

PROBE RESOURCES LTD.

Management Discussion and Analysis

August 31, 2011

This management's discussion and analysis ("MD&A") of Probe Resources Ltd. ("Probe" or the "Company") reflects its August 31, 2011 financial results and operations as well as developments following August 31, 2011 through the date of preparation of this MD&A. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and related notes. The audited consolidated financial statements and the related notes have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All dollar amounts are stated in Canadian dollars, unless otherwise noted.

The Company emerged from bankruptcy on April 15, 2011, resulting in a substantial realignment of the non-equity and equity interests in the Company, as well as a change in control. The Company has accounted for the financial reorganization under fresh start accounting, resulting in the revaluation of all assets and liabilities of the Company at estimated fair values and the elimination of the Company's deficit. The reorganization had limited impact on the Company's physical operations and, therefore, for purposes of this MD&A, the results of operations will be discussed without reference to the financial reorganization occurring with the emergence from bankruptcy. The results for the year ended August 31, 2011, as discussed in this MD&A, include the period September 1, 2010 to April 15, 2011 before the financial reorganization under the Predecessor Company and the period April 16, 2011 to August 31, 2011 under the reorganized Successor Company. The financial reorganization plan is described in Note 1 of the Company's consolidated financial statements.

Overview

Probe Resources Ltd. is an independent oil and natural gas company incorporated in British Columbia in 1988. At August 31, 2011, the Company's principal properties consist of interests in three producing oil and natural gas properties and seven federal oil and natural gas blocks, all located in the United States Gulf of Mexico.

Probe's core business and strategy is focused on the development of existing oil and natural gas properties and the production and sale of oil and natural gas from those properties.

Key drivers of performance in the business are: (i) ability to successfully exploit, discover and develop commercial oil and natural gas reserves on the Company's properties, and (ii) ability to optimize profitability from operation of producing wells. Further, the Company's ability to successfully exploit, discover and develop its properties is a function of, among other things: (i) ability, or the ability of its partners, to retain rigs, drillers, personnel and supplies to carry out drilling operations in a professional and cost effective manner; (ii) the ultimate results of such drilling operations; (iii) the availability, on commercially reasonable terms, of transportation, storage, handling, processing and other facilities to service producing wells; and (iv) ability to finance the costs of such operations. The Company's ability to optimize profitability from the operation of producing wells is a function of, among other things: (i) lease operating expenses, which expenses may be beyond our control, particularly on wells operated by third parties; (ii) volumes of oil and natural gas produced; and (iii) prevailing prices for oil and natural gas.

During the period ended August 31, 2011, and continuing a trend that existed throughout the years ended August 31, 2009 and 2010 of the predecessor company, the Company's ability to execute on its strategy was materially impaired by the residual effects of earlier hurricanes and mechanical failures that resulted in declining production and a steep decline in commodity prices during late 2008 through mid-2009 that resulted in sharply reduced profitability and liquidity and a severe strain on the Company financial resources. As a result of the Company's lack of liquidity and financial resources, the Company was limited in its ability to develop existing reserves and conduct exploration on federal lease blocks acquired in 2008. As a result of such lack of liquidity and financial resources, management of the predecessor company was required to devote substantial time and effort and company resources to securing new financing and/or renegotiate existing debt. Those efforts culminated in the execution of a Debt Restructuring Agreement (the "DRA") in September 2009 which, among other things, provided mechanisms to support ongoing operating costs and modified debt service on outstanding indebtedness.

In November 2009 and May 2010, the predecessor company entered into separate credit facilities to support ongoing development projects and the DRA was amended to accommodate such facilities.

On September 15, 2010, the DRA expired as did a Forbearance Agreement entered into in connection with the DRA. Following expiration of the DRA and Forbearance Agreement, a financial advisor was retained to develop a restructuring plan.

On November 16, 2010, each of predecessor's U.S. subsidiaries filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court and on December 7, 2010, the predecessor company filed a similar Chapter 11 petition in Canada.

In connection with the bankruptcy filing, the predecessor's then chief executive officer and chief operating officer were each terminated. Other employees, including the chief financial officer, left the predecessor company during the months following the bankruptcy filing.

On December 14, 2010, the Company announced that the predecessor company's audited financial statements for the financial year ended August 31, 2010 and related management discussion and analysis and CEO and CFO certifications (the "Required Documents") would not be filed on the prescribed date required under Canadian securities regulations due to complications relating to the Chapter 11 filing. The Company made application to securities regulatory authorities for a management cease trade order related to the Company's securities to be imposed against some or all of the persons who are or have been directors, officers, or insiders of the Company, where such application was denied. A general issuer cease trade order was issued by the British Columbia Securities Commission on January 7, 2011 and, correspondingly, the TSX Venture Exchange suspended trading of the Company's shares on January 10, 2011.

On March 21, 2011, a Plan of Reorganization was confirmed by the Bankruptcy Court. On March 22, 2011, the Company applied to, and authority was received from, the Executive Director of the British Columbia Securities Commission for an order under section 171 of the Act for a variation of the Cease Trade Order to permit it to issue securities in connection with a reorganization of the Company under a plan filed pursuant to Chapter 11 of the United States

Bankruptcy Code. Full reinstatement of trading is not automatic and the Company must make a reinstatement application to the TSX.

