

PROBE RESOURCES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
As of February 28, 2010

This Management Discussion and Analysis was prepared on April 16, 2010.

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This Management Discussion and Analysis (the “MD&A”) should be read in conjunction with the unaudited consolidated financial statements for the six months ended February 28, 2010 and the year ended August 31, 2009. Natural gas equivalent (“Mcf”) amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (“6:1”) unless otherwise stated. Unless otherwise indicated, the terms “Probe Resources Ltd.”, “Probe” and the “Company” are used interchangeably in this MD&A to refer to Probe Resources Ltd. and its subsidiaries.

The unaudited consolidated financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) in Canadian currency.

Forward-Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company'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. Management believes that the expectations reflected in these 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 MD&A should not be unduly relied upon by investors. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- i. capital expenditure programs;

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ii. treatment under governmental regulatory and taxation regimes; and

iii. expectations regarding the Company's ability to raise capital and to continually add to reserves through development.

With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things:

iv. the Company's ability to obtain additional financing on satisfactory terms.

The Company'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 MD&A:

v. geological, technical, drilling and processing problems;

vi. liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;

vii. incorrect assessments of the value of acquisitions;

viii. competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; and

ix. the other factors referred to under "Risk Factors".

The forward-looking statements or information contained in this MD&A are made as of February 28, 2010, and the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

Success in the junior oil and gas sector is measured by a Company's ability to raise funds and the ability to secure properties of merit. Not all of these factors are within management's control. The ability to raise funds is in part dependent on the state of the junior resource stock market, which in turn is dependent on the economic climate, oil and gas prices and perceptions as to which way the market is headed. The ability to secure properties of merit is in large part dependent on management's contacts and the vitality of the sector.

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company's ability to continue as a going concern is dependent upon its ability to discover economically recoverable reserves, to bring such reserves into production and attain profitable operations, and to obtain financing sufficient to meet current and future obligations. The financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

The Company is still in the development stage and will require additional capital in the form of debt or equity to continue to execute its business plans.

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Directors and Senior Officers

Board of Directors

L. Scott Broussard	Chairman and Member of the Reserves Committee
Richard Buski	Chair of the Audit Committee (Independent)
Desmond Balakrishnan	Member of the Audit Committee (Independent)
Bradley Culver	Chair of the Reserves Committee and member of the Audit Committee (Independent)

Senior Officers

L. Scott Broussard	Chief Executive Officer / President / Chairman of the Board
William N. Young III	Chief Operating Officer
Richard FitzGerald	Chief Financial Officer
Roger B. Souders	Vice President, Land
Andre J. Broussard	Vice President, Exploration
Morgan Tincher	Vice President, Finance and Corporate Secretary
Paul A. Diven	Controller
Dan Bomersbach	Operations Manager

Description of Business

Probe Resources Ltd. is a public company listed and publicly traded on the TSX Venture Exchange, incorporated under the British Columbia Business Corporations Act on November 15, 1988. At February 28, 2010, the Company was in the development stage as an oil and natural gas company, owning interests in four oil and natural gas producing properties as well as interests in six federal oil and natural gas blocks located in the United States Gulf of Mexico.

The management of the Company actively seeks investment and/or joint venture opportunities that are attractive and create long term value for its shareholders.

Discussion of Gulf of Mexico Operations

Agreements to Purchase Oil and Gas Rights

On May 22, 2008 it was announced that the Company's wholly-owned subsidiary Probe Resources US Ltd. entered into an agreement (the "Agreement") with certain arm's length parties (the "Vendors") to purchase 75% working interest rights associated with approximately 26,500 acres on six (6) Federal oil and natural gas lease blocks located in the United States Gulf of Mexico (collectively, the "Concessions"). After completion of the Cutter Energy LLC ("Cutter") transaction, as described below, the Company became the Operator of the Concessions on a 100% working interest basis.

Pursuant to the terms of the Agreement the Vendors, along with Cutter, have delivered to Probe not less than a 69.5% net revenue interest in each of the Concessions. Probe paid an aggregate amount of US\$4,250,000 as consideration to the Vendors. The Agreement provides Probe the opportunity to conduct a drilling program on the Concessions.

