

PROBE RESOURCES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
As of August 31, 2009

This Management Discussion and Analysis was prepared on December 21, 2009.

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Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2009 and August 31, 2008. 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 Management Discussion and Analysis to refer to Probe Resources Ltd. and its subsidiaries.

The audited 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 Management's Discussion and Analysis 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. The Company 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 Management's Discussion and Analysis should not be unduly relied upon by investors. These statements speak only as of the date of this Management's Discussion and Analysis and are expressly qualified, in their entirety, by this cautionary statement.

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

- i. capital expenditure programs;
- 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 Management's Discussion and Analysis, 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 management discussion and analysis:

- 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 Management Discussion and Analysis are made as of December 21, 2009, 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

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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.

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	Member of the Reserves and Audit Committees (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 Tinch	Vice President Finance and Corporate Secretary
Paul A. Diven	Controller
Dan Bomersbach	Operations Manager

During the year Mr. Richard Buski was appointed (July 30, 2009) to the Board of Directors and as chair of the Audit Committee, while Mr. David Antony and Mr. Michael Bowie resigned as directors (May 19, 2009) to pursue other opportunities. On September 21, 2009 (*Subsequent Event*) Mr. Richard FitzGerald was appointed as Chief Financial Officer, replacing Mr. Paul Diven, who now serves as Controller of the Company.

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, 2009, the Company was in the development stage as an oil and natural gas company, owning interests in two 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.

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Discussion of Gulf of Mexico Operations

Agreements to Purchase Oil and Gas Rights

During the year ended August 31, 2007, the Company acquired a 33.574% Working Interest (“WI”) and a 25.1875% Net Revenue Interest (“NRI”) in an oil and natural 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 was \$583,495 (US\$550,000) and 33.574% of all costs except for certain well costs of which the Company’s share is 46.30896%. The Company also agreed to a 72.5% share of the flowline costs. In December 2007, the Company purchased an additional 13.4291% WI (10.075% NRI) in the lease and a 7.97087% WI (5.73113% NRI) in the well. Consideration for the additional interest was the issue of 3,000,000 common shares at a deemed price of \$0.445 per share. The well had been completed with production having commenced in late November of 2007. Accordingly, depreciation, depletion and amortization have been recorded since December 1, 2007.

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.

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 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.

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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 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. Resumption of production will require either installation of full processing facilities on the Company’s platform or connection to another host facility. Funds for the reconnection project may come from a working interest concession or from a portion of the funds of the new incremental loan in November, 2009, if needed. The well is expected to resume production in early 2010 at its previous rate.

Probe is non-operator of the field and owns a 41.5% WI and 31% NRI in the High Island Well.

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 16 - 20 MMcfd and 200 BCPD. The Company holds a 100% WI and 68.5% NRI prior to project payout and an 80% WI and 57.7% NRI after project payout.

C. East Cameron 36 – On August 25, 2008 the Company announced discovery of commercial reserves in multiple horizons at its East Cameron 36 #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 has been installed in the well, a caisson has been over-driven, and a caisson deck 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 East Cameron 36 well including prospect acquisition fees, drilling costs and development costs to date, as well as the joint venture partners’ proportionate contribution of well costs and future development costs. The expected gross production rate from the East Cameron 36 Well #1 is 5 – 8 MMcfd. Company retains a 52% WI and 35.62% NRI prior to project payout and a 41.6% WI and 30.004% NRI after project payout in the project area. The project area consists of East Cameron 36, East Cameron 37, and Vermilion 20. Probe continues as operator of the project area.

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On November 16, 2009 (*Subsequent Event*) the Company announced that it was commencing well drill out, installation of production casing, and completion activities at its East Cameron 36 #1 well.

- D. East Cameron 37 - On June 2, 2009 the Company announced the discovery of commercial gas reserves in its East Cameron 37 Well #1. 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 was commencing 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 East Cameron 37 #1 well. The expected gross production rate from the East Cameron 37 Well #1 is 20-25 MMcfd. The Company holds a 52% WI and 35.36% NRI prior to project payout and a 41.6% WI and 29.796% NRI after project payout.