On April 15, 2011, the Plan of Reorganization became effective. Pursuant to the Plan of Reorganization, among other things, the Company's principal creditors were issued stock representing 97% of the common shares of the Company.

On July 14, 2011, the Company announced that predecessor company's audited financial statements for the financial year ended August 31, 2010 and related management discussion and analysis and CEO and CFO certifications were filed with the TSX.

On August 9, 2011, the Company announced that its listing has been transferred from the TSX-V Tier 2 to the NEX. The Company's trading symbol has changed from PBR to PBR.H.

On September 16, 2011, the Company announced that the predecessor company's unaudited interim financial statements for the quarters ended November 30, 2010 and February 28, 2011 and related management discussion and analysis and CEO and CFO certifications were filed with the TSX. Also announced was that the Company has undertaken a study of strategic alternatives.

On November 28, 2011, the Company announced that its reviewed financial statements for the quarter ended May 31, 2011 and related management discussion and analysis and CEO and CFO certifications were filed with the TSX.

On December 5, 2011, the Company initiated the process of making an application for reinstatement of trading with the TSX.

From a field operations standpoint, during the year ended August 31, 2011, Probe pursued a development plan on a substantially curtailed basis, focusing on only those projects that the Company's lenders agreed to fund. As such, Probe continued to evaluate development opportunities on the South Timbalier 198, East Cameron 36/37 and Vermillion 20 leases.

During the year ended August 31, 2011, the primary term of the East Cameron 246 lease expired. The lease was being held by a Suspension of Operations ("SOP") through June 30, 2011. The SOP required certain milestones in order to retain the lease. After careful geologic and economic evaluation, the Company decided not to pursue completion of this project and the SOP, and lease, lapsed on June 30, 2011.

Owing to the substantially curtailed investments in development and field maintenance, during the year ended August 31, 2011, Probe was unable to offset natural production declines and experienced a decline in production volumes of 67% from 3.5 million cubic feet of natural gas equivalent ("MMcfe") in the year ended August 31, 2010 to 1.1 MMcfe in the year ended August 31, 2011. The decline in production volume was offset by a 2% increase in commodity prices realized on a per Mcfe basis resulting in a 64% change in oil and natural gas revenues to \$6.0 million in the year ended August 31, 2011, compared to \$16.4 million in the year ended August 31, 2010.

During the year ended August 31, 2011, in order to reduce the Company's overhead, the Company closed its Woodlands, Texas office, terminated the remaining prior employees and

contracted with Pisces Energy, LLC (“Pisces”) to provide operational, regulatory and accounting services to support post-bankruptcy operations. Additionally, on exit from bankruptcy on April 15, 2011, the Company appointed a new five-person board of directors and appointed a new Chief Executive Officer and new Chief Financial Officer.

Production for the month of October 2011 averaged approximately 2,360 Mcfe per day (“Mcfe/d”) from two platforms on the continental shelf in the Gulf of Mexico. Production is primarily natural gas. A review is being undertaken to prioritize the Company’s exploration and exploitation opportunities on existing lands.

The Company currently lacks the financial resources to implement a drilling and development plan and is substantially dependent upon controlling shareholders or outside investors to provide the capital resources required to initiate any further development.

Business

At August 31, 2011, the Company’s oil and natural gas properties covered an aggregate of approximately 26,158 gross acres (17,079 net acres), all of which are located in U.S. Gulf of Mexico. The Company’s properties at August 31, 2011, consisted of the following:

- A. **High Island 115** – The Company holds a 27.50% working interest (“WI”), and 22.07% net revenue interest (“NRI”), in the High Island 115 block, a federal lease covering approximately 5,700 acres located offshore southeast of Galveston, Texas, including the High Island #B-ST2 well. The High Island well produced intermittently from September 2008, when associated facilities were damaged by Hurricane Ike, until resumption of production in July 2010 following the completion of work on various support facilities. In connection with the facilities work performed to restore production from the well, the Company reduced its WI and NRI in the lease as consideration for the services of the project contractor and release of certain indebtedness owed to the contractor. Net production from the High Island well averaged 1,388 Mcf/d and 1 barrels of condensate per day (“Bcpd”) during the year ended August 31, 2011. Certain parties having a contractual interest in the HI115 block elected not to participate in a proposed operation. As a result, revenues associated with this interest continue to be collected on their behalf until all funds paid on their behalf for the operation are recouped by the Company.

- B. **South Timbalier 214** – The Company holds a 100.00% WI and 68.50% NRI prior to project payout (“BPPO”) and an 80.00% WI and 57.70% NRI after project payout (“APPO”) in the South Timbalier 214 block, a federal lease covering approximately 5,000 acres located offshore southwest of New Orleans, including the South Timbalier A-6 Sidetrack #1 well. The South Timbalier A-6 Sidetrack # 1 well was drilled in January 2009 to 15,825 feet measured depth and 14,751 feet true vertical depth from a Company owned production platform in the adjacent block which is connected to the NYMEX premium natural gas sales market via a ready for service export pipeline. Net production from the South Timbalier A-6 Sidetrack #1 well averaged 654 Mcf/d and 7 Bcpd during the year ended August 31, 2011. The well loaded up and was shut in on June 8, 2011. The Company is presently conducting an operation to restore production from this well.

