

**PROBE RESOURCES LTD.**

REPORT AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS

UNAUDITED

For the three month period ended November 30, 2008

**PROBE RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
For the three month period ended November 30, 2008

<u>ASSETS</u>	<u>11/30/08</u> Unaudited	<u>8/31/08</u> Audited
Current		
Cash and cash equivalents – Note 2	\$ 2,098,315	\$ 16,532,434
Accounts receivable	399,784	509,636
Note receivable, related party – Note 9	431,833	-
Prepaid expenses and deposits	<u>764,345</u>	<u>698,091</u>
	3,694,277	17,740,161
Restricted cash – Note 3	287,661	245,962
Note receivable, related party – Note 9	431,834	-
Reclamation and performance deposits	4,623,969	4,000,196
Equipment – Note 4	419,826	412,817
Oil and natural gas properties – Notes 5, 8 and 9	<u>41,909,192</u>	<u>24,162,999</u>
	<u>\$ 51,366,759</u>	<u>\$ 46,562,135</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities – Note 9	\$ 11,317,008	\$ 6,068,238
Due to related parties – Note 9	114,496	54,411
Note payable – Note 6	<u>83,758</u>	<u>115,262</u>
	11,515,262	6,237,911
Asset retirement obligation – Note 7	1,083,780	706,435
Asset retirement obligation in escrow – Note 7	<u>153,852</u>	<u>155,075</u>
	<u>12,752,894</u>	<u>7,099,421</u>
<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Note 8	42,623,302	42,623,302
Contributed surplus – Note 8	3,931,179	3,789,693
Deficit	<u>(7,940,616)</u>	<u>(6,950,281)</u>
	<u>38,613,865</u>	<u>39,462,714</u>
	<u>\$ 51,366,759</u>	<u>\$ 46,562,135</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1  
Commitments and Contingent Liability – Note 16

See accompanying notes to consolidated financial statements.

**PROBE RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
For the three month periods ended November 30, 2008 and 2007

	<u>2008</u> Unaudited	<u>2007</u> Unaudited
Revenue		
Oil and natural gas	\$ <u>72,279</u>	\$ <u>-</u>
Production expenses		
Operating expenses	374,600	-
Depletion and accretion	<u>58,836</u>	<u>-</u>
	<u>433,436</u>	<u>-</u>
Net production revenue (expense)	<u>(361,157)</u>	<u>-</u>
General and administrative expense		
Amortization	27,547	-
Administrative expenses – Note 9	201,701	115,113
Bank charges and interest expense	4,214	94
Consulting fees – Note 9	141,963	58,000
Directors' fees – Note 9	13,000	8,000
Legal and professional fees – Note 9	153,540	50,307
Stock-based compensation	141,486	983,138
Wages and benefits – Note 9	<u>600,781</u>	<u>17,000</u>
	<u>1,284,232</u>	<u>1,231,652</u>
Loss before other items	(1,645,389)	(1,231,652)
Other items:		
Foreign exchange gain	646,346	12,161
Interest income	<u>8,708</u>	<u>147</u>
Net loss and comprehensive loss	(990,335)	(1,219,344)
Deficit, beginning of period	<u>(6,950,281)</u>	<u>(2,874,010)</u>
Deficit, end of period	<u>\$ (7,940,616)</u>	<u>\$ (4,093,354)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>

See accompanying notes to consolidated financial statements.