- E. East Cameron 246 – On October 30, 2008 the Company announced discovery of commercial reserves in its East Cameron 246 #2 Well. 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 MMcf of gas per day. Upon completion of the drilling activities, production casing was run, and the well was suspended awaiting evaluation of development alternatives. The Company is seeking a joint venture partner to assist in financing the further development of the discovery. The Company holds a 100% WI and 68.5% NRI prior to project payout and an 80% WI and 57.7% NRI after project payout.

The above net revenue interest reflect the litigation settlement's impact on overriding royalties on the affected properties.

Other Interests - Seismic Data

The Company incurred additional seismic data of \$791,784 (US\$672,143) during the fiscal year 2009. Total capitalized seismic data costs incurred through August 31, 2009 were \$1,764,240 (US\$1,497,657).

Independent Reserve Engineers

As the Company continues to grow and add reserves, it has 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 - with Reserves Committee and Board approval - 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	\$ -	\$ -	\$ -

The Company reported a net loss of \$21,626,330 for the year ended August 31, 2009, compared to a net loss of \$4,076,271 for the year ended August 31, 2009. The net production revenue was \$23,918,542 for the year ended August 31, 2009 compared to \$5,110,861 for the year ended August 31, 2008. The net loss for the fiscal year was the result of lower natural gas prices during the 2009 fiscal year, higher lease operating expenses (including transportation charges), depletion, and accretion expenses primarily associated with the production completion of South Timbalier 214, the repair costs associated on High Island 115 from the previous year's hurricane, the High Island 115 Well being shut in during a portion of the reporting period, higher administrative costs, year-end Litigation Settlement accrued and write-off of the deferred financing costs. Depletion expense for 2009 also increased due to the lower and conservative proved reserves from the current engineering reserve report. The general and administrative expenses for the year ended August 31, 2009 were \$11,867,082 compared to \$5,556,957 for the year ended August 31, 2008. The significant increase is attributable to the full year affect of its staff and the U.S. operations office, increased legal costs due to debt restructure and other legal matters and higher interest expense as a result of increased debt including the impact of the Debt Restructuring Agreement. The foreign currency exchange gain was \$3,194,175 for the year ended August 31, 2009 compared to a gain of \$375,346 for the same period in 2008 as a result of the decline of the Canadian dollar against the U.S. dollar during the reporting period.

Results of Operations

The following table summarizes production volumes, average sales prices and operating revenues for the year ended August 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Production Volumes		
Oil (Bbl)	71,368	780
Natural gas (Mcf)	<u>4,729,700</u>	<u>536,995</u>
Natural gas (Mcfe)	5,157,907	541,675
Natural gas (Mcf/day)	14,131	1,484

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	2009	2008
Average Sales Price		
Oil	\$ 49.89	\$ 128.13
Natural Gas	\$ 4.30	\$ 9.33
Operating Revenue		
Oil	\$ 3,560,614	\$ 99,940
Natural Gas	<u>\$ 20,357,928</u>	<u>\$ 5,010,921</u>
Total	<u>\$ 23,918,542</u>	<u>\$ 5,110,861</u>
Lease Operating Expense	\$ 3,943,831	\$ 1,272,789
Lease Operating Expense per Mcfe	\$ 0.76	\$ 2.35

Summary of Quarterly Results

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

	Q4 Aug 31, 2009	Q3 May 31 2009	Q2 Feb 28 2009	Q1 Nov 30 2008	Q4 Aug 31 2008	Q3 May 31, 2008	Q2 Feb 29, 2008	Q1 Nov 30, 2007
Total revenues	\$10,301,806	\$9,780,116	\$3,764,341	\$72,279	\$1,859,556	\$2,007,280	\$1,244,025	\$-
Income (loss) before other items:								
Total	\$(14,401,715)	\$569,487	\$(2,184,713)	\$(1,645,389)	\$(2,552,427)	\$(354,535)	\$(336,704)	\$(1,219,491)
Per share	\$(0.14)	\$ 0.00	\$(0.02)	\$(0.02)	\$(0.03)	\$(0.01)	\$(0.02)	\$(0.04)
Net Income (loss):								
Total	\$(21,307,717)	\$2,538,541	\$(1,866,819)	\$(990,335)	\$(2,090,181)	\$(430,816)	\$(335,930)	\$(1,219,344)
Per share	\$(0.20)	\$ 0.02	\$(0.02)	\$(0.01)	\$(0.02)	\$(0.01)	\$(0.02)	\$(0.04)