C. **East Cameron 36** – The Company holds a 52.00% WI and 35.62% NRI BPPO and a 41.60% WI and 30.00% NRI APPO in the East Cameron 36 block, a federal lease covering approximately 5,000 acres located offshore southwest of Lafayette, Louisiana, including the EC 36 A-1 well. The EC 36 A-1 well was drilled in August 2008 to a total depth of 10,450 feet, casing was installed, and completion of the well was suspended pending satisfactory financing arrangements to complete the same. In April 2009, the Company entered into a joint venture to drill the East Cameron 37 prospect, which joint venture provided for reduction of our interest in the EC 36 A-1 well and the proportionate reimbursement of our costs in the well. The well was completed in December 2009. Net production from the EC 36 A-1 well averaged 1,659 Mcf/d and 11 Bcpd during the year ended August 31, 2011. Evaluation is ongoing with respect to drilling the EC 36 #2 well.

The Company currently serves as operator of the project area consisting of the East Cameron 36, East Cameron 37 and Vermilion 20 blocks.

D. **East Cameron 37** – The Company holds a 52.00% WI and 35.36% NRI BPPO and a 41.60% WI and 29.79% NRI APPO in the East Cameron 37 block, a federal lease covering approximately 2,608 acres located offshore southwest of Lafayette, Louisiana, including the EC 37 A-2 well. The EC 37 A-2 well was drilled in May/June 2009 to a total depth of 12,039 feet, casing was installed and completion of the well was suspended pending satisfactory financing arrangements to complete the same. Following entry into the joint venture arrangement covering the East Cameron 36, East Cameron 37 and Vermilion 20 blocks, production and pipeline facilities supporting those blocks were installed and, in January 2010, the EC 37 A-2 well was completed. The EC 37 A-2 well has produced water since start-up despite operations undertaken to date to block water production from the well. Net production from the EC 37 A-2 well averaged 51 Mcf/d and 0 Bcpd during the year ended August 31, 2011. The Company is presently evaluating this property for additional opportunities.

E. **Vermillion 20** – The Company holds a 52.00% WI and 35.62% NRI BPPO and a 41.60% WI and 30.004% NRI APPO in the Vermillion 20 block, a federal lease covering approximately 3,150 acres located offshore southwest of Lafayette, Louisiana. The lease is undeveloped and still in its primary term. Development potential exists in the Rob L interval from an up-thrown stratigraphic trap at approximately 10,650 feet.

F. **South Timbalier 198** – The Company holds a 100.00% WI and 70.00% NRI in the South Timbalier 198 block, a federal lease covering approximately 5,000 acres located offshore southwest of New Orleans. Initial geological evaluation of the prospect indicated untapped reserve potential up-dip to a previously produced well. The prospect has been evaluated and is included in the Company's Estimate of Reserves and Future Revenue as of August 31, 2011 prepared by Netherland, Sewell & Associates, Inc. In the event that the Company is unsuccessful in attracting new financing for the project, no development will take place.

Debt Restructuring Agreement and Emergence from Bankruptcy

Debt Restructuring Agreement

Between January 2009 and August 2009, the predecessor company entered into a series of financing transactions designed to fund the development of its prospects and to support operations generally. Pursuant to those transactions, the predecessor company (i) sold US\$10.0 million of senior secured notes (the “Senior Secured Notes”) to a single investor (the “Senior Secured Note Holder”) in January 2009, (ii) entered into a secured credit facility in the amount of US\$8.5 million (the “First Credit Facility Loan”) in February 2009 with an institutional lender (the “First Credit Facility Lender”), and (iii) obtained insurance premium financing pursuant to unsecured notes totaling US\$567,631 (the “Insurance Loans”).

As of August 31, 2009, the predecessor company was in default under various provisions of each of the Senior Secured Notes, the First Credit Facility Loan and the Insurance Loans. Effective August 31, 2009, the predecessor company entered into the Debt Restructuring Agreement (the “DRA”) and Forbearance Agreements with the Senior Secured Note Holder and other creditors. Pursuant to the DRA and Forbearance Agreements, the predecessor company’s various lenders agreed to forbear from exercising certain rights against the predecessor company. The predecessor company established a schedule to repay its outstanding past due trade payables and credit agreements based on collected revenues after payment of defined operating costs and overhead and agreed to certain protective provisions for the predecessor company’s creditors and an agent was appointed to administer the DRA (the “Creditors’ Agent”). From November 2009 to May 2010, the predecessor company further amended the DRA to accommodate new borrowings under (i) a separate secured credit facility in the amount of \$9.25 million (the “Second Credit Facility Loan”) with an institutional lender (the “Second Credit Facility Lender”), (ii) a separate secured credit facility in the amount of \$1.75 million (the “Third Credit Facility Loan”), and (iii) additional insurance premium financing in the amount of \$306,404. The DRA expired on September 15, 2010.

Bankruptcy Proceedings and Plan of Reorganization

Following the expiration of the DRA and Forbearance Agreements, on November 16, 2010 (the “Petition Date”), the predecessor company’s U.S. subsidiaries filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court for the Southern District of Texas in Houston, Texas. On December 7, 2010, the predecessor company filed for bankruptcy protection in both the Southern District of Texas in Houston, Texas and on March 31, 2011 in the Supreme Court of British Columbia in Vancouver, Canada. All the bankruptcies were jointly administered in the US under Case No. 10-40395.