**PROBE RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the three month periods ended November 30, 2008 and 2007

	<u>2008</u> Unaudited	<u>2007</u> Unaudited
Cash provided by (used in):		
Operating Activities		
Net loss	\$ (990,335)	\$ (1,219,344)
Add items not affecting cash:		
Depletion and accretion	58,836	-
Amortization	27,547	-
Stock-based compensation	<u>141,486</u>	<u>983,138</u>
	(762,466)	(236,206)
Changes in non-cash working capital balances:		
Accounts receivable	109,852	(28,464)
Prepaid expenses	(66,254)	(6,250)
Accounts payable and accrued liabilities	(479,414)	1,421,635
Note payable	(31,504)	-
Due to related parties	<u>60,085</u>	<u>-</u>
Net change in non-cash operating working capital	<u>(1,169,701)</u>	<u>1,150,715</u>
Financing Activity		
Net proceeds from asset retirement obligation in escrow	(1,223)	-
Net proceeds from issuance of common shares	<u>-</u>	<u>2,010,200</u>
	<u>(1,223)</u>	<u>2,010,200</u>
Investing Activities		
Restricted cash	(41,699)	-
Note receivable – related party	(863,667)	-
Reclamation and performance deposits	(623,773)	-
Additions to equipment	(34,556)	-
Additions to oil and natural gas properties	<u>(11,699,500)</u>	<u>(2,629,484)</u>
	<u>(13,263,195)</u>	<u>(2,629,484)</u>
Increase (decrease) in cash	(14,434,119)	531,431
Cash and cash equivalents, beginning of period	<u>16,532,434</u>	<u>68,854</u>
Cash and cash equivalents, end of period	<u>\$ 2,098,315</u>	<u>\$ 600,285</u>

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**PROBE RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the three month period ended November 30, 2008 and 2007

	<u>2008</u> Unaudited	<u>2007</u> Unaudited
Cash and cash equivalents consist of:		
Cash	\$ 1,810,654	\$ 600,285
Term deposits/guaranteed income deposits	<u>287,661</u>	<u>-</u>
	<u>\$ 2,098,315</u>	<u>\$ 600,285</u>
Cash paid for interest	<u>\$ 3,534</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplementary Information with Respect to Non-cash Transactions – Note 12

See accompanying notes to consolidated financial statements.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the three month period ended November 30, 2008

Note 1 Nature of Operations and Ability to Continue as a Going Concern

Probe Resources Ltd. (the "Company") is a public company listed on the TSX Venture Exchange, incorporated under the British Columbia Business Corporations Act on November 15, 1988. At November 30, 2008, the Company owned an interest in an oil and natural gas producing property and interest in six (6) Federal oil and natural gas blocks located in the United States Gulf of Mexico.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At November 30, 2008, the Company had a working capital deficiency of \$7,820,985, it had not yet achieved profitable operations and expects to incur further losses in the development of its business, which cast 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. The Company has entered into two financing transactions totaling in excess of USD\$14.0 million (as more fully described in Note 15) to assist in its ability to meet its obligations.

Note 2 Significant Accounting Policies

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of the Company's audited financial statements for the year ended August 31, 2008 except for the adoption of new accounting policies discussed below.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In management's opinion, the financial statements have been prepared within reasonable limits of materiality.

These financial statements do not include all the note disclosures required for the annual financial statements and as a result these interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended August 31, 2008.

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of the Company's audited financial statements for the year ended August 31, 2008.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 2 Significant Accounting Policies – (cont'd)

*International Financial Reporting Standards*

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”), effective January 1, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Note 3 Restricted Cash

As at November 30, 2008, \$287,661 (US\$232,548) of certificate of deposits is held as security for a US\$230,000 bank letter of credit. As at November 30, 2008, the amount outstanding on the bank line of credit was \$Nil.

As at August 31, 2008, \$245,962 (US\$231,603) of certificate deposits is held as security for a US\$230,000 bank letter of credit. As at August 31, 2008, the amount outstanding on the bank line of credit was \$Nil.

Note 4 Equipment

	November 30, 2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 76,601	\$ 13,002	\$ 63,599
Office furniture and fixtures	345,214	37,686	307,528
Leasehold improvement	53,642	4,943	48,699
	<u>\$ 441,103</u>	<u>\$ 55,631</u>	<u>\$ 419,826</u>
	August 31, 2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 76,601	\$ 6,119	\$ 70,482
Office furniture and fixtures	313,318	20,436	292,882
Leasehold improvement	51,184	1,731	49,453
	<u>\$ 441,103</u>	<u>\$ 28,286</u>	<u>\$ 412,817</u>

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 5 Oil and Natural Gas Properties

The asset categories of petroleum and natural gas interests at November 30, 2008 and August 31, 2008 were as follows:

	November 30, 2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Proved properties including lease and well equipment	\$ 10,173,859	\$ 2,711,727	\$ 7,462,132
Unproved properties			
Undeveloped	7,546,040	-	7,546,040
In process of development	<u>26,901,020</u>	<u>-</u>	<u>26,901,020</u>
	<u>\$ 44,620,919</u>	<u>\$ 2,711,727</u>	<u>\$ 41,909,192</u>