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On June 6, 2008, the Company agreed to acquire 25% working interest rights from Cutter in the Concessions. It is in respect to these same Concessions that Probe completed the acquisition of 75% working interest rights dated May 22, 2008, as described above. Cutter is owned by Scott Broussard (President, CEO, and Chairman of Probe) and the acquisition is, therefore, considered to be a non arms-length transaction. Total consideration for the working interest rights included a payment to Cutter of USD\$829,594 cash, and up to 4,000,000 Common Shares. The Company issued 2,000,000 of the 4,000,000 Common Shares upon TSX Venture Exchange approval of this transaction. In addition, the Company will grant Cutter 666,666 Common Shares for each occurrence of up to three successful wells at distinct leases within 24 months from the date of the agreement. The first installment of 666,666 Common Shares was issued to Cutter on March 3, 2009 upon the completion of the South Timbalier 214 Well. On March 12, 2010 the TSX Venture Exchange accepted the issuance of the remaining 1,333,334 common shares of the Company to Cutter for the completion of two producing wells; East Cameron 36 Well #A-1 (“EC 36 A-1”) and East Cameron 37 Well #A-2 (“EC 37 A-2”). While the shares will be issued forthwith, 666,667 shares will be retained by the Company as treasury stock until the remediation efforts are completed on the EC 37 A-2 well and the mechanical issue resolved.

On June 2, 2009 the company announced it had relinquished its interest in Brazos block 434 due to the impending expiration of its drilling commitment and in order to accelerate development of its existing discoveries.

Projects

A. **High Island 115** – On September 13, 2008, the well’s platform, export line, host platform at High Island 71 and the onshore facilities were all damaged in varying degrees by Hurricane Ike. Production resumed in early 2009 at an average production rate of approximately 7 Million Cubic Feet per Day (“MMcfd”). On July 31, 2009 production again ceased due to the expiration of the lease underlying the High Island 71 host processing facility, as well as the expiration of the “Production Handling Agreement” with the host. Negotiations continue to proceed toward the resumption of production at the existing High Island 115 facility which entails the reduction of Probe’s interest as consideration for the resumption of production. Additionally, Probe’s indebtedness of approximately \$860,000 to a third party under the Debt Restructuring Agreement and other accounts payable balances are being forgiven as additional consideration to the Company. The well is expected to resume production in mid year 2010 at its previous flow rate.

Probe is non-operator of the field and currently owns a 50.5% Working Interest (“WI”) and 30.97% Net Revenue Interest (“NRI”) in the High Island Well which is anticipated to be reduced to 27.50% WI and 22.06% NRI.

B. **South Timbalier 214** – On January 5, 2009 the Company announced the discovery of commercial reserves in the South Timbalier A-6 Sidetrack # 1 well. The well was drilled to 15,825’ measured depth and 14,751’ true vertical depth from a Company owned production platform in the adjacent block which is connected to the NYMEX premium market via a ready for service export pipeline. On January 30, 2009, production commenced from the well. The well is currently producing approximately 5.5 MMcfd and 30 Barrels of Condensate Per Day (“BCPD”) and has produced nearly 10 BCF of gas and 112,000 barrels of condensate to date.

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The Company holds a 100% WI and 68.5% NRI prior to project payout (“BPPO”) and an 80% WI and 57.7% NRI after project payout (“APPO”).

- C. **East Cameron 36** – On August 25, 2008 the Company announced the discovery of commercial reserves in multiple horizons at its EC 36 A-1 well. The well was spud on August 5, 2008 and was drilled under budget to a total depth of 10,450 feet. Production casing was installed in the well, a caisson was over-driven, and a caisson deck was installed. The well completion was suspended pending financing of the completion costs.

On April 29, 2009 the Company announced it had entered into a joint venture with Petrodome Energy, LLC and certain other parties for the drilling of its East Cameron 37 prospect. The prospect is adjacent to and was drilled from the same surface location as the East Cameron 36 discovery.

The terms of the joint venture consist of the proportionate reimbursement of Company’s sunk costs in the EC 36 A-1 well including prospect acquisition fees, drilling costs and development costs to date, as well as the joint venture partners’ proportionate contribution of well drill out costs and future development costs.