On the Petition Date, total liabilities were estimated at \$40.5 million, including \$27.2 million of senior secured notes payable. Following the bankruptcy filing, the predecessor company along with its subsidiaries (together, the “Debtors”), operated the business as debtors-in-possession and sought to negotiate a satisfactory resolution of creditor claims. During the course of the Chapter 11 cases, the Senior Secured Note Holder provided financing (the “Administrative Facility”) to fund certain case administration and operating expenses and acquired the interests of the other secured lenders.

On March 21, 2011, a Plan of Reorganization was agreed to by the Company, its subsidiaries and its creditors and was confirmed by the court with an effective date of April 15, 2011 (the “Effective Date”).

The principal terms of the Plan of Reorganization, were as follows:

- Value of Oil & Gas Properties and Related Debt

The oil and gas properties and related debt were each assigned a negotiated value by the Company and the creditors of US \$15 million. See “Senior Secured Lender Claims (the “Allowed Senior Secured Lender Claim”) and assigned value of related oil and gas assets,” below for additional details.

- Priority Tax Claims

Taxing authorities holding allowed claims (the “Allowed Priority Tax Claims”) shall receive, in full satisfaction, settlement, release, and discharge of such Allowed Priority Tax Claims, regular installments payable in cash in the amount of such claims, excluding penalties, over a period not exceeding five (5) years after the Petition Date. All penalties on, with respect to, or arising in connection with, any Allowed Priority Tax Claim were treated as General Unsecured Claims (more fully described below). As of the Effective Date, Allowed Priority Tax Claims totaled approximately \$0.

- Claim of RLI Insurance Company and the Bureau of Ocean Energy Management, Regulation and Enforcement (“MMS” or “BOEMRE”)

As of the Effective Date, all contracts between the Debtors and the decommissioning and/or plug and abandonment financial responsibility bonding company, RLI Insurance Company, were assumed by the Debtors, to the extent section 365 of the US Bankruptcy Code applies. All bonds and restricted cash remained in place to secure the performance of the reorganized Debtors’ applicable decommissioning and/or plugging and abandonment obligations.

As of the Effective Date, the Debtors assumed, to the extent section 365 of the US Bankruptcy Code applies, all of its oil and gas leases in the Gulf of Mexico granted by and through the BOEMRE and shall pay all claims (if any) of the BOEMRE in the ordinary course of business.

- Senior Secured Lender Claims (the “Allowed Senior Secured Lender Claim”) and assigned value of related oil and gas assets

The Senior Secured Note Holder, K2 Principal Fund L.P., received, with respect to its claims (the “Allowed Senior Secured Lender Claims”), on the Effective Date: (i) 3,095,751,120 common shares, representing ninety percent (90%) of the new common shares of the Company issued under the Plan of Reorganization (the “New Common Shares”); (ii) a note payable in the amount of US \$1.8 million representing the obligations owed by the reorganized Debtors under the Advancing Loan Facility (more fully described below); (iii) a 90% interest in a note payable in the amount of US \$15.0 million, representing the obligations owed by the reorganized Debtors under the Post Confirmation Term Loan (more fully described below); and (iv) an allowed general unsecured deficiency claim totaling approximately US \$13.7 million (“the Deficiency Claim”).

The balance owing to the Senior Secured Note Holder was \$26.1 million (US \$27.2 million). On the Effective Date of the Debtors' Plan of Reorganization, the reorganized Debtors entered into a new term loan with the Senior Secured Note Holder ("Post Confirmation Term Note"). The principal amount of the Post Confirmation Term Note totaled US \$15 million, computed as (i) the agreed upon value of the reorganized Debtors' oil and gas assets, excluding the EC 246 lease, as of the Effective Date (wherein the agreed upon value of the oil and gas properties was approximately US \$15 million), plus (ii) the value of the EC 246 lease in excess of the 246 DIP Facility Loan, if any, on the Effective Date, minus (iii) the amount outstanding on the Administration DIP Facility, or the Advancing Loan Facility, as of the Effective Date. Pursuant to the Plan of Reorganization, a ten percent (10%) participation interest in the Post Confirmation Term Note was assigned to a liquidating trust (the "Liquidating Trust") for the benefit of certain vendors (the "DRA Class 1 and 3 Creditors"). The Post Confirmation Term Note matures on the third anniversary of the Effective Date and accrues interest at 15% per annum. The balance of the pre-confirmation Allowed Senior Secured Lender Claims in excess of the Post Confirmation Term Note, less the 10% participation interest granted to the Liquidating Trust is classified as an unsecured claim. The Senior Secured Lenders "deficiency" claim of approximately US \$13.7 million received the same treatment as all other unsecured claims per the Debtors' Plan of Reorganization.

Upon the Effective Date, the Administration DIP Facility, in the amount of up to US \$1.6 million, was modified, amended and otherwise converted into the post confirmation Advancing Loan Facility ("Advancing Loan Facility") in the amount of up to US \$1.8 million. The Advancing Loan Facility matures on the third anniversary of the Effective Date and accrues interest at a rate of 15% per annum. The terms of the Advancing Loan Facility require that net available cash in excess of the Debtors' administrative and operating expenses to be applied against the balance owed on the Advancing Loan Facility.