For the quarter ended August 31, 2009, the Company reported revenues of \$10,301,806 and a net loss of \$21,307,717 as compared to revenues of \$1,859,556 and a net loss of \$2,090,281 for the quarter ended August 31, 2008. The increase in revenues is primarily from the South Timbalier well added during 2009 partially offset by reduced natural gas prices in 2009 and the temporary suspension of production of the High Island 115 well. The net loss is the result of higher operating and depletion costs from having two production wells in the current quarter, year-end depletion adjustment recorded in the current quarter from the current year's Reserve Engineering report and year end reconciliation of proved producing properties asset value (see next paragraph for further explanation). Higher general and administrative costs of \$5,249,775 were incurred in the current quarter as compared to \$2,168,936 recorded in the August 2008 quarter. The increase is primarily the result of legal costs associated with the debt restructure, and increased interest expense due to the incremental debt incurred during the year, and the interest expense associated with the Debt Restructuring Agreement. Foreign exchange recorded during the quarter was a gain of \$248,186 as compared to a gain of \$453,229 recorded in the August 2008 quarter reflecting the current relationship of the U.S. and Canadian currency. During the August 2009 quarter, the Company recorded an accrual for its Litigation Settlement of \$1,472,625 and a \$5,681,675 write off of its deferred financing costs.

During the fourth quarter, the Company adjusted its depletion expense based upon the year end current reserve report received from the Independent Reserve Engineers. The reserve report had lower and more conservative proved reserves volumes from the estimates the Company was using to determine its quarterly depletion expense during the year using the previous year's reserve

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report. The Company recorded a fourth quarter adjustment of approximately US\$2.9 million additional depletion expense for the related production volumes in the fourth quarter from using the lower proved reserves estimate. In addition, the Company recorded US\$3.7 million of additional depletion expense in its fourth quarter from the impact of the lower proved reserves on the previous quarters as well as a yearend adjustment to the proved properties cost pool for depletion purposes. The current reserve information may be found in the NI 51-101 Report filed on SEDAR at www.sedar.com.

Financings, Principal Purposes and Milestones

On November 16, 2007, 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 and entitled 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.

On December 19, 2007, the Company issued 3,000,000 common shares pursuant to an assignment agreement in which the Company acquired an additional 13.4291% WI (10.0751% NRI) in the High Island oil and natural gas lease and a 7.97087% WI (5.73113% NRI) in the well.

On February 15, 2008, the Company announced that it had issued 275,000 units at \$0.60 per unit pursuant to a private placement for gross proceeds of \$165,000. Each unit consists of one common share and one share purchase warrant and entitled the holder thereof the right to purchase an additional common share for each warrant held at \$0.70 per share for one year.

On March 5, 2008, the Company announced a best efforts private placement of up to 40,000,000 units (each, a "Unit") of the Company at a price of \$0.50 per Unit for gross proceeds of up to \$20,000,000 (the "Offering"), which did not proceed.

On June 6, 2008, the Company closed a non-brokered private placement consisting of 16,000,000 Units (each, a "Unit") at a price of \$0.40 per Unit, for gross proceeds of \$6,400,000. Each Unit consisted of one common share of the Company (a "Share") and one transferable share purchase warrant (the "Warrants"). Each Warrant entitles the holder thereof to purchase one additional Share for a two-year period expiring on June 3, 2010 at an exercise price of \$0.40 per Share. The Company incurred finders' fees of \$77,000. In addition, the Company issued 511,875 units as finders' fees with the same terms as the private placement units. All proceeds on the issue of units have been allocated to share capital and none to warrants. The net proceeds from the Offering were used by the Company to complete the acquisition of licenses in certain oil and natural gas leases in the U.S. Gulf of Mexico, the settlement of debt obligations, and for general working capital.