The test separator deck was installed on the East Cameron 37 caisson on November 14, 2009. A 6” pipeline was installed and tested from the caisson platform to a host platform leased by the Company in Vermilion Block 22. New production facilities were installed and tested on the host platform.

A completion rig was moved over the East Cameron 37 caisson deck and the EC 36 A-1 well was successfully completed as a single selective gravel-packed completion in the M7 and M8 Sands on December 24, 2009. The M7 and M8 Sands were cleaned up and flow-tested, ultimately achieving a water-free producing gas rate starting in February 2010 of 5.3 MMCF/D with a condensate rate of 54 BCPD and flowing tubing pressure of 2800 psi.

The Company retains a 52% WI and 35.62 NRI BPPO and a 41.6% WI and 30% NRI APPO in the EC 36 A-1 well. The project area consists of East Cameron 36, East Cameron 37, and Vermilion 20 blocks. Probe continues as operator of the project area.

- D. **East Cameron 37** - On June 2, 2009 the Company announced the discovery of commercial gas reserves in its EC 37 A-2 well. The well was spud on May 8, 2009 and directionally drilled under turnkey contract to a total depth of 12,039 feet. Upon completion of drilling activities, production casing was run and the well was suspended pending the financing of the completion costs.

On November 16, 2009 the Company announced that it had secured the necessary funding and had commenced facilities work at East Cameron 37 and the Vermilion 22 host platform, including the construction of an export pipeline from East Cameron 37 to Vermilion 22, and the completion of the EC 37 A-2 well.

The completion rig, having completed the EC 36 A-1 well, skidded to the EC 37 A-2 well. The well was successfully completed as a Frac-packed single completion in the Rob L Sand

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on January 12, 2010. The well was partially cleaned up while the completion rig was on the well. The rig was subsequently released.

The well has experienced mechanical issues requiring remediation. Due to unexpected water production upon start-up, a lift boat was mobilized in April 2010 to the East Cameron 37 platform in order to facilitate the pumping of a water blocking treatment. Results of the treatment should be known forthwith. The Company holds a 52% WI and 35.36% NRI BPPO and a 41.6% WI and 29.79% NRI APPO.

- E. **East Cameron 246** – On October 30, 2008 the Company announced discovery of commercial reserves in its East Cameron 246 #2 well (“EC 246”). The Company encountered its primary objective in the Lentic formation, logging approximately 45 feet of net pay. The expected gross production rate from this formation is 10 to 15 MMcfd. Upon completion of the drilling activities, production casing was run, and the well was suspended awaiting evaluation of development alternatives.

A letter of intent has been signed with another party to acquire a production platform currently existing in the Gulf of Mexico. The platform will be moved and installed over the EC 246 well in late Q3. A pipeline will be laid to a gas transmission line a short distance away. The well will then be completed in the Lentic Sand described above.

The primary term of the East Cameron 246 lease has expired. The lease is currently being held by a Suspension of Operations (“SOP”). The SOP requires certain milestones in order for Probe to retain the lease. Probe has complied with these milestones to date. The Company continues to seek a third party participant to assist in financing the development. The Company currently holds a 100% WI and 68.5% NRI BPPO and an 80% WI and 57.7% NRI APPO. The expected impact of a third party participant, upon finalizing the related agreements, is that the Company will hold a 90% WI and 61.6% NRI BPPO and a 72% WI and 51.93% NRI APPO.

Other Interests - Seismic Data

The Company incurred additional seismic data costs of \$791,784 (US\$672,143) during the fiscal year 2009. Total capitalized seismic data costs incurred at February 28, 2010 were 1,670,592 (US\$1,508,829).

Independent Reserve Engineers

As the Company continues to grow and add reserves, it was decided that it will be better served by retaining a globally recognized firm with a greater depth of experience to serve as its independent reserve engineers. Accordingly, the Company appointed Netherland, Sewell and Associates, Inc. on July 20, 2009 to serve as its independent reserve engineers.