- Allowed Secured DRA Creditors' Agent Claim for DRA Class 1 and Class 3 Joining Creditors

On the Effective Date, the Liquidating Trust was established. The Liquidating Trust was funded with (1) a ten percent (10%) participation in the Post Confirmation Term Loan, (2) 343,972,347 common shares, representing ten percent (10%) of the New Common Shares, and (3) any amounts recovered pursuant to successful avoidance actions (the "Avoidance Actions"). The DRA Class 1 and Class 3 joining creditors shall receive, on account of the DRA Creditors' Agent's Claim, distributions from the Liquidating Trust from and on account of the foregoing interests. DRA Class 1 and DRA Class 3 joining creditors shall also be included in the general unsecured creditor class.

- General Unsecured Claims

Each holder of allowed unsecured claims (the "Allowed General Unsecured Claims") shall receive a pro rata share of distributions from the Liquidating Trust from and on account of any recoveries attributable to Avoidance Actions after payment of fees and expenses of the Liquidating Trust.

- Other Claims

Certain executory contracts and administrative claims were confirmed by the Company under the Plan as at the Effective Date.

- Interests in Parent Company

On the Effective Date, holders of common shares in the Company retained their existing interests subject to substantial dilution from the issuance of 3,439,723,467 New Common Shares, representing ninety seven percent (97%) of the Company's outstanding common shares following issuance of the New Common Shares. The balance of the common shares outstanding will continue to be held by existing shareholders. Subsequent to the issuance of the New Common Shares, the Company intends to file Articles of Amendment pursuant to the British Columbia Business Corporations Act to consolidate its outstanding share capital at an appropriate ratio and potentially change the name of the Company.

The Plan of Reorganization resulted in K2 Principal Fund L.P. obtaining beneficial ownership of 87.3% of the total authorized, issued and outstanding common shares, and control and direction over the Company, therefore becoming a significant shareholder as defined under National Instrument 55-104 and making them subject to insider reporting requirements going forward.

- Interests in Subsidiaries

On the Effective Date, the Company's interests in Probe HI 115, Ltd., Probe ST 214, Ltd. and Probe Resources Energy Marketing US, Ltd. were merged with and into the wholly owned subsidiary Probe Resources US, Ltd.

Basis of Presentation – Reorganization and Fresh Start Accounting

As a result of the reorganization transactions, a substantial realignment of the non-equity and equity interests in the Company, as well as a change in control, occurred as of April 15, 2011. The Company has accounted for the financial reorganization under fresh start accounting, including the revaluation of all assets and liabilities of the Company at estimated fair values and the elimination of the Company's deficit. The outcome of this revaluation process reflects, in essence, a "fresh start" for the Company.

At April 15, 2011, the carrying value of all current assets and current liabilities not impacted by the financial reorganization approximated fair value and were carried forward at these values to the post reorganization balance sheet. The historical deficit and contributed surplus of the Company that arose prior to the reorganization has been reclassified to share capital. The liabilities subject to the approved Plan of Reorganization have been recorded at their values negotiated under the Plan of Reorganization. The adjustments to revalue assets and liabilities under the Plan of Reorganization establish their new cost basis in the post reorganization balance sheet at April 15, 2011.

Selected Annual Information

The following financial and operating data are selected information for the Company for the three most recently completed financial years, reflecting the results of operations of the Predecessor company for the years ended August 31, 2009 and 2010 and for the period from September 1, 2010 to April 15, 2011, the date of the Company's reorganization, and for the Successor company for the period from April 16, 2011 to August 31, 2011, as well as the combined results of operations of the Predecessor company and the Successor company for the year ended August 31, 2011:

	Successor	Predecessor	Predecessor	
	For the period April 16, 2011 to August 31, 2011	For the period September 1, 2010 to April 15, 2011	For the years ended August 31, 2010 2009	
FINANCIAL				
Total revenues	\$1,760,055	\$ 4,197,478	\$ 16,365,761	\$ 23,918,542
Operating loss	(672,082)	(2,536,254)	(10,902,606)	(13,198,567)
Net interest expense and deferred financing costs	881,453	3,517,630	7,138,534	10,149,313
Other items, net gain (loss)	366,328	3,255,539	579,560	1,721,550
Net loss	1,187,207	(2,798,345)	(17,461,580)	(21,626,330)
Loss per share – basic	0.00	(0.03)	(0.17)	(0.21)
Loss per share – diluted	0.00	(0.03)	(0.17)	(0.21)
Total assets	21,948,376	45,552,567	50,772,982	69,086,975
Total liabilities	23,135,573	48,355,553	48,812,002	50,027,032
Total long-term financial liabilities	--	--	--	--
Cash dividends per share	--	--	--	--
OPERATING				
Production sales				
Oil (Bbl)	1,705	4,801	29,010	71,368
Natural gas (Mcf)	300,613	795,829	3,293,438	4,729,700
Total (Mcf) ⁽¹⁾	310,844	824,634	3,467,499	5,157,907
Average pricing				
Oil (\$/Bbl)	\$ 127.74	\$ 98.05	\$ 75.32	\$ 49.89
Natural gas (\$/Mcf)	\$ 5.13	\$ 4.68	\$ 4.29	\$ 4.30
Combined (\$/Mcf) ⁽¹⁾	\$ 5.66	\$ 5.09	\$ 4.72	\$ 4.64
Expenses				
Lease operating expense	695,244	1,492,876	3,797,792	3,943,831
Lease operating expense per Mcfe	\$ 2.24	\$ 1.81	\$ 1.10	\$ 0.76

(1) Oil volumes are converted to Mcfe on the basis of 1 barrel per 6 Mcfe

Results of Operations

Oil and natural gas revenues

The decrease in oil and gas revenues from the year ended August 31, 2010 to August 31, 2011 was attributable to a 67% decline in production volumes. The decline in production volumes reflects the Company's inability to fund drilling, development and operations to maintain, or bring on, production to offset natural declines in production volumes.