On July 2, 2008, the Company closed a best efforts brokered private placement consisting of 54,720,000 Units (each, a "Unit") at a price of \$0.50 per Unit, for gross proceeds of \$27,360,000. Each Unit consisted of one common share of the Company (a "Share") and one transferable share purchase warrant (the "Warrants"). Each Warrant entitled the holder thereof to purchase one additional Share for a one-year period which expired on June 30, 2009 at an exercise price of

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\$0.75 per Share. The brokers received a cash commission of \$1,726,400 representing 6.5% of the gross proceeds raised in the Offering (excluding proceeds raised from the sale of Units in the United States) and a total of 2,656,000 non-transferable compensation options (each an “Broker Option”) representing 5% of the Units sold in the Offering. Each Broker Option entitled the holder thereof to purchase one Share for a one-year period which expired on June 30, 2009 at an exercise price of \$0.50 per Share. The brokers also received a corporate finance fee of \$52,000.

During the year ended August 31, 2008, a claim was made against the Company and another party for amounts allegedly advanced by third parties in the amount of \$399,736. The settlement of the claim was announced on March 11, 2008 and the Company was released from the claim.

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) in connection therewith. 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% (\$277,271.90) of the funds raised and 4% (\$280,000) in warrants of the Company exercisable into common shares at a price of \$0.25 per warrant on or before 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 is 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 over a six-month period 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 on or before 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 36.4% NRI prior to project payout and a 41.6% WI and a 30.784% NRI after project payout in the project area. The project area consists of East Cameron 36, East Cameron 37, and Vermilion 20. Probe will continue as operator of the project area.

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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 (as more fully described in *Subsequent Events* below) by a Debt Restructuring Agreement as announced on September 21, 2009.

On November 16, 2009 the Company announced that it had entered into an amended and increased credit facility agreement with an institutional lender (“the Lender”) whereby the Lender will provide 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 which are anticipated to retire the loan over the primary term of the Loan which is one year.

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 the initial three 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

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

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in 2013. Future minimum payments under the operating lease for the next five years are as follows:

August 31, 2010	\$376,147
August 31, 2011	\$376,147
August 31, 2012	\$386,207
August 31, 2013	\$391,237
August 31, 2014	\$130,412

Contingency

The Company's 100% owned U.S. subsidiary, Probe Resources US Ltd., along with an officer of the Company, were named as defendants in a petition filed in the State Court of Texas, USA during September 2008 and amended in November 2008 to add Probe and the officer as defendants.

Subsequent to the current reporting period, Probe reached a settlement of all claims and dismissal of the 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 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 Company is pleased to remove the uncertainty surrounding such claims and the concomitant material legal expenses. The settlement amount was included in the August 31, 2009 financial results for the Company.

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, 2009 and 2008, 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>2009</u>	<u>2008</u>
Administration fees	\$ -	\$ -
Consulting fees	-	603,612
Corporate development	-	12,000
Directors' fees	77,500	59,000
Drilling, completion and other costs	-	143,322
Furniture and equipment rental	-	-
Legal fees	515,997	281,650
Office and miscellaneous	-	-
Rent	-	37,568
Wages and benefits	158,520	142,808
	<u>\$ 752,017</u>	<u>\$ 1,279,960</u>

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

At August 31, 2009, accounts payable and accrued liabilities include \$337,627 (2008: \$85,708) due to directors of the Company or to private companies with directors in common with the Company and \$Nil (2008: \$Nil) due to a private company controlled by a significant shareholder of the Company.

At August 31, 2009, an officer of the Company was indebted to the Company for \$9,428 (2008: \$9,428) from payroll advances. This amount is included in prepaid expenses and deposits.