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Selected Annual Information

The following financial data are selected information for the Company for the three most recently completed financial years:

	Year ended August 31,		
	2009	2008	2007
Total revenues	\$ 23,918,542	\$ 5,110,861	\$ -
Loss before other items	\$(17,666,205)	\$(4,451,617)	\$(1,154,252)
Basic and diluted loss per share before other item	\$(0.17)	\$(0.10)	\$(0.09)
Net loss	\$(21,626,330)	\$(4,076,271)	\$(1,084,602)
Basic and diluted loss per share	\$(0.21)	\$(0.09)	\$(0.08)
Total assets	\$ 69,497,600	\$46,562,135	\$ 8,195,337
Total long-term liabilities	\$ 4,392,953	\$ 861,510	\$ 531,632
Cash dividends per share	\$ -	\$ -	\$ -

Results of Operations

The following table summarizes production volumes, average sales prices and operating revenues for the six months ended February 28, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Production Volumes		
Oil (Bbl)	38,217	5,766
Natural gas (Mcf)	<u>2,368,122</u>	<u>633,726</u>
Natural gas (Mcf)	2,597,426	668,322
Natural gas (Mcf/day)	14,350	3,692
Average Sales Price		
Oil	\$ 56.44	\$ 46.00
Natural Gas	\$ 3.94	\$ 6.05
Operating Revenue		
Oil	2,282,841	265,256
Natural Gas	<u>9,878,079</u>	<u>3,571,364</u>
Total	12,160,920	3,836,620
Lease Operating Expense	771,138	423,072
Lease Operating Expense per Mcfe	\$ 0.30	\$ 0.63

Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	Q2 Feb 28 <u>2010</u>	Q1 Nov 30 <u>2009</u>	Q4 Aug 31, <u>2009</u>	Q3 May 31 <u>2009</u>	Q2 Feb 28 <u>2009</u>	Q1 Nov 30 <u>2008</u>	Q4 Aug 31 <u>2008</u>	Q3 May 31, <u>2008</u>
Total revenues	\$5,082,117	\$7,078,803	\$10,301,806	\$9,780,116	\$3,764,341	\$72,279	\$1,859,556	\$2,007,280
Income (loss) before other items:								
Total	\$(3,030,570)	\$(6,305,769)	\$(14,401,715)	\$569,487	\$(2,184,713)	\$(1,645,389)	\$(2,552,427)	\$(354,535)
Per share	\$(0.03)	\$(0.05)	\$(0.14)	\$ 0.00	\$(0.02)	\$(0.01)	\$(0.03)	\$(0.01)
Net Income (loss):								
Total	\$(2,890,978)	\$(5,256,569)	\$(21,307,717)	\$2,538,541	\$(1,866,819)	\$(990,335)	\$(2,090,181)	\$(430,816)
Per share	\$(0.03)	\$(0.05)	\$(0.20)	\$ 0.02	\$(0.02)	\$(0.01)	\$(0.02)	\$(0.01)

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Discussion of Financial Results – February 28, 2010 compared to February 28, 2009

The Company reported revenues of \$12,160,920 for the six months ended February 28, 2010 as compared to reported revenues of \$3,836,620 for the six months ended February 28, 2009. The increase in revenues between periods is primarily a result of higher overall production volumes in the current period from the South Timbalier 214 well (commenced production in February 2009) and the East Cameron properties (the EC 36 A-1 well commenced production in February 2010). Partially offsetting the higher production volumes on revenue were overall lower natural gas revenue prices between periods. For the previous year's period, the reported production volumes and revenue also included the High Island 115 well which was produced for only a portion of the comparable period due to hurricane impacts in September 2008. While the High Island 115 well was back in production in early 2009, the production for the well has been temporarily suspended since July 2009 due to the expiration of the production handling agreement and therefore there have been no production volumes or revenue for the current year period. Operating expenses in the current year (\$2,136,842) increased from the previous year (\$939,350) primarily due to the higher lease operating and transportation expenses associated with the increase in production volumes between periods. Depletion and accretion expense increased in the current year primarily as a result of the increase in production volumes between periods. General and administrative expense for the six months ended February 28, 2010 was \$2,602,200 as compared to \$3,142,996 for the February 28, 2009 period. The decrease primarily relates to the wages and benefits expense from the employee loan forgiven expense incurred in the previous year, which was then offset partially by higher legal fees in the current period resulting from the litigation settlement in the first quarter of fiscal year 2010. Interest expense increased in the current six month period due to the interest bearing balances associated with the Debt Restructuring Agreement and the related debt instruments, including the amended credit facility balance in November 2009. The net loss recorded was \$8,147,547 for the six month period ended February 28, 2010 as compared to \$2,857,154 loss for the February 28, 2009 six month period. The increase in net loss between periods is from the items indicated above including the increase in depletion and accretion expense from the higher production volumes. Foreign exchange gain reflected in the net loss determination was a \$1,188,792 gain for the February 28, 2010 six month period as compared to a \$962,762 gain for the February 28, 2009 six month period.