The decline in production volumes was partially offset by improved overall pricing, particularly oil prices. Consistent with strengthening global crude oil prices and flat global natural gas prices, the average sales price for oil increased by 41% year-over-year while the average sales price for natural gas remained flat. Because natural gas represented 96.6% of sales by volume during the year ended August 31, 2011, the improvement in oil pricing only provided a marginal improvement in overall prices realized.

Following the Company's exit from bankruptcy in April 2011, management has been assessing the Company's options for future development activity. The timing, funding and ultimate results of any future development activities is uncertain and, accordingly, there is no assurance that the Company will be able to grow production volumes or oil and natural gas revenues.

Production Expenses

Production expenses consist of lease operating expenses ("LOE") and depreciation, depletion and amortization ("DD&A"). Production expenses declined by \$15.3 million, or 69%, from the year ended August 31, 2010 to August 31, 2011. The decline in production expenses was principally attributable to a \$14.3 million, or 78%, decline in DD&A, and a \$1.6 million, or 28%, decline in LOE.

DD&A is computed on a unit of production basis and the decline was attributable to the decline in production volumes. The decline in LOE was attributable to cost containment measures and the decrease in production volumes. On a per Mcfe basis, LOE rose to \$1.93 per Mcfe in the year ended August 31, 2011 from \$1.10 per Mcfe in the year ended August 31, 2010. The increase in LOE per Mcfe was attributable to the fixed nature of certain LOE which were spread over substantially lower production volumes.

General and Administrative Expenses

General and administrative expenses ("G&A") consist of non-field operations support services, stock-based compensation and facilities costs. G&A declined by \$2.8 million, or 54%, from the year ended August 31, 2010 to August 31, 2011. The decline in G&A was primarily attributable to cost containment measures implemented at the time of entry into the DRA. In particular, reductions in head count and salaries resulted in a reduction in wages and benefits of \$2.1 million, or 92%, and reductions in stock-based compensation expense of \$0.2 million, or 100%.

Net Interest Expense

Net interest expense reflects interest charges accrued on the Company's various credit facilities. Net interest expense decreased by \$2.7 million, or 38%, from the year ended August 31, 2010. The decline in net interest expense was primarily attributable to a reduction in indebtedness outstanding following the Company's reorganization in April 2011 and the write-off of \$0.9 million of deferred financing costs in the year ended August 31, 2010.

Other Items

Other items comprise foreign exchange gains attributable to the transactions in US dollars reported in Canadian dollars.

Summary Quarterly Results

The following is a summary of selected quarterly information that has been derived from the unaudited financial statements of the Company. This summary should be read in conjunction with unaudited financial statements of the Company.

	Successor		Predecessor					
	Aug 31 2011	May 31 2011	Feb 28 2011	Nov 30 2010	Aug 31 2010	May 31 2010	Feb 28 2010	Nov 30 2009
	(\$000 except per share and unit values)							
Total revenues	1,040	1,586	1,682	1,644	1,951	2,254	5,082	7,079
Income (loss) before other items	2,494	(1,508)	(443)	(1,683)	(4,116)	(4,588)	(3,031)	(6,306)
Income (loss) per share before other items – basic	0.00	(0.00)	(0.00)	(0.02)	(0.04)	(0.04)	(0.03)	(0.06)
Income (loss) per share before other items – diluted	0.00	(0.00)	(0.00)	(0.02)	(0.04)	(0.04)	(0.03)	(0.06)
Net income (loss)	2,494	(1,508)	(443)	(1,683)	(4,809)	(4,505)	(2,891)	(5,257)
Net income (loss) per share – basic	0.00	(0.00)	(0.00)	(0.02)	(0.05)	(0.04)	(0.03)	(0.05)
Net income (loss) per share – diluted	0.00	(0.00)	(0.00)	(0.02)	(0.05)	(0.04)	(0.03)	(0.05)
OPERATIONS								
Production sales								
Oil (Bbl)	1,015	1,677	1,561	2,253	2,648	4,168	7,348	14,547
Natural gas (Mcf)	181,675	258,573	312,721	343,727	343,192	462,880	779,592	1,631,530
Total (Mcfe)	187,765	268,635	322,085	356,993	359,079	510,995	823,681	1,771,947
Average pricing								
Oil (\$/Bbl)	\$124.31	\$ 139.30	\$ 91.07	\$ 82.02	\$ 73.68	\$ 74.81	\$ 62.44	\$ 58.02
Natural gas (\$/Mcf)	5.03	5.13	4.92	4.24	5.12	4.00	5.64	3.51
Combined (\$/Mcfe)	5.54	5.81	5.22	4.60	5.69	4.64	6.16	3.99
Expenses								
Lease operating expense	382	666	602	536	762	563	358	414
LOE per Mcfe	2.03	2.48	1.87	1.50	2.12	1.16	0.43	0.23

In general, the Company's business is not subject to seasonal factors and trends, although adverse weather conditions may result in temporary declines in production volumes and revenues and resulting decreases in profitability. In particular, operations in the Gulf of Mexico expose the Company to hurricane and tropical storm risks (which are presently uninsured by the Company) and, less often, cold weather risks that may result in declines in production associated with temporary cessations of production during such weather events and extended cessations of production associated with damage to facilities arising from such risks.

