

**PROBE RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Year Ending August 31, 2007

This Management Discussion and Analysis was prepared on February 18, 2008.

*Description of Business*

Probe Resources Ltd. (the "Company") 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 August 31, 2007, the Company was in the development stage as an oil and gas company and owned an interest in an oil and gas property located in the Gulf of Mexico.

The management of the Company will prudently seek investment and/or joint venture opportunities that are attractive to the current shareholders and that will create long term value for its shareholders.

*Discussion of Operations*

Gulf of Mexico – High Island

The Company acquired a 33.574% working interest (25.1875% net revenue interest) in an oil and gas lease and well located in the High Island area of the Gulf of Mexico by way of a Farmout Agreement dated June 1, 2007 and amended July 16, 2007. Consideration for the acquisition is cash of \$583,495 (US\$550,000) payable the earlier of July 15, 2008 or the date by which sufficient funds have been received from the net revenue interest to pay the fee and 33.574% of all costs except for certain well costs of which the Company's share to be paid is 46.30896%. Legal fees of \$63,884 were incurred in connection with the acquisition. The Company has also agreed to a 72.5% share of the flowline costs.

Subsequent to August 31, 2007, the Company purchased an additional 13.4291% working interest (10.075% net revenue interest) in the lease and a 7.97087% working interest (5.73113% net revenue interest) in the well. Consideration for the additional interest is the issue of 3,000,000 common shares.

As at August 31, 2007, the well had been completed, however, production did not commence until subsequent to August 31, 2007. Accordingly, no depletion has been recorded as at August 31, 2007. Management has evaluated the carrying value and has determined that no impairment provision is required at August 31, 2007.

Other Interests - West Texas Seismic Data

During the year ended August 31, 2007, the Company obtained seismic data related to certain properties located in West Texas, U.S.A. for consideration of \$233,644 (US\$200,000). In conjunction with the acquisition, the Company also engaged another company to review and evaluate the data for a fee of US\$40,000 per month. These costs have been expensed as property investigation costs. Subsequent to the acquisition and consulting agreement, a director of the other company became a director of the Company.

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*Discussion of Operations (Cont'd)*

The Company is a party to certain administrative and management agreements. Chara Acquisitions Ltd., a company controlled by one of the Company's directors, provided administrative, rent and office services in consideration of \$12,885 per month. Smorgasboard Holdings Ltd. provided consultation services in consideration of \$4,000 per month. The principal of Smorgasboard Holdings Ltd. subsequently became an officer of the Company.

During the year ended August 31, 2007, the Company paid \$28,500 in directors' fees to three Directors for their services. The Company has no standard arrangement to compensate the Directors for such services, other than the granting of Director Stock Options.

The Company's investor relations activities consist of providing investors and shareholders with information regarding the Company's activities. During the year ended August 31, 2007, the Company did not incur any expenditures relating to investor relations activities. On October 25, 2007 the Company received approval of an investor relations agreement requiring the payment of \$7,500 per month effective September 20, 2007.

The Company reported a net loss of \$1,084,602 for the year ended August 31, 2007 compared to a loss of \$306,565 for the previous year. This is mainly due to more active third and fourth quarters where stock based compensation increased due to the issuance of stock options, foreign exchange increased as a function of non-domestic project costs, administration and other fees increases resulted from larger transactions during the year and legal fees increased as a result of the acquisition of and expenditures related to the High Island lease and well development. During the prior year the Company also wrote down the carrying value of its mineral property to a nominal amount of \$1 and wrote down the carrying value of its marketable securities.

*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, |              |              |
|--|-----------------------|--------------|--------------|
|  | 2007                  | 2006         | 2005         |
| Total revenues                                     | \$ -                  | \$ -         | \$ -         |
| Loss before other item                             | \$(1,154,252)         | \$( 152,859) | \$( 130,874) |
| Basic and diluted loss per share before other item | \$( 0.09)             | \$( 0.01)    | \$( 0.01)    |
| Net loss   | \$(1,084,602)         | \$( 306,566) | \$( 107,423) |
| Basic and diluted loss per share                   | \$( 0.08)             | \$( 0.02)    | \$( 0.01)    |
| Total assets                                       | \$ 8,195,337          | \$ 280,973   | \$ 566,679   |
| Total long-term liabilities                        | \$ 531,632            | \$ -         | \$ -         |
| Cash dividends per share                           | \$ -                  | \$ -         | \$ -         |

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*Summary of Quarterly Results*