Financings, Principal Purposes and Milestones

On January 22, 2009 the Company closed a US\$4,000,000 tranche of a senior secured notes issue (the "Notes") for CDN\$2,800,000 (USD\$2,200,047) net proceeds to the Company. The Company then issued 2,800,000 of the 7,000,000 warrants to the Holder where each warrant entitles the Holder thereof to purchase one common share of the Company on or before November 28, 2013 at an exercise price of \$0.20 per share. Shares issuable on the exercise of the warrants had a hold period which expired May 21, 2009. On February 10, 2009 the Company closed the second tranche of a note issue by issuing US\$6,000,000 Notes for CDN\$4,200,000 (USD\$3,351,955 net proceeds to the Company). In addition, the Company issued the remaining 4,200,000 of the 7,000,000 warrants to the Holder where each warrant entitles the Holder to purchase one common share of the Company on or before November 28, 2013 at an exercise price of \$0.20 per share. Shares issuable on the exercise of the warrants have a hold period which expired June 9, 2009. Fees were paid in connection with the issue of the Notes equal to 4% (\$277,272) of the funds raised and 4% (\$280,000) in warrants of the Company exercisable into common shares at a price

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of \$0.25 per warrant which expired on February 9, 2010.

On February 19, 2009 the Company closed a credit facility (“Loan”) with an institutional lender in the amount of USD \$8,500,000. The Loan was for a term of six months from the date of advance (the “Maturity Date”). Interest is at an annual rate of 18% payable and compounded monthly on amounts outstanding at month end. Regular principal payments are being made which will, upon completion, retire the Loan. In consideration of the Loan the Lender received a \$480,000 commitment fee and 7,000,000 share purchase warrants to purchase 7,000,000 common shares of the Company at a price of \$0.25 per share for a four year period expiring February 19, 2013. Fees were paid in connection with the Loan equal to 4% (\$428,162) of the funds raised by the Company and 4% (\$280,000) in warrants of the Company exercisable into a common share at a price of \$0.25 per warrant which expired on February 19, 2010.

On April 29, 2009 the Company announced that it had entered into a joint venture (JV) with Petrodome Energy, LLC and certain other parties for the drilling of its East Cameron 37 prospect. The prospect is adjacent to and will be drilled from the same surface location as Probe’s previously announced East Cameron 36 discovery. The terms of the JV consist of the proportionate reimbursement of Probe’s sunk costs in the East Cameron 36 well including prospect acquisition fees, drilling costs, and development costs to date, as well as the JV partners’ proportionate contribution of well costs and future development costs. Probe retains a 52% WI and a 35.4% NRI BPPO and a 41.6% WI and a 30% NRI APPO in the project area. The project area consists of East Cameron 36, East Cameron 37, and Vermilion 20 blocks. Probe is operator of the project area.

On July 30, 2009 the Company announced that it had entered into an Interim Creditor Agreement (“ICA”) for retirement of its outstanding trade and secured debt which scheduled repayment of the Company’s trade payables in a timely and orderly manner consistent with the anticipated revenues from the South Timbalier 214 Well and the High Island 115 Well, following deduction for general and administrative expenses of the Company. Under the terms of the ICA, repayment is to be made to all creditors with interest at an annual rate of 10%. The Company also agreed to certain restrictions on the sale of certain of the Company’s assets. In the event of a rise (or decline) in the price of natural gas, the repayment schedule self adjusts. The ICA was replaced by a Debt Restructuring Agreement (as more fully described below).

On September 21, 2009 the Company announced that it had entered into a Debt Restructuring Agreement (the “DRA”). The DRA replaces and supersedes the ICA previously announced and schedules repayment of the Company’s outstanding past due trade payables and debt service in an orderly manner consistent with anticipated revenues, following deduction for general and administrative, lease operating expenses, transportation charges and royalty payments.