	August 31, 2008		
	<u>Cost</u>	<u>Accumulated Depletion</u>	<u>Net Book Value</u>
Proved properties including lease and well equipment	\$ 10,173,859	\$ 2,684,300	\$ 7,489,559
Unproved properties			
Undeveloped	7,546,040	-	7,546,040
In process of development	<u>9,127,400</u>	<u>-</u>	<u>9,127,400</u>
	<u>\$ 26,847,299</u>	<u>\$ 2,684,300</u>	<u>\$ 24,162,999</u>

Gulf of Mexico – High Island

By a Farmout Agreement dated June 1, 2007 and amended July 16, 2007, the Company acquired a 33.574% working interest (25.1875% net revenue interest) in an oil and natural gas lease and well located in the High Island area of the Gulf of Mexico. Consideration for the acquisition was \$583,495 (US\$550,000) which was paid in full and 33.574% of all costs except for certain well costs of which the Company's share paid was 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% working interest (10.075% net revenue interest) in the lease and a 7.97087% working interest (5.73113% net revenue interest) in the well. Consideration for the additional interest was the issue of 3,000,000 common shares valued at a price of \$0.445 per share.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 5 Oil and Natural Gas Properties – (cont'd)

Gulf of Mexico – High Island – (cont'd)

As at August 31, 2008, the well had been completed with production having commenced in late November of 2007. Accordingly, depletion has been recorded since December 1, 2007. Management has evaluated the carrying value and has determined that no impairment provision is required at November 30, 2008. The future prices used in the impairment test evaluation of the Company's oil and natural gas properties were as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Oil - \$/Barrel	\$ <u>50.00</u>	\$ <u>50.00</u>	\$ <u>50.00</u>	\$ <u>50.00</u>	\$ <u>50.00</u>
Natural gas - \$/MBTU	\$ <u>6.90</u>	\$ <u>6.90</u>	\$ <u>6.90</u>	\$ <u>6.90</u>	\$ <u>6.90</u>

Other Interests – Seismic Data

During the year ended August 31, 2007, the Company obtained access to seismic data related to certain properties located in onshore South Texas, South Louisiana and South Mississippi, U.S.A. for consideration of \$233,644 (US\$200,000). The Company also engaged another company to review and evaluate the data for a fee of US\$40,000 per month. Subsequent to the consulting arrangement, a director of the other company became a director of the Company. For High Island block seismic data, total seismic data costs incurred to November 30, 2008 are \$773,951 (US\$730,000).

Agreement to Purchase Oil and Gas Rights

On May 26, 2008, the Company's wholly-owned subsidiary Probe Resources US Ltd. ("Probe US") entered into an agreement (the "Agreement in Principle") 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 transaction, as described below, the Company became the Operator of the Concessions on a 100% working interest basis.

On June 6, 2008, the Company agreed to acquire the remaining 25% working interest rights from Cutter Energy on the Concessions noted above. 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 USD\$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. The Company will issue to Cutter the remaining 2,000,000 Common Shares as to 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.

Pursuant to the terms of the Agreements, the Vendors along with Cutter have delivered to Probe US not less than a 69.5% net revenue interest in each of the Concessions. Probe US paid an aggregate amount of US\$4,250,000 as consideration to the Vendors and

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 5 Oil and Natural Gas Properties – (cont'd)

Agreement to Purchase Oil and Gas Rights – (cont'd)

USD\$829,524 and issued 2,000,000 common shares valued at \$0.50 per share to Cutter. The Agreement provides Probe US the opportunity to conduct a drilling program on the Concessions.

Note 6 Note Payable

During the year ended August 31, 2008, the Company obtained insurance financing by way of unsecured short term notes payable in the amounts of \$121,509 (US\$114,415) and \$47,931 (US\$45,133), bearing interest at 3.26%, repayable in monthly installments of \$11,227 (US\$10,572) and \$5,418 (US\$5,102) respectively, both maturing on April 8, 2009. At November 30 and August 31, 2008, the amounts outstanding are \$62,271 and \$115,262, respectively.

