue and its viability as a going concern. The oil and natural gas industry is also subject to extensive government policies and regulations, which result in additional cost and risk for industry participants.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Critical Change and has ratified the Kyoto Protocol established there under, to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Industry exploration and production facilities and other operations and activities emit greenhouse gases which will require industry to comply with the new regulatory framework announced on March 10, 2008 by the Federal Government, which is intended to force large industries to reduce emissions of greenhouse gases, in addition to the proposed *Clean Air Act* (Canada) of 2006 and Alberta's recently enacted *Climate Change and Emissions Management Act and Specified Gas Emitters Regulation*. The direct and indirect costs of these regulations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Environmental

All phases of the oil and natural gas industry present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can required significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Geo-political Risks

The marketability and price of oil and natural gas that may be acquired, discovered and produced by the Corporation is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Corporation's production revenues.

Reliance on Key Personnel

The Corporation's success depends, to a significant extent, upon management and key employees. There is no assurance that the Corporation will successfully retain existing personnel or attract additional personnel required to continue to expand its business and to successfully execute its business strategy.

Dependence on Economic Conditions

The Corporation's success in its marketing efforts of its products will be dependent to some extent upon the economic conditions affecting marketplace. The Corporation has no control over economic conditions.

Operational Matters

The Corporation does not operate all of its oil and natural gas wells and accordingly the ability of the Corporation to produce such wells and market its share of production is dependent upon third party operators over which it does not have any control.

Selected Quarterly Information

The following table sets forth selected financial information of the Corporation for each of the eight most recent financial quarters to November 30, 2009.

	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Sales Volumes								
Oil and NGLs (Bbls/d)	-	-	-	-	7	7	5	-
Natural gas (Mcf/d)	233	209	700	505	519	532	1,012	612
Barrels of oil equivalent (Boe/d)	39	35	117	84	94	96	174	103
Financial								
Oil and gas revenues ($000)	$ 28	$ 56	$ 238	$ 270	$ 374	$ 541	$ 601	$ 399
Funds from (used in) operations ($000)	$ (310)	$ (205)	$ (324)	$ (229)	$ (134)	$ 30	$ 492	$ (247)
Per Share – basic and diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.01)	$ 0.00	$ (0.00)	$ (0.01)
Cash flow from (applied to) operating activities ($000)	$ (173)	$ (37)	$ (135)	$ (194)	$ (320)	$ 164	$ (791)	$ 364
Per Share – basic and diluted	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)	$ 0.01	$ (0.02)	$ 0.01
Net loss ($000)	$ (522)	$ (652)	$ (3,496)	$ (7,022)	$ (361)	$ (305)	$ (1,221)	$ (618)
Per Share – basic and diluted	$ (0.01)	$ (0.01)	$ (0.07)	$ (0.14)	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.02)
Capital expenditures ($000)	$ -	$ -	$ (133)	$ 541	$ 187	$ 646	$ 790	$ 2,116
Shares outstanding (000)	59,469	49,469	49,469	49,348	48,648	43,098	36,993	36,993
Per Unit Information								
Prices								
Oil and NGLs ($/Bbl)	$ -	$ -	$ -	$ -	$ 94.41	$ 118.91	$ 59.90	$ -
Natural gas ($/Mcf)	$ 1.86	$ 2.95	$ 3.70	$ 5.93	$ 6.61	$ 9.51	$ 5.99	$ 7.16
Oil equivalent ($/Boe)	$ 11.16	$ 17.70	$ 22.19	$ 35.60	$ 43.88	$ 61.59	$ 37.04	$ 42.96
Operating netback ($/Boe)	$ 0.82	$ (3.86)	$ 8.29	$ 20.06	$ 27.54	$ 42.30	$ 26.08	$ 24.62