Under the terms of the DRA, repayment will be made to all outstanding trade creditors with interest at an annual rate of 10%. The outstanding credit facilities are also participants in the Debt Restructuring Agreement. Interest rates on the existing loans and notes remain at their original rate. Monthly debt service on the agreements is determined in the DRA monthly based upon available cash as defined by the DRA and is allocated among the various Creditor classes, including the credit facilities, within the provisions of the DRA. The Company also agreed to restrictions on the sale of certain Company assets and certain monthly reporting requirements. The

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Company is estimating in its current projections that the creditors within the DRA currently project to be paid in calendar year 2011 given the Company's new wells production program for 2010. In the event of a rise (or decline) in the price or sales volume of natural gas, the repayment schedule self adjusts. A Creditors' Committee was formed under the DRA to resolve future issues, and a Creditors' Agent has been selected by the Creditors' Committee to oversee payments by the Company. The DRA authorizes the Creditors' Committee to manage not only repayment of existing obligations, but also to ensure the Company stays current on future payables. The DRA requires payment of all outstanding DRA balances on or before September 15, 2010, with no provision within the current agreement for renewal or extension if such balances are not paid in full. The Company is currently reviewing several alternatives for the DRA balances after September 15, 2010 and is in discussion with various DRA creditors.

On November 10, 2009 the Company entered into an amended and increased credit facility agreement with an institutional lender ("the Lender") whereby the Lender provided to the Company a US\$9.25 million loan (the "Loan"). Probe subsequently issued to the Lender additional notes (the "Notes") under an existing credit facility. The Notes have a face value of US\$9.25 million bearing interest at 18% over a primary term of one year with approximately US\$1 million of the proceeds used for underwriting and amendment fees to the Lender. Debt service will be generated from production payments on the related properties which are anticipated to retire the loan over the primary term of the Loan which is one year. The credit facility, through an amendment process, is included in the Debt Restructuring Agreement.

Capital Resources

The Company's first three wells from the May 22, 2008 purchase agreements described above have been funded by a combination of the proceeds of the brokered private placement closed in July 2008, debt, operating cash flow, and joint ventures. The Company anticipates that current and future development and completion activities will be funded by a combination of debt, proceeds of the potential exercise of outstanding share warrants, operating cash flow, and joint ventures. The actual number of wells drilled may vary depending upon various factors, including the availability and cost of drilling rigs, success of existing wells, weather delays, regulatory issues and other factors. The Company may not be able to obtain the funding described above on terms that would be acceptable. If the Company cannot obtain adequate funding, it may be required to limit or defer planned drilling programs.

Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

Commitments

Contractual Obligations:

Operating Leases

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The Company has a non-cancelable operating lease for its office facility. The lease has scheduled increases requiring the Company to pay its share of operating costs, and expires in December 2013. Future minimum payments under the operating lease are as follows:

February 28, 2011	\$363,000
February 28, 2012	\$376,088
February 28, 2013	\$376,088
December 31, 2013	\$313,406

Contingency

Probe reached a settlement of all claims and dismissal of a lawsuit which had alleged the use of confidential information related to certain properties previously acquired by Probe. As a condition of the settlement, the Company paid US\$1.25 million in November, 2009 and the Litigation Settlement counterparty also received small overriding royalties prospectively (starting with November 2009 production) on certain Probe properties. Probe and management vigorously deny any wrongdoing with respect to all of the matters alleged and the settlement specifically acknowledges that there is no admission of liability on either party's part. The settlement amount was included in the August 31, 2009 financial results for the Company where the Company recorded a provision of \$1,472,625 (US\$1,250,000). The settlement amount was paid in November 2009.

Related Party Transactions

In the course of regular business activities, the Company enters into transactions with related parties from time to time. During the six months ended February 28, 2010 and 2009, the Company incurred the following fees charged by directors of the Company or by entities of which a director is a partner or entities with directors in common with the Company:

	<u>2010</u>	<u>2009</u>
Directors' fees	\$ 52,502	\$ 16,000
Legal fees	86,435	252,095
Wages and benefits	79,074	78,031
	<u>\$ 218,011</u>	<u>\$ 346,126</u>

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

At February 28, 2010, and August 31, 2009, accounts payable and accrued liabilities include \$303,204 and \$337,627 respectively, due to directors of the Company or to private entities with directors in common with the Company.