Note 7 Asset Retirement Obligation

The Company has estimated the total future asset retirement obligation based on the Company's net ownership interest in oil and natural gas wells and facilities. This includes all estimated costs to dismantle, remove, reclaim and abandon the wells and facilities and the estimated time period during which these costs will be incurred in the future. The Company has estimated the total undiscounted cash flows required to settle the asset retirement obligations to be \$767,849 (2007: \$1,036,000). A credit-adjusted risk free rate of 10% was used to calculate the fair value of the asset retirement obligations.

The following table reconciles the asset retirement obligations associated with the retirement of oil and natural gas properties.

	November 30, <u>2008</u>	August 31, <u>2008</u>
Balance, beginning of the period	\$ 706,435	\$ 531,632
Liabilities incurred	367,119	320,000
Revisions	-	(193,297)
Accretion expense	<u>10,226</u>	<u>48,100</u>
Balance, end of the period	<u>\$ 1,083,780</u>	<u>\$ 706,435</u>

Asset Retirement Obligation in Escrow

The asset retirement obligation in escrow consists of amounts that the Company has withheld from revenue payments to its partners on the High Island 115 Sidetrack B-2 well. The Company will disburse the withheld funds to the operator of the well in satisfaction of future joint interest billings from the operator for plugging and abandonment costs.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 8 Share Capital

Authorized:

Unlimited common shares without par value

Issued:

	Share Capital		Contributed <u>Surplus</u>
	<u>Number of Shares</u>	<u>Amount</u>	
Balance, August 31, 2007	24,109,101	7,691,846	1,090,364
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 \$0.50	168,350	84,175	-
-finder's fees – at \$0.40	511,875	204,750	-
Less: share issue costs	-	(3,717,469)	1,150,707
Share purchase options	-	-	1,548,622
Cancelled escrow shares	(601,125)	-	-
Balance, August 31, 2008	104,383,200	\$ 42,623,302	\$ 3,789,693
Share purchase options	-	-	141,486
Balance November 30, 2008	<u>104,383,200</u>	<u>\$ 42,623,302</u>	<u>\$ 3,931,179</u>

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 entitling the holder thereof the right to purchase an additional common share for each warrant held at \$0.60 per share for one year. The Company incurred legal and filing fees of \$37,300 and finders' fees of \$52,500. In addition, the Company issued 168,350 units as finders' fees valued at \$84,175 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.

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% working interest (10.0751% net revenue interest) in the High Island oil and natural gas lease and a

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the three month period ended November 30, 2008

Note 8 Share Capital – (cont'd)

Issued – (cont'd)

7.97087% working interest (5.73113% net revenue interest) in the well. The Company incurred legal and filing fees of \$32,840 for share issue costs.

On February 14, 2008, the Company 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 entitling the holder thereof the right to purchase an additional common share for each warrant held at \$0.70 per share for one year.

On June 6, 2008, the Company issued 2,000,000 common shares pursuant to the Cutter transactions as described in Note 4.

On June 6, 2008 the Company closed a non-brokered private placement consisting of 15,999,999 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 (each a "Share") and one transferable share purchase warrant (the "Warrants"). Each Warrant entitled 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 legal and filing fees of \$53,052 and finders' fees of \$77,000. In addition, the Company issued 511,875 units as finders' fees valued at \$204,750 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.

On July 2, 2008, the Company closed a 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 (each 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 expiring on June 30, 2009 at an exercise price of \$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 2,736,000 non-transferable compensation options (each an "Broker Option") representing 5% of the Units sold in the Offering valued at \$0.34 for \$930,240 included in share issue costs. Each Broker Option entitles the holder thereof to purchase one Share for a one-year period expiring on June 30, 2009 at an exercise price of \$0.50 per Share. The brokers also received a corporate finance fee of \$52,000.

Escrow:

During the year ended August 31, 2008, 601,125 common shares held in escrow by the Company's transfer agent were cancelled pursuant to the Escrow Agreement.

Stock-Based Compensation Plan

The Company has a fixed share option plan effective February 29, 2008 whereby the maximum number of shares reserved for issue under the plan shall not exceed 6,295,490 common shares at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 8 Share Capital – (cont'd)

Stock-Based Compensation Plan – (cont'd)

outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX). Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company. Unless otherwise stated, share purchase options vest when granted.