On June 6, 2008, the Company agreed to acquire the remaining 25% working interest rights from Cutter Energy on the Concessions noted above (the "Cutter Transaction"). Cutter Energy is owned by Scott Broussard (President, CEO, and Chairman of Probe) and the acquisition is, therefore, considered to be a non-arm's-length transaction. Total consideration for the Cutter interest rights is US\$829,594 cash, and the issue of up to 4,000,000 Common Shares. The Company issued 2,000,000 Common Shares upon closing of the transaction and 666,667 Common shares on March 3, 2009 upon completion of the South Timbalier 214 well. The Company will issue to Cutter the remaining 1,333,333 Common Shares, 666,666 common shares for each occurrence of up to two additional successful wells at distinct leases within 24 months from the date of the agreement.

On September 2, 2008, the Company advanced US\$750,000 to an officer of the Company as a relocation/home ownership loan. The advance bears interest at 5% and is 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 forgiven as to 50% as of January 1, 2009 and the remaining 50% is scheduled to be forgiven on January 1, 2010.

Liquidity and Solvency

At August 31, 2009, the Company had a net working capital deficiency of \$31,599,976 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 obligations and repay its liabilities arising from normal business operations when they come due. During the year ended August 31, 2009 the Company entered into two financing transactions totaling in excess of a net US\$14.0 million (as more fully described in *Financings, Principal Purposes and Milestones* above) to assist in its ability to meet its obligations. 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 August 31, 2009, the DRA creditors' balances were US\$35,908,462, consisting of accounts payables balance of US\$21,240,507 and debt balances of US\$14,667,954.

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Adoption of New Accounting Standards

On August 31, 2008, the Company adopted three new accounting standards and one amended standard: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, Handbook Section 3863, Financial Instruments – Presentation and Handbook Section 1400, General Standards of Financial Statement Presentation. The requirements of these new standards are for disclosure purposes only and have not impacted the financial results of the Company.

Capital Disclosures

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv); if it has not complied, the consequences of such non-compliance. This new disclosure is summarized in note 18 to the financial statements.

Financial Instruments

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carry forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Note 18 to the financial statements provides the required disclosure under this new accounting standard.

General Standards of Financial Statement Presentation

The amended Section 1400 provides guidance related to management's assessment of the Company's ability to continue as a going concern. The additional requirement requires management to make an assessment of the Company's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Note 1 to the financial statements addresses the additional disclosure as required.

Financial Statement Concepts

Handbook section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the adoption of this change on its financial statements.

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements, and 1602 – Non Controlling Interests. Section 1582 replaces

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Section 1581 – Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Sections 1601 and 1602 replace Section 1600 – Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective April 1, 2011. Early adoption of the Sections is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

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 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 fiscal year 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated 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 Corporation. 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 Corporation to fund its substantial capital requirements and operations; risks associated with ensuring title to the Corporation’s properties; changes in environmental or other legislation applicable to the Corporation’s operations, and the Corporation’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 Corporation’s exploration and development drilling and estimated decline rates; the Corporation’s success at acquisition, exploration, exploitation and development of reserves and resources; the Corporation’s reliance on key operational and management personnel; the ability of the corporation to obtain and maintain all of its required permits and licenses; competition for, among other things, capital, drilling equipment, 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.

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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 Company's financial statements are denominated in Canadian dollars. The Company's financial results will fluctuate based on 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 calculates a ceiling test whereby the carrying value of oil 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

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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 December 21, 2009, authorized share capital for the Company was unlimited common shares without par value. A total of 105,049,866 common shares have been issued as follows:

	<u>Share Capital</u>		<u>Contributed Surplus</u>
	<u>Number of Shares</u>	<u>Amount</u>	
Balance, September 1, 2007	<u>24,109,101</u>	<u>\$ 7,691,846</u>	<u>\$ 1,090,364</u>
Issued for acquisition of			
-oil and natural gas properties – at \$0.445	3,000,000	1,335,000	-
-oil and natural gas properties – at \$0.50	2,000,000	1,000,000	-
Issued for cash pursuant to			
-private placement agreements - at \$0.50	4,200,000	2,100,000	-
-private placement agreements - at \$0.60	275,000	165,000	-
-private placement agreements - at \$0.40	15,999,999	6,400,000	-
-private placement agreements - at \$0.50	54,720,000	27,360,000	-
Issued for			
-finder's fees - at \$0.40	168,350	84,175	-
-finder's fees - at \$0.50	511,875	204,750	-
Less: share issue costs	-	(3,717,469)	1,150,706