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

|                             | Q4<br>Aug 31,<br><u>2007</u> | Q3<br>May 31,<br><u>2007</u> | Q2<br>Feb 28,<br><u>2007</u> | Q1<br>Nov 30,<br><u>2006</u> | Q4<br>Aug 31<br><u>2006</u> | Q3<br>May 31,<br><u>2006</u> | Q2<br>Feb 30,<br><u>2006</u> | Q1<br>Nov 30,<br><u>2005</u> |
|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|
| Total revenues              | \$ -                         | \$ -                         | \$ -                         | \$ -                         | \$ -                        | \$ -                         | \$ -                         | \$ -                         |
| Net loss before other item: |                              |                              |                              |                              |                             |                              |                              |                              |
| Total                       | \$( 975,509)                 | \$( 84,234)                  | \$(49,938)                   | \$(44,571)                   | \$(48,151)                  | \$(34,995)                   | \$(38,780)                   | \$(30,933)                   |
| Per share                   | \$( 0.04)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                   | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    |
| Per share,<br>fully diluted | \$( 0.04)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                   | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    |
| Net<br>(loss)/income:       |                              |                              |                              |                              |                             |                              |                              |                              |
| Total                       | \$(977,420)                  | \$ 1,260                     | \$(65,083)                   | \$(43,359)                   | \$(21,645)                  | \$(33,036)                   | \$(33,270)                   | \$(23,834)                   |
| Per share                   | \$( 0.04)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.02)                   | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    |
| Per share,<br>fully diluted | \$( 0.04)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    | \$( 0.02)                   | \$( 0.00)                    | \$( 0.00)                    | \$( 0.00)                    |

The Company reported a net loss of \$977,420 for the three months ended August 31, 2007 compared to a loss of \$21,645 for the three months ended August 31, 2006.. This is mainly due to the increased stock-based compensation cost incurred on the issuance of stock options.

*Financings, Principal Purposes and Milestones*

During the year the Company completed a private placement of 10 million units at a price of 60 cents per unit, for gross proceeds of \$6 million. Each unit consists of one common share of the Company and one share purchase warrant of the Company. Each warrant entitled the holder thereof to purchase one share for a one-year period expiring August 9, 2008, at an exercise price of 75 cents per share. The Company issued a total of 700,000 units as finders' fees.

In the event that the Company's shares trade at a closing price on the TSX Venture Exchange of greater than 75 cents per common share for a period of 20 consecutive trading days after the expiration of the hold period, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30 days after the date on which such notice is given by the Company.

During the year ended August 31, 2007 the Company disposed of an investment for proceeds of \$143,235 and recorded a gain on sale of \$83,252 while another investment was disposed of during the same period for proceeds of \$85,005 resulting in a loss on sale of \$16,674.

*Off Balance Sheet Arrangements*

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

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*Related Party Transactions*

In the course of regular business activities, the Company enters into transactions with related parties from time to time. During the year ended August 31, 2007, the Company incurred the following fees charged by directors of the Company or by private companies with directors in common with the Company

|                                       | Year ended August 31, |                  |
|---------------------------------------|-----------------------|------------------|
|                                       | <u>2007</u>           | <u>2006</u>      |
| Administration and other fees         | \$ 72,300             | \$ 42,325        |
| Directors' fees                       | 28,500                | 4,500            |
| Furniture and telephone rental        | 27,144                | 24,925           |
| Office and miscellaneous              | 29,040                | 26,660           |
| Drilling, completion, and other costs | 254,249               | -                |
| Rent                                  | <u>26,136</u>         | <u>23,994</u>    |
|                                       | <u>\$437,369</u>      | <u>\$122,404</u> |

*Subsequent Events*

Subsequent to August 31, 2007:

- a) the Company issued 4,200,000 units at \$0.50 per unit pursuant to a private placement for gross proceeds of \$2,100,000. Each unit consisted of one common share and one share purchase warrant entitling the holder thereof the right to purchase an additional common share for each warrant held at \$0.60 per share for one year. In addition, the Company paid finders' fees of \$52,500 and issued 168,350 units as finders' fees with the same terms as the private placement units.
- b) the Company granted share purchase options entitling the holders thereof the right to purchase 200,000 common shares of the Company at \$0.47 per share until September 20, 2009, 100,000 common shares at \$0.49 per share until October 26, 2012, and 1,250,000 common shares at \$0.60 per share until November 12, 2012.
- c) the Company issued 3,000,000 common shares pursuant to an assignment agreement in which the Company acquired an additional 13.4291% working interest (10.0751% net revenue interest) in the High Island oil and gas lease and a 7.97087% working interest (5.73113% net revenue interest) in the well.
- d) During the year a claim was made against the Company and another party for amounts allegedly advanced to third parties in the amount of \$399,736. This claim was settled on February 18, 2008.