Information regarding the Company's outstanding share purchase options is summarized as follows:

	<u>Three Months Ended</u> <u>November 30, 2008</u>		<u>Year Ended</u> <u>August 31, 2008</u>	
	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Outstanding, beginning of period	5,012,910	\$0.45	1,340,910	\$0.67
Granted	370,000	\$0.40	5,649,000	\$0.45
Cancelled	<u>-</u>	<u>-</u>	<u>(1,977,000)</u>	<u>\$0.61</u>
Outstanding, end of period	<u>5,382,910</u>	<u>\$0.44</u>	<u>5,012,910</u>	<u>\$0.45</u>
Exercisable, end of period	<u>2,041,910</u>	<u>\$0.45</u>	<u>2,041,910</u>	<u>\$0.45</u>

During the year ended August 31, 2008, 363,500 unvested share purchase options exercisable at \$0.67 until July 26, 2012 and 650,000 unvested share purchase options exercisable at \$0.60 until November 22, 2012 were cancelled due to directors' resignations. In connection with the resignations, 413,500 vested share purchase options exercisable at \$0.67 until July 26, 2012 expired unexercised, and 350,000 vested share purchase options exercisable at \$0.60 until November 22, 2012 expired unexercised.

On February 29, 2008, the Company exercised its right to terminate the service agreement (the "Agreement") with its investor relations consultant. In connection with the termination, 100,000 unvested share purchase options exercisable at \$0.47 until September 20, 2009 were cancelled and the vested 100,000 share purchase options exercisable at \$0.47 until September 20, 2009 expired unexercised on April 30, 2008 (30 days after the termination of the Agreement).

During March, 2008, the Company granted incentive stock options to certain directors, officers and employees of the Company to purchase up to 3,799,000 (March 5, 2008 – 3,243,000 and March 26, 2008 – 556,000) common shares in the capital stock of the Company. The options have a term of five years and are exercisable at an exercise price of \$0.40 per share.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 8 Share Capital – (cont'd)

Stock-Based Compensation Plan – (cont'd)

On June 2, 2008, the Company granted incentive stock options to certain employees of the Company to purchase up to 300,000 common shares in the capital stock of the Company. The options have a term of five years and are exercisable at an exercise price of \$0.50 per share.

On October 2, 2008, the Company granted incentive stock options to certain employees of the Company to purchase up to 370,000 common shares in the capital stock of the Company. The options have a term of five years and are exercisable at an exercise price of \$0.40 per share.

Share purchase options outstanding at November 30, 2008 are as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
563,910	\$0.67	July 26, 2012
100,000	\$0.49	October 26, 2012
250,000	\$0.60	November 22, 2012
3,243,000	\$0.40	March 5, 2013
556,000	\$0.40	March 5, 2013
300,000	\$0.50	June 1, 2013
<u>370,000</u>	\$0.40	October 2, 2013
<u>5,382,910</u>		

The weighted average contractual life of outstanding options is 4.44 years.

The fair value of the share purchase options granted during the three months ended November 30, 2008 and the year ended August 31, 2008 of \$125,800 and \$1,548,622 was estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>November 30, 2008</u>	<u>August 31, 2008</u>
Risk-free interest rate	2.22%	3.01% - 4.22%
Dividend yield	0.00%	0.00%
Expected stock price volatility	126.25%	111.46% - 232.36%
Weighted average expected stock option life	5 years	5 years

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the three month period ended November 30, 2008

Note 8 Share Capital – (cont'd)

Share Purchase Warrants

Information regarding the Company's outstanding share purchase warrants is summarized below:

	<u>Three Months Ended</u> <u>November 30, 2008</u>		<u>Year ended</u> <u>August 31, 2008</u>	
	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Balance, beginning of period	88,531,224	\$0.75	10,700,000	-
Issued	-	-	78,531,224	\$0.68
Expired	<u>(4,368,350)</u>	<u>\$0.68</u>	<u>(700,000)</u>	<u>\$0.75</u>
Balance, end of period	<u>84,162,874</u>	<u>\$0.69</u>	<u>88,531,224</u>	<u>\$0.67</u>

Share purchase warrants outstanding at August 31, 2008 are as follows:

<u>Number of</u> <u>Warrants</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
10,000,000	\$0.75	February 9, 2009 <sup>(1)</sup>
275,000	\$0.70	February 14, 2009
16,511,874	\$0.50	June 6, 2010
2,656,000	\$0.50	June 30, 2009
<u>54,720,000</u>	<u>\$0.75</u>	<u>June 30, 2009</u>
<u>84,162,874</u>		

(1)The Company agreed to extend the term of warrants (the "Warrants") to purchase a total of 10,000,000 common shares of the Company from 12 months from the date of issuance to 18 months from the date of issuance. The new expiry date for the Warrants to purchase a total of 10,000,000 will be February 9, 2009, provided that, the Company is entitled to accelerate the expiry date of the Warrants to the date that is 30 days following the date a notice to holders of Warrants advising that the published closing price of the common shares of the Company on the TSX Venture Exchange has been greater than \$0.75 for 20 consecutive trading days.

**PROBE RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 8 Share Capital – (cont'd)

Finders' Warrants

Share issue costs of \$1,123,514 with respect to 3,336,225 share purchase warrants issued for finders' fees during the year ended August 31, 2008 and included in the share purchase warrants outstanding above, were estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2008</u>
Risk-free interest rate	3.69% - 4.97%
Dividend yield	0.00%
Expected stock price volatility	105.24% - 171.54%
Weighted average expected stock option life	1 - 2 years

Note 9 Related Party Transactions

- a) The Company incurred the following 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:

	<u>2008</u>	<u>2007</u>
Consulting fees	\$ -	\$ 20,000
Corporate development	-	12,000
Directors' fees	13,000	8,000
Drilling, completion and other costs	-	120,000
Legal fees	57,369	114,357
Wages and benefits	<u>-</u>	<u>17,000</u>
	<u>\$ 70,369</u>	<u>\$ 291,357</u>

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

- b) At November 30, 2008, accounts payable and accrued liabilities include \$114,496 (2007: \$52,436) due to directors of the Company or to private companies with directors in common with the Company.
- c) At November 30, 2008, an officer of the Company was indebted to the Company for \$9,428 (2007: \$Nil) from payroll advances. This amount is included in prepaid expenses and deposits.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Note 9 Related Party Transactions – (cont'd)

- d) During the year end August 31, 2008 the Company acquired an interest in certain oil and natural gas properties from a private company controlled by an officer/director as disclosed in Note 4.
- e) On September 2, 2008, the Company advanced USD\$750,000 to an officer of the Company as a relocation/home ownership loan. The advance bears interest at 5% and 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 will be forgiven as to 50% after one year and the remaining 50% after the second year unless the employment is terminated. The first 50% of the loan was forgiven on January 1, 2009.

Note 10 Financial Instruments and Risk Management

At November 30, and August 31, 2008 the Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments and variable rates of interest. The company is exposed to risks arising from its financial instruments. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange rates, credit risk and liquidity risk.

a) Market Risk

Market risk, the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, is comprised of the following:

(i) Commodity price risk

The Company sells all of its natural gas and condensate production at current market prices on the date of sale.

(ii) Foreign exchange risk

The Company is exposed to foreign exchange risks to the extent it transacts in various currencies, while measuring and reporting its results in Canadian dollars (CAD). Since time passes between the recording of a receivable or payable transaction and its collection or payment, the Company is exposed to gains or losses on non CAD amounts and on balance sheet translation of monetary accounts denominated in non CAD amounts upon spot rate fluctuations from quarter to quarter.

In addition, additions to oil and gas properties are recorded and translated at historical cost. Based on recent trends in foreign exchange rates, the Company has

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Note 10 Financial Instruments and Risk Management – (cont'd)

assumed a possible fluctuation range of an increase or decrease of 20% in non CAD currency rates. As at November 30, 2008 and 2007, a 20% increase in the value of the US dollar when measured against the Canadian dollar would have positively impacted net earnings (loss) by an estimated \$193,000 and \$244,000, respectively. A similar decrease of 20% would have had the opposite impact.

b) Credit Risk

Credit risk reflects the risk the Company may be unable to recover accounts receivable. The Company's accounts receivable are primarily with financially secure oil and gas companies. As such, the Company believes that it does not currently have any significant credit risk.

c) Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and the use of equity and debt facilities as needed. All of the Company's outflows relating to financial liabilities are repayable in the next fiscal year.