During the year end August 31, 2008 the Company acquired an interest in certain oil and natural gas properties from a private company controlled by an officer/director.

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On September 2, 2008, the Company advanced USD\$750,000 to an officer of the Company as a relocation/home ownership loan. The advance bears interest at 5% and was repayable on the earlier of January 1, 2010, or immediately in the case of the borrower's termination of the employment agreement dated February 12, 2008. The loan was to be forgiven as to 50% after one year and the remaining 50% after the second year unless the employment is terminated. The first 50% of the loan was forgiven on January 1, 2009 and the second 50% was forgiven on January 1, 2010.

Liquidity and Solvency

At February 28, 2010, the Company had a net working capital deficiency of \$(32,471,966) and had not yet achieved profitable operations and expects to incur further losses in the near-term development of its business, which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its current obligations and growth opportunity program and repay its liabilities arising from normal business operations when they come due. The Company also entered into a Debt Restructuring Agreement ("DRA") effective August 31, 2009, which addresses the payment of outstanding trade payables and its debt service obligation based upon its monthly cash flow from operations. As of February 28, 2010, the DRA creditors' balances were US\$26,393,686, consisting of accounts payables balance of US\$12,735,752 and debt balances of US\$13,657,935. Additionally, the Company incurred an incremental loan of \$9.25 million in connection with the hook up and completion of its East Cameron 36 and East Cameron 37 discoveries. The balance of the loan at February 28, 2010 was US\$9,752,453. The incremental loan arrangement is included in the Debt Restructuring Agreement through an amendment.

Listed below are three significant factors that have contributed to the Company's current negative working capital position:

1. ***Capital Markets:*** The economic climate was changing rapidly during the Company's last equity offering in July 2008. While the Company attained its minimum goal for the offering, \$10 to \$15 million in commitments to the offering were withdrawn prior to closing. The economic climate continued to worsen in late 2008 and the Company has not been able to replace the shortage with a subsequent offering.
2. ***Commodity Prices:*** Although the Company executed a rig contract in August 2008 when natural gas prices were over \$10/Mcf, the Company experienced an unavoidable six month rig delay to drill the South Timbalier 214 Well during which time prices declined below \$5/Mcf. The original schedule was to drill this well in June 2008, but the drilling was delayed until November 2008; first by the rig owner, then by Hurricanes Gustav and Ike. The South Timbalier 214 Well produced initially about 1,000,000 Mcfe per month, but the commodity price decline reduced anticipated cash flow by \$5 million per month, or \$30 million year to date. Natural Gas prices continued to be depressed in the 2009 fiscal year and first quarter of 2010 fiscal year which negatively impacted the working capital balance.

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3. ***Production Delays:*** The Company experienced a mechanical equipment failure on the ST 214 Well in March 2009. Not only did the repair cost approximately \$2 million, but \$2.5 million of revenue was also delayed by the resulting shut in for repair. Hurricane Ike also damaged certain onshore facilities which host the Company's High Island 115 well. As a result, this well did not produce from September 2008 until February 2009, with production again ceasing on July 30, 2009 due to the expiration of the lease underlying the High Island 71 host processing facility, as well as the expiration of the "Production Handling Agreement" with the host. Resumption of production requires either installation of full processing facilities on the Company's platform or connection to another host facility. With either option, the well is expected to resume production in Q2 2010. The mechanical issue on the recently completed EC 37 well may also unfavorably impact the Company's cash flow during the remediation process.

Adoption of New Accounting Standards

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP and IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will therefore require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS is not determinable at this time.