Liquidity

Since the acquisition of the principal properties in 2008, the Company has not operated profitably and has consistently produced negative operating cash flows. For the year ended August 31, 2011, the Company gained \$5.8 million in cash from its operating activities and, at year end, had positive working capital of \$0.3 million. In order to support operations and development plans, in both the short-term and the long-term, the Company must attract

additional investment and increase profitability from increasing revenues or decreasing expenses, or a combination thereof.

The Company is currently reviewing its development opportunities and is dependent upon principal lenders and shareholders to provide funding to support any program undertaken. There is no assurance that funding will be provided to support the same or that such efforts will ultimately improve production levels, revenues or profitability to a level that will sustain future operations, or at all.

At August 31, 2011, the Company had \$14.7 million of outstanding notes payable and \$0.5 million owing under the Company's Advancing Loan Facility. The notes payable and Advancing Loan Facility bear interest at 15% and are payable in full in April 2014. The notes payable are subordinated to amounts owing under the Advancing Loan Facility.

While the Plan of Reorganization has reduced the level of debt and has allowed the Company to reduce operating expenses, management expects to continue to operate at a loss until such time as the Company can substantially increase production volumes; and therefore will be dependent upon our principal lenders and shareholders to fund operating losses. We have no firm commitment from our principal lenders and shareholders, or others, to provide additional funding if needed.

In addition to the amounts owed at August 31, 2011, the Company has an ongoing liability with respect to the plugging and abandonment (P&A) of wells. At August 31, 2011, P&A liability totaled \$3.8 million. The timing and amount of settling such P&A liability is based on management's best estimate at this time. In the event of an abandonment of a well or other unforeseen developments, the Company may be required to incur P&A costs sooner than otherwise anticipated and in amounts exceeding the P&A liability recorded on the balance sheet.

At August 31, 2011, principal contractual obligations requiring fixed payments consisted of the following:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long Term Debt ⁽¹⁾	14,668,500	-	14,668,500	-	-
Advancing Loan Facility ⁽²⁾	479,370	479,370	-	-	-
	<u>15,147,870</u>	<u>479,370</u>	<u>14,668,500</u>	<u>-</u>	<u>-</u>

⁽¹⁾ Long term debt at August 31, 2011 consists of a note payable in the amount of \$14,668,500 (US \$15,000,000) which is payable in full in April 2014.

⁽²⁾ Advancing Loan Facility at August 31, 2011 consists of new note payable in the amount of \$479,370 (US \$490,203) which is payable on demand.

Capital Expenditures and Resources

During the year ended August 31, 2011, the Company had \$2.2 million in capital expenditures compared to \$16.9 million in the year ended August 31, 2010. Capital expenditures during the year ended August 31, 2011 related principally to East Cameron 246 #2 well, which was

temporarily abandoned while awaiting completion. The project was subsequently terminated via the lapse of the SOP effective June 30, 2011.

At August 31, 2011, the Company did not have, and does not presently have, available capital resources on hand or debt or equity financing facilities or commitments to fund any of planned or possible future capital expenditures. The Company's capital expenditures during the year ended August 31, 2011 were funded by its principal lender and, now, principal shareholder. The Company anticipates that future capital expenditures will similarly be funded by its principal lender and shareholder, through loans or equity investments; although we have no commitment from such lender and shareholder to fund any capital expenditures going forward. The Company may also seek to fund certain capital expenditure requirements through farm-outs, joint ventures, partnerships and other funding arrangements although the Company has no commitments in that regard.

Off-Balance Sheet Arrangements

At August 31, 2011 the Company is not party to, and not presently party to, any off-balance sheet arrangements.

Financial Instruments and Other Instruments

During the year ended August 31, 2011 the Company did not engage in, and is not currently engaged in, any hedging or similar activities. At August 31, 2011, the Company did not have, and presently does not have, any derivative securities, financial or other instruments.

Transactions with Related Parties

During the years ended August 31, 2011 and 2010, respectively, the Company was party to the following transactions with related parties:

- Incurred fees charged by directors and former directors of the Company or by entities of which a director is a partner or entities with directors in common with the company:

	2011	2010
Directors fees	83,617	100,802
Legal Fees	16,321	115,945
Wages and benefits	454,211	161,909
	<u>554,149</u>	<u>378,657</u>

The fees, wages and benefits paid were based on rates consistent with market comparables.

- Accounts payable and accrued liabilities to directors, or entities associated with directors, totaled \$nil at August 31, 2011 and \$337,627 at August 31, 2010.

Critical Accounting Estimates

The Company's significant accounting policies are disclosed in notes to the financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

We view the following estimates as critical:

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 our estimated 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 the 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, an annual ceiling test is used 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 and market of unproved properties. No ceiling test was performed as at August 31, 2011.

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

In applying the full cost method of accounting, the Company makes various critical estimates including, among others, future development costs and operating costs. Variations in those

estimates could result in changes in capitalized costs, depletion expense, and impairment charges, among others.

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.

In accounting for asset retirement obligations, the Company makes critical estimates as to the amount and timing of incurrence of actual costs. Variations in those estimates could result in changes in capitalized costs, depletion expense and impairment charges, among others.

Changes in Accounting Policies including Initial Adoption

International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) requires the adoption of IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company’s transition date of September 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 2012, the financial reporting impact of the transition to IFRS has not been determined at this time.

The Company is currently evaluating the effects of transitioning to IFRS and implementation of procedures to carry out that transition.

Based on initial analysis of IFRS, significant accounting differences between Canadian GAAP and IFRS with respect to oil and natural gas operators include:

- Under IFRS, depletion and depreciation of property and equipment (“PP&E”) will be calculated at a “significant component level”, or property level, as opposed to the current “entity level” under existing GAAP. The existing full cost pool under Canadian GAAP will be separated into components and depleted individually at the component level. Although depletion will continue to be calculated using the unit-of-production method, under IFRS, the Company will have the option to calculate depletion using proven plus probable reserves, as the reserve base.
- IFRS differentiates between Exploration and Evaluation (“E&E”) assets and Development and Producing (“D&P”) assets, whereas under Canadian GAAP they are both considered PP&E. Upon adoption to IFRS, E&E costs will be separated from PP&E and shown as a separate line item on the balance sheet. E&E costs, to the extent that they are not impaired, are expected to be transferred into PP&E when reserves have been assigned to these assets. If reserves have not been established and there are no further plans for development activity,

then the E&E expenditures will be reviewed for impairment. Any impairment of E&E assets are charged to income.

- Under IFRS, impairment testing on oil and gas properties will be performed at a lower level than that under current Canadian GAAP. Under IFRS the impairment test compares the carrying value of the oil and gas assets to the greater of the fair value of the assets and the value-in-use of the assets, which is a discounted cash flow measure. Future impairment tests will be required when management determines that indicators of impairment exist. Should impairment losses be recorded in accordance with IFRS, certain of those losses can be reversed in the future, if facts and circumstances change.
- Under IFRS, gains and losses on the disposal of oil and gas assets are recognized in net earnings. The amount of gain or loss is determined by comparing the proceeds from disposal with the corresponding carrying amount.
- Discount rates used in calculating asset retirement obligations have been subject to various interpretations and thus diversity in practice. As a result the International Accounting Standards Board is currently reviewing the discount rate issue. Future changes to the standards and interpretations of the guidance could lead to a material change in this provision upon adoption of IFRS.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of the date hereof, and after giving effect to the issuance of the New Common Shares pursuant to the Plan of Reorganization, the issued share capital consisted of 3,546,106,667 common shares.

Pursuant to the Plan of Reorganization, all previously issued and outstanding warrants and stock options were cancelled and there are presently no warrants, stock options or other securities convertible into common shares outstanding.

Forward Looking Statements

This MD&A may contain forward looking information related to planned drilling program, production, revenue, commodity prices, royalties, capital expenditures and commitments, operating costs, general and administrative expenses, funds flow from operations, financing plans, liquidity and capital resources and debt settlement. Forward-looking information is based on expectations and estimates as of the date of this document, and is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward-looking information. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate”, “should”, “could” “may”, “objective”, “projection”, “forecast”, “continue”, “strategy”, “position” or the negative of those terms or other variations of them or comparable terminology.

Further examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions, which may prove to be incorrect including: the amounts recorded for depletion, depreciation and accretion, the provision for asset retirement obligations and the ceiling test, which are based on estimates of reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. Stock-based compensation expense is based upon estimates using the Black-Scholes option pricing model.

Risks include, but are not limited to, the availability and costs of financing, general economic conditions, storm weather risks, and risks associated with the oil and gas industry (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the financial health of joint venture partners; health, safety and environmental risks; and the uncertainty of dealing with government and obtaining regulatory approvals).

At this time, the most significant risk relates to the uncertainty of the Company's ability to finance development plans and ongoing operations, the results of any such development operations and future oil and gas prices and the current volatility in these markets. Revenues and funds flow from operations will be impacted positively or negatively depending on the ultimate variance to our forecast assumptions. Furthermore, the outcome of commodity price changes are expected to impact our capital spending plans and the ability of joint venture partners and other sources of capital funding to provide financing for projects.

Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain employees on a cost effective basis, commodity and marketing risk and seasonality. The company is subject to significant drilling risk and uncertainties including the ability to find oil and gas reserves on an economic basis, and is also exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operational risks.

Financial risks that the Company is exposed to include, but are not limited to, access to debt or equity markets and fluctuations in commodity prices, interest rates and the Canadian/US dollar exchange rate.

It is anticipated that subsequent events and developments may cause a change to the assumptions made by us. The Company does not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents the Company's views as of the date of this document and such information should not be relied upon as representing its views as of any date subsequent to the date of this document. Highlighted here are important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of factors that could affect the Company.

Date

This MD&A is dated December 23, 2011.

Additional Information

Additional information regarding the Company is available at SEDAR www.sedar.com.