Note 11 Segmented Information

The Company has one operating segment, oil and gas operations, and operates in two geographical regions as follows:

<b>November 30, 2008</b>	<b>US</b>	<b>Canada</b>	<b>Total</b>
Revenues	\$ 72,279	\$ -	\$ 72,279
Current assets	3,159,162	103,282	3,262,444
Petroleum and natural gas properties and equipment	41,909,192	-	41,909,192
Property and equipment	408,560	11,266	419,826
Other assets	5,775,297	-	5,775,297
<b>Total Assets</b>	<b><u>\$51,252,211</u></b>	<b><u>\$ 114,548</u></b>	<b><u>\$51,366,759</u></b>
<b>August 31, 2008</b>	<b>US</b>	<b>Canada</b>	<b>Total</b>
Revenues	\$ 5,110,861	\$ -	\$ -
Current assets	17,659,330	80,831	17,740,161
Petroleum and natural gas properties and equipment	24,162,999	-	24,162,999
Property and equipment	401,551	11,266	412,817
Other assets	4,246,158	-	4,246,158
<b>Total Assets</b>	<b><u>\$46,470,038</u></b>	<b><u>\$ 92,097</u></b>	<b><u>\$46,562,135</u></b>

All petroleum and natural gas properties of the Company are in the US Gulf of Mexico.

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Note 12 Non-Cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows.

During the three months ended November 30, 2008 and 2007, the following transactions were excluded from the statement of cash flows:

- a) The Company included \$10,226 (2007: \$nil) in operation expenses and \$367,119 (2007: \$nil) in asset retirement obligation pursuant to the provision of an asset retirement obligation.
- b) The Company's acquisition of oil and gas properties includes \$5,728,184 (2007 \$nil) in accounts payable.

Note 13 Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

	<u>2008</u>	<u>2007</u>
Loss before income taxes	\$ <u>4,076,271</u>	\$ <u>1,084,602</u>
Statutory tax rates	<u>34.12%</u>	<u>34.12%</u>
Computed income tax recovery	\$ 1,390,800	\$ 370,100
Effect of reduction in statutory rate	(267,100)	-
Expiry of loss carry forward	(19,300)	-
Foreign income taxed at other than CDC Rate	(1,100)	-
Permanent differences	(405,900)	(283,700)
Other non-deductible items for tax purposes	-	-
Share issue costs not deducted	667,400	-
Net change in valuation allowance	<u>(1,364,800)</u>	<u>( 86,400)</u>
Total income taxes (recovery)	<u>\$ -</u>	<u>\$ -</u>

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<u>2008</u>	<u>2007</u>
Future income tax assets		
Non-capital loss carried forward	\$ 996,000	\$ 350,000
Exploration and development costs	216,000	-
Capital assets	9,000	-
Share issue costs remaining	<u>587,000</u>	<u>93,000</u>
	1,808,000	443,000
Valuation allowance	<u>(1,808,000)</u>	<u>(443,000)</u>
Future income tax assets	<u>\$ -</u>	<u>\$ -</u>

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the three month period ended November 30, 2008

Note 13 Income Taxes – (cont'd)

At August 31, 2008, the Company has estimated losses for income tax purposes that can be used to reduce future taxes payable. These losses expire at varying dates to 2028.

The amount of non-capital losses available for carry forward is (Canada) \$3,500,000. The amount of net-operating losses available for carry forward is (USA) \$235,000.

The Company has recorded a valuation allowance against its future income tax assets based on the extent that it is more likely-than-not that sufficient taxable income will not be realized during the carry-forward periods to utilize all the future tax assets.

Note 14 Comparative Figures

Certain comparative figures for the three months ended November 30, 2008 have been reclassified to conform to the financial statement presentation adopted for the current period.