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*Subsequent Events (Cont'd)*

- e) the Company issued 275,000 units at \$0.60 per unit pursuant to a private placement for gross proceeds of \$165,000. Each unit consisted of one common share and one non-transferable share purchase warrant entitling the holder thereof the right to purchase an additional common share for each warrant held at \$0.70 per share for one year.

*Liquidity and Solvency*

As at August 31, 2007, the Company has a working capital deficiency of \$1,672,793 which may not be sufficient to meet ongoing obligations as they become due.

*Accounting Changes*

There were no accounting changes in the Company's policies and procedures as compared to the prior year.

*Critical Accounting Estimates*

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgement. Actual results may differ from these estimates.

Management's opinion is that the financial statements have been properly prepared within the framework of the significant accounting policies, certain of which are summarized as follows:

- a) Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized on a country-by-country basis. 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 gross proved reserves as determined 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.

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*Critical Accounting Estimate (Cont'd)*

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 petroleum and natural gas properties are applied against 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 calculates a ceiling test whereby the carrying value of petroleum and natural gas properties is compared to the sum of the undiscounted cash 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, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation 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.

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*Disclosure of Outstanding Share Data*

As at February 18, 2008, authorized share capital for the Company was unlimited common shares without par value. A total of 31,752,451 common shares have been issued as follows:

|   | <u>Outstanding Share Capital</u> |                      |
|---|----------------------------------|----------------------|
|   | <u>Number of Shares</u>          | <u>Amount</u>        |
| Balance as at August 31, 2007                     | 24,109,101                       | \$ 7,691,846         |
| <u>Subsequent</u>                                 |                                  |                      |
| Private placement at \$0.50                       | 4,200,000                        | \$ 2,100,000         |
| Finders' fee at \$0.50                            | 168,350                          | \$ 84,175            |
| Assignment agreement at a deemed price of \$0.445 | 3,000,000                        | \$ 1,335,000         |
| Private placement at \$0.60                       | <u>275,000</u>                   | <u>\$ 165,000</u>    |
| Balance as at February 15, 2008                   | <u>31,752,451</u>                | <u>\$ 11,376,021</u> |

|                                 | <u>Outstanding Warrants</u> |                |                          |
|---------------------------------|-----------------------------|----------------|--------------------------|
|                                 | <u>Number</u>               | <u>Price</u>   | <u>Expiry Date</u>       |
| Balance as at August 31, 2007   | 10,700,000                  | \$ 0.75        | August 9, 2008           |
| <u>Subsequent</u>               |                             |                |                          |
| Private placement               | 4,200,000                   | \$ 0.60        | November 16, 2008        |
| Finders' fee                    | 168,350                     | \$ 0.60        | November 16, 2008        |
| Private placement               | <u>275,000</u>              | <u>\$ 0.70</u> | <u>February 14, 2009</u> |
| Balance as at February 15, 2008 | <u>15,343,350</u>           |                |                          |

|                                 | <u>Outstanding Stock Options</u> |                |                      |
|---------------------------------|----------------------------------|----------------|----------------------|
|                                 | <u>Number</u>                    | <u>Price</u>   | <u>Expiry Date</u>   |
| Balance as at August 31, 2007   | 1,340,910                        | \$ 0.67        | July 26, 2012        |
| <u>Subsequent</u>               |                                  |                |                      |
| Stock options granted           | 200,000                          | \$ 0.47        | September 20, 2009   |
| Stock options granted           | 100,000                          | \$ 0.49        | October 26, 2012     |
| Stock options granted           | 1,250,000                        | \$ 0.60        | November 22, 2012    |
| Stock options cancelled         | <u>(413,500)</u>                 | <u>\$ 0.67</u> | <u>July 26, 2012</u> |
| Balance as at February 15, 2008 | <u>2,477,410</u>                 |                |                      |

*Internal Control over Financial Reporting*

The Company has put in place a system of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian generally accepted accounting principles.

There have been no changes in these controls. The Chief Executive Officer and the Chief Financial Officer, along with the other members of management and the audit committee,

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*Internal Control over Financial Reporting (Cont'd)*

evaluated them and found the controls to be effective for a company of its size. Due to the limited number of staff at the Company it is not feasible to achieve segregation of incompatible duties. While management of the Company has put in place certain procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

*Disclosure Controls and Procedures*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annuals filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system are met.

*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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