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Share purchase options			1,548,623
Cancelled escrow shares	<u>(601,125)</u>	-	-
	Share Capital		
	<u>Number of</u>		<u>Contributed</u>
	<u>Shares</u>	<u>Amount</u>	<u>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>-</u>	<u>-</u>	<u>734,873</u>
Balance, December 21, 2009	<u>105,049,866</u>	<u>\$42,712,280</u>	<u>\$4,558,166</u>

Share purchase warrants outstanding at December 21, 2009 are as follows:

<u>Number of</u> <u>Options</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
16,511,874	\$0.50	June 6, 2010
7,000,000	\$0.20	November 28, 2013
280,000	\$0.25	February 9, 2010
7,000,000	\$0.25	February 19, 2013
<u>280,000</u>	<u>\$0.25</u>	<u>February 19, 2010</u>
<u>31,071,874</u>		

Share purchase options outstanding at December 21, 2009 are as follows:

<u>Number of</u> <u>Options</u>	<u>Exercise</u> <u>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
3,243,000	\$0.40	March 5, 2013
556,000	\$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
300,000	\$0.15	July 29, 2014
400,000	\$0.15	September 20, 2014
<u>400,000</u>	<u>\$0.25</u>	<u>September 20, 2014</u>
<u>9,129,413</u>		

Financial Instruments

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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.

Subsequent Events

Debt Restructuring Agreement

On September 21, 2009 the Company announced that it had entered into a Debt Restructuring Agreement (the "DRA"). The DRA replaces and supersedes the Interim Creditor Agreement (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 as well as lease operating expenses and 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 Company provides updated projections to the DRA creditors on a continual basis and projects all creditors within the DRA should be paid by calendar year end 2010 or shortly thereafter given the Company's announced new wells production program for early 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.

As of August 31, 2009, the DRA creditors and debtors balances were US\$35,908,462, consisting of an accounts payables balance of US\$21,240,507 and debt balances of US\$14,667,954.

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

1. **Capital Raise:** 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

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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 which negatively impacted the working capital balance.

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 deferred 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 early 2010.

East Cameron Development

On November 16, 2009 the Company announced that it was commencing hook up and completion work on its East Cameron 36 and East Cameron 37 discoveries, which encompasses facilities work at East Cameron 37 and the Vermilion 22 host platform, installation of an export pipeline from East Cameron 37 to Vermilion 22, well drill out, production casing, and completion at East Cameron 36 #1, and East Cameron 37 #1 well completion.

The Company, along with its partners, including Petrodome Energy, LLC, a privately held Houston based E&P company which holds a 44% WI and 32.1% NRI in the wells, expects to complete the development work by year end and commence production in 1Q 2010 at a gross combined rate of 25,000 mcf/d and 200 bcpd. The Company is operator of the project and owns a 52% WI and 35.62% NRI in the East Cameron 36 #1 Well and 35.36% NRI in the East Cameron 37 #1 Well prior to project payout. Completion of these wells is expected to generate incremental production revenues adequate to retire all outstanding debt (including payment to creditors under Probe's DRA) by late 2010 or early 2011.

Development Financing

On November 16, 2009 the Company announced that it had entered into an amended and increased credit facility agreement with an institutional lender ("the Lender") whereby the Lender will provide 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 to be used for underwriting and amendment fees to the Lender. Debt service will be generated from production payments wells which are anticipated to retire the loan over the one-year primary term.

Litigation Settlement

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On November 16, 2009 the Company announced that it had reached a settlement of all claims and dismissal of a lawsuit initiated by a party against Probe Resources US Ltd. and an officer of the Company alleging the use of confidential information related to certain properties previously acquired by Probe, thereby removing the uncertainty surrounding such claims and the concomitant material legal expenses. 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 on certain Probe properties prospectively. 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. As of August 31, 2009, the Company provided a provision of \$1,472,625 (US\$1,250,000) for the settlement.

For further information, please contact the Company.

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