Note 15 Subsequent Events

Note Issue

The Company has entered into a Note Purchase Agreement whereby the Company has agreed to issue and sell senior secured notes in the aggregate principal amount of USD\$10,000,000 (the "Notes") to a Single Holder (the "Holder"). The approximate net proceeds to the Company, as a result of the negotiated discount to face value of the Notes, is CDN\$7,000,000. In addition, the Notes bear interest at a rate of 15% per annum, fixed and payable monthly in arrears on principal outstanding. The principal will be re-paid by monthly payments of USD\$200,000. The initial term of the Notes is two years with an extension option at the election of the Company for an additional two years upon payment of an extension fee of \$300,000 in each of the second and third years of the total term. As additional compensation the Holder will receive 7,000,000 share purchase warrants exercisable into 7,000,000 common shares of the Company at a price of \$0.20 per share for a period of five years from the closing date.

The Company has closed a US\$4,000,000 tranche of the issue of Notes for CDN\$2,800,000 (USD\$2,200,047 net proceeds to the Company) in connection therewith. The Company has 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 January 20, 2014 at an exercise price of \$0.20 per share. Shares issuable on the exercise of the warrants have a hold period expiring May 21, 2009. Closing of the balance of the First Note issue is expected in the very near term. The Company intends to use the proceeds of the issuance of the Notes to fund drilling of ST 214.

Fees in connection with the issue of the Notes will be paid equal to 4% of the funds raised and 4% in warrants of the Company exercisable into common shares at a price of \$0.25 per warrant for a period of five years from the date of closing.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the three month period ended November 30, 2008

Note 15 Subsequent Events – (cont'd)

Credit Facility

The Company has also entered into a conditional agreement in principal pursuant to which an institutional lender (“the Lender”) will provide to the Company a USD\$8,500,000 loan (the “Loan”). The Loan will be for a term of six months from the date of advance, or such other date as mutually agreed (the “Maturity Date”). Interest will be at an annual rate of 18% payable and compounded monthly on amounts outstanding at month end. Regular principal payments will be made over a six-month period which will, upon completion, retire the Loan. In consideration of the loan, the Lender will receive 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 period of four years from the closing date.

The proceeds of the Loan will be used for the well completion and tie-in of the ST214 well, exclusive of drilling costs, which are being funded by the above referenced Note facility with the Holder.

Fees will be paid in connection with the Loan equal to 4% of the funds raised by the Company and 4% in warrants of the Company exercisable into a common share at a price of \$0.25 per warrant for a period of four years from the date of closing.

Note 16 Commitments and Contingent Liability

Contractual Obligations:

Operating Leases

The Company has a non-cancelable operating lease for its office facility. The lease has schedule increases, requires the Company to pay its share of operating costs, and expires in 2013.

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

November 30, 2009	\$317,480
November 30, 2010	\$329,721
November 30, 2011	\$329,721
November 30, 2012	\$341,964
November 30, 2013	\$343,077

Drilling Commitments

At November 30, 2008, the Company had entered into two drilling contracts. The Company had entered into a contract to drill the East Cameron 246 #2 well at a rate of \$59,700 per day plus ancillary costs. The Company had also entered into a contract to drill the South Timbalier 214 #A-6 Sidetrack #1 well at a rate of \$78,500 per day plus ancillary costs.

**PROBE RESOURCES LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Note 16 Commitments and Contingent Liability – (cont'd)

Contingent Liability:

The Company's 100% owned U.S. subsidiary, Probe Resources US Ltd. ("Probe US"), along with an officer of the Company, have been 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 US and the officer as defendants. The lawsuit alleges that Probe US and the officer used information in violation of a confidentiality agreement to acquire certain properties. The petition has, among other things, petitioned for the establishment of a constructive trust for the revenue from the plaintiff's alleged interest in the properties and has requested unspecified damages as a result of the utilization of the confidential information. Neither Probe US nor its officers have ever had any contractual relationships with the plaintiff. The Company believes that the plaintiff's claims are without merit and accordingly no provision has been provided in the financial statements. The Company has filed its Original Answer with the State Court of Texas and denied all allegations. The Company intends to vigorously defend the claims made in the lawsuit.

Note 17 Capital Risk Management

The company's objectives when managing capital are: to safeguard the Company's ability to continue as a going concern; to maintain optimal capital structure, while ensuring the Company's strategic objectives are met and to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

In the management of capital, the Company includes share capital, contributed surplus, deficit, interest bearing debt and cash and cash equivalents.

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling its capital expenditures program.