Risks

A number of factors could cause the Company's results to differ materially from its expectations. Readers should carefully review the following factors, and all information contained elsewhere on SEDAR. Exploration for oil and natural gas and foreign offshore operations involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that commercial quantities of oil and natural gas will be discovered by the Company. Risk factors include: risks associated with the exploration for and development of oil and natural gas reserves; operational risks and liabilities that are not covered by insurance; volatility in market prices for oil, NGLs and natural gas; the ability of the Company to fund its substantial capital requirements and operations; risks associated with ensuring title to the Company's properties; changes in environmental or other legislation applicable to the Company's operations, and the Company's ability to comply with current and future environmental and other laws; the accuracy of oil and gas reserve and resource estimates and estimated production levels as they are affected by the Company's exploration and development drilling and estimated decline rates; the Company's success at acquisition, exploration, exploitation and development of reserves and resources; the Company's reliance on key operational and management personnel; the ability of the Company to obtain and maintain all of its required permits and licenses; competition for, among other things, capital, drilling equipment,

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acquisitions of reserves, undeveloped lands and skilled personnel; changes in general economic, market and business conditions in Canada, the U.S., and worldwide; actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws, royalty rates and incentive programs relating to the oil and gas industry; adverse regulatory rulings, orders and decisions.

Current volatility in the economies of the U.S. and worldwide may impact the Company's future performance. Declines in the prices of natural gas and oil in the U.S. may lessen cash flows. Falling demand for rigs and other services and equipment may have a positive impact on future drilling costs. Less equity capital and debt availability may slow development projects and may require more reliance on internally generated cash flow. Industry practices of sharing risk with the formation of joint ventures may require a tightening and more restricted selection of joint venture partners.

The Company's operations are located in the US and the Company's financial statements are denominated in Canadian dollars. The Company's financial results will fluctuate based on the exchange rate between Canadian and U.S. dollars.

Critical Accounting Estimates

a) Oil and Natural Gas Properties

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs of exploring for and developing oil and natural gas reserves are initially capitalized. Such costs include land acquisition costs, lease rentals, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment and pipeline, are depleted and amortized on the unit-of-production method based on the estimated Company net proved reserves as determined and estimated by independent petroleum engineers. Petroleum products and reserves are converted to a common unit of measure, using 6 MCF of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of oil and natural gas properties are applied against the capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and amortization.

In applying the full cost method, the Company utilizes a ceiling test whereby the carrying value of oil and natural gas properties is compared to the sum of the undiscounted cash

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flows expected to result from the proved reserves and the lower of cost or market of unproved properties.

The recoverability of amounts shown for unproven properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

b) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period in which it is incurred and a reasonable estimate of the fair value can be made, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion. The costs capitalized to the related assets are amortized in a manner consistent with the depreciation, depletion and amortization of the related asset.

c) Stock-based Compensation

The fair value of all share purchase options granted is expensed over their vesting period, with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Disclosure of Outstanding Share Data

As at April 16, 2010, authorized share capital for the Company was unlimited common and preferred shares without par value. While no preferred shares have been issued, a total of 105,049,866 common shares have been issued as follows:

	Share Capital		
	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, August 31, 2008	104,383,200	\$42,623,302	\$3,789,693
Issued for lease acquisition	666,666	100,000	-
Less: share issue costs	-	(11,022)	-
Finders' fee warrants	-	-	33,600
Share purchase options	-	-	<u>1,100,981</u>

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Balance, August 31, 2009	105,049,866	\$42,712,280	\$4,924,274
Share purchase options	_____ -	_____ -	_____ 117,308
Balance, April 16, 2010	<u>105,049,866</u>	<u>\$42,712,280</u>	<u>\$5,041,582</u>

Share purchase warrants outstanding at April 16, 2010 are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
16,511,874	\$0.50	June 6, 2010
7,000,000	\$0.20	November 28, 2013
<u>7,000,000</u>	\$0.25	February 19, 2013
<u>30,511,874</u>		

Share purchase options outstanding at April 16, 2010 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
563,910	\$0.67	July 26, 2012
100,000	\$0.49	October 26, 2012
250,000	\$0.60	November 22, 2012
3,799,000	\$0.40	March 5, 2013
370,000	\$0.40	October 2, 2013
912,580	\$0.19	February 10, 2014
2,033,923	\$0.20	June 1, 2014
400,000	\$0.15	September 20, 2014
<u>400,000</u>	\$0.25	September 20, 2014
<u>8,829,413</u>		

Financial Instruments

The carrying value of cash and cash equivalents and accounts payable and accrued liabilities approximate their fair value because of the short-term maturity of those instruments.

For further information, please contact the